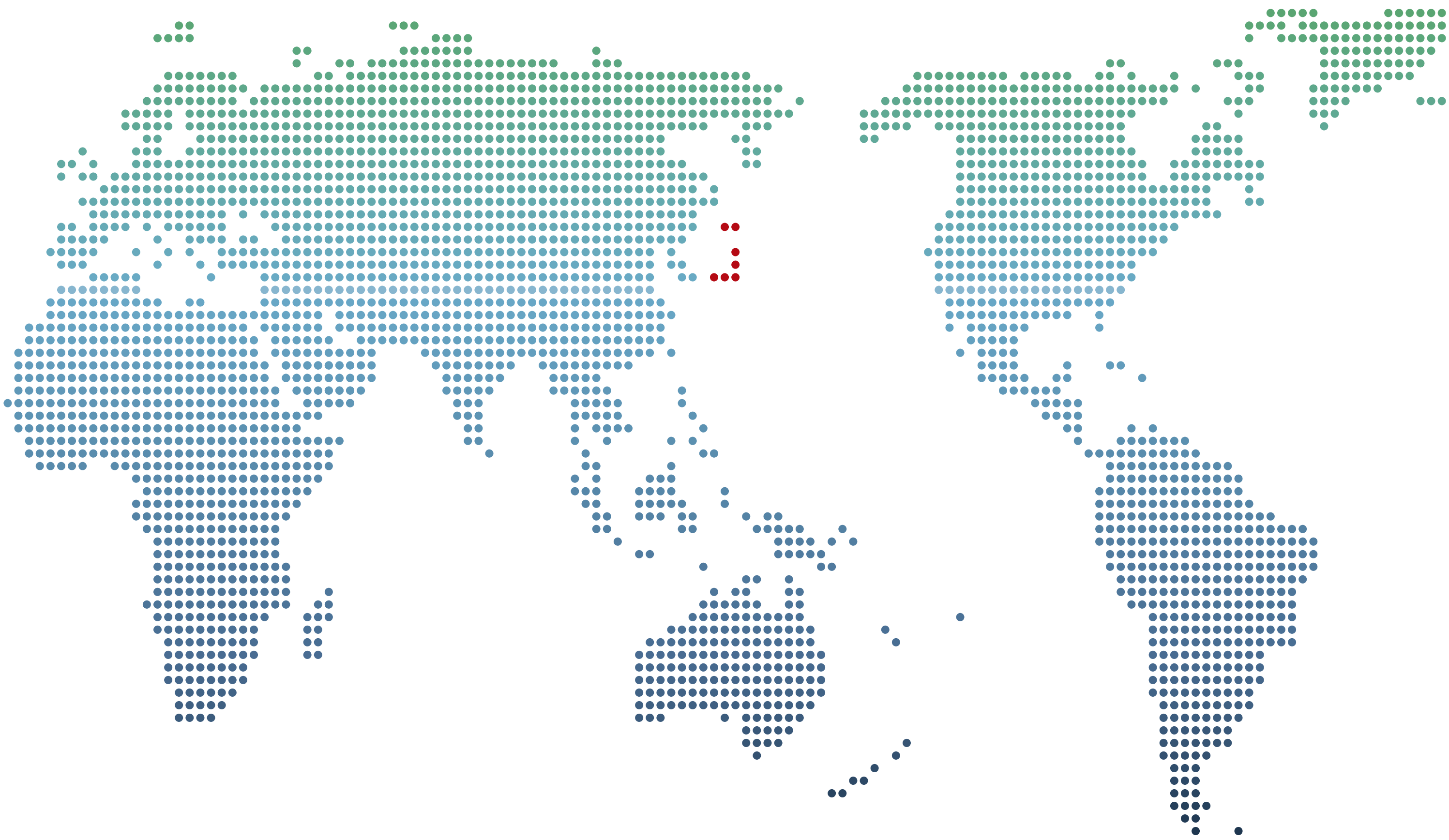
2014 JSCC ANNUAL REPORT



Japan Securities Clearing Corporation

Contents

p.02 Message from the President & CEO

p.04 Expanding Roles of Clearing Houses

p.06 Our Major Future Initiatives

p.07 JSCC's Compliance with PFMIs

p.08 Steady Strengthening of Risk Management System

p.13 JSCC Awarded Asia Risk's " Clearing House of the Year "

p.14 Business Statistics

p.16 Clearing Participants

p.18 Financial Statements

p.20 Management and Auditors, Organization Chart

p.21 Company Profile

In January 2003, Japan Securities Clearing Corporation (JSCC) was licensed as the first clearing house in Japan to conduct the Securities Obligation Assumption Service (current Financial Instruments Obligation Assumption Service stipulated in Financial Instrument and Exchange Act) and commenced clearing services for transactions executed on stock exchanges.

The birth of JSCC enabled the integration of clearing processes that used to be performed separately by individual stock exchanges, dramatically improving the efficiency and serviceability of securities markets.

In addition to listed products, JSCC has extensively expanded the scope of its clearing services in recent years, providing clearing services for credit default swaps, interest rate swaps, and JGB OTC transactions, which started after the consolidation with Japan Government Bond Clearing Corporation.

History

2013

- October 2013 — Merged with Japan Government Bond Clearing Corporation
- August 2013 — Issued Class D Shares by third-party allotments
- July 2013 — Migrated Osaka Securities Exchange listed derivatives clearing to JSCC

2012

- October 2012 — Commenced Interest Rate Swaps (IRS) clearing
- September 2012 — Issued Class C shares by third-party allotments

2011

- July 2011 — Issued Class B shares by third-party allotments and converted all the existing common shares into Class A shares
  Commenced Credit Default Swaps (CDS) clearing

2010

- September 2010 — Issued new shares by third-party allotments for investment in JGBCC
- July 2010 — Commenced Proprietary Trading System (PTS) clearing

2004

- February 2004 — Commenced Tokyo Stock Exchange-listed derivatives clearing

2003

- December 2003 — Reached basic agreement on business collaboration and mutual cooperation with JASDEC DVP Clearing Corporation and Japan Securities Depository Center, Inc.
- January 2003 — Licensed to conduct the Securities Obligation Assumption Service (now known as Financial Instruments Obligation Assumption Service) and commenced cash transactions clearing for all domestic securities exchanges

2002

- July 2002 — Established jointly by 5 Japanese stock exchanges and the Japan Securities Dealers Association

Message from the President & CEO

As a pivotal financial market infrastructure, JSCC will continue its efforts on enhancing risk management functions to ensure the safety and reliability of listed products, OTC derivatives and JGB OTC transactions for the sake of market participants.

We greatly appreciate your continued support for our endeavours.

August 2014

President & CEO

Hironaga Miyama

深山浩永

Activities and Achievements in Fiscal Year 2013

JSCC has been working on the following missions based on its corporate philosophy stipulating that JSCC, with a solid risk-management framework, aims to enhance the competitiveness of Japanese financial and capital markets by improving the efficiency, serviceability and safety of financial market post-trade processing infrastructure.

● Further Reinforcement of Business Management Foundation

We clearly stated our emphasis on risk management in our basic principles of management and established an organizational system for comprehensive risk management, including the creation of the Risk Management Office, in accordance with the Comprehensive Guidelines for Supervision of Financial Market Infrastructures- Clearing Organizations, Fund Clearing Organizations, Book-entry Transfer Institutions, and Trade Repositories -, which was released by the Financial Services Agency and came into force in December 2013.

As part of efforts to enhance our risk management, we increased the frequency of risk exposure revaluation of listed derivatives, started real-time clearing for IRS transactions, and outlined structures for revised settlement guarantee and loss compensation schemes for JGB OTC transactions.

● Extensive Clearing Services

In July 2013, Osaka Securities Exchange’s clearing function for OSE-listed derivatives was integrated into JSCC and the two entities’ margin structures were unified accordingly. In October of that year, JSCC merged with Japan Government Bond Clearing Corporation and started clearing of JGB OTC transactions.

In February 2014, JSCC started client clearing for IRS, providing clearing services extensively for a wider range of users. We also introduced a trust scheme for collateral for OTC derivatives that enabled us to improve the safety of collateral management.

To facilitate the use of CCPs in JGB OTC transactions clearing, we undertook projects to encourage the participation of asset management trust banks.

● Enhancement of IT Systems

We steadily upgraded our IT system infrastructure to accommodate institutional changes. In January 2014, we started a new system for listed products. We also upgraded system functions in association with the integration of Tokyo Stock Exchange and Osaka Exchange’s derivatives markets, enhanced system capacity for our OTC derivatives clearing service and developed a system to encourage the participation of asset management trust banks in JGB OTC transactions.

Future Outlook and Challenges

In order to solidify our business foundation to beat global competition, we will implement specific action plan on the following three pillars of our corporate policy.

Reinforcement of Business Management Foundation with Solid Risk Management System

We will strengthen arrangements at the management and organizational level in view of a new domestic regulatory framework, based on the Principles for Financial Market Infrastructures and Basel III, as well as direct and indirect regulation and supervision by foreign authorities, and promote information disclosure in accordance with the Principles for FMIs. In addition, we will take steps to enhance risk management and facilitate in-depth discussions in order to shorten settlement cycles for OTC JGB transactions.

Further Expansion of Clearing Services

We will seek to be registered as a Derivatives Clearing Organization with CFTC under US Commodity Exchange Act, and to become a "recognized third country CCP" under the European Market Infrastructure Regulation (EMIR) with the intention of facilitating the use of JSCC among overseas participants. We will facilitate discussions on cross margining between yen-denominated interest rate with other products and increasing eligible instruments, such as foreign currency-denominated IRS.

Enhancement of IT System

We will strengthen system risk management relating to development and operational arrangment and processing capabilities, while steadily proceeding with large-scale system development projects, such as a system related to the new BOJ-NET.

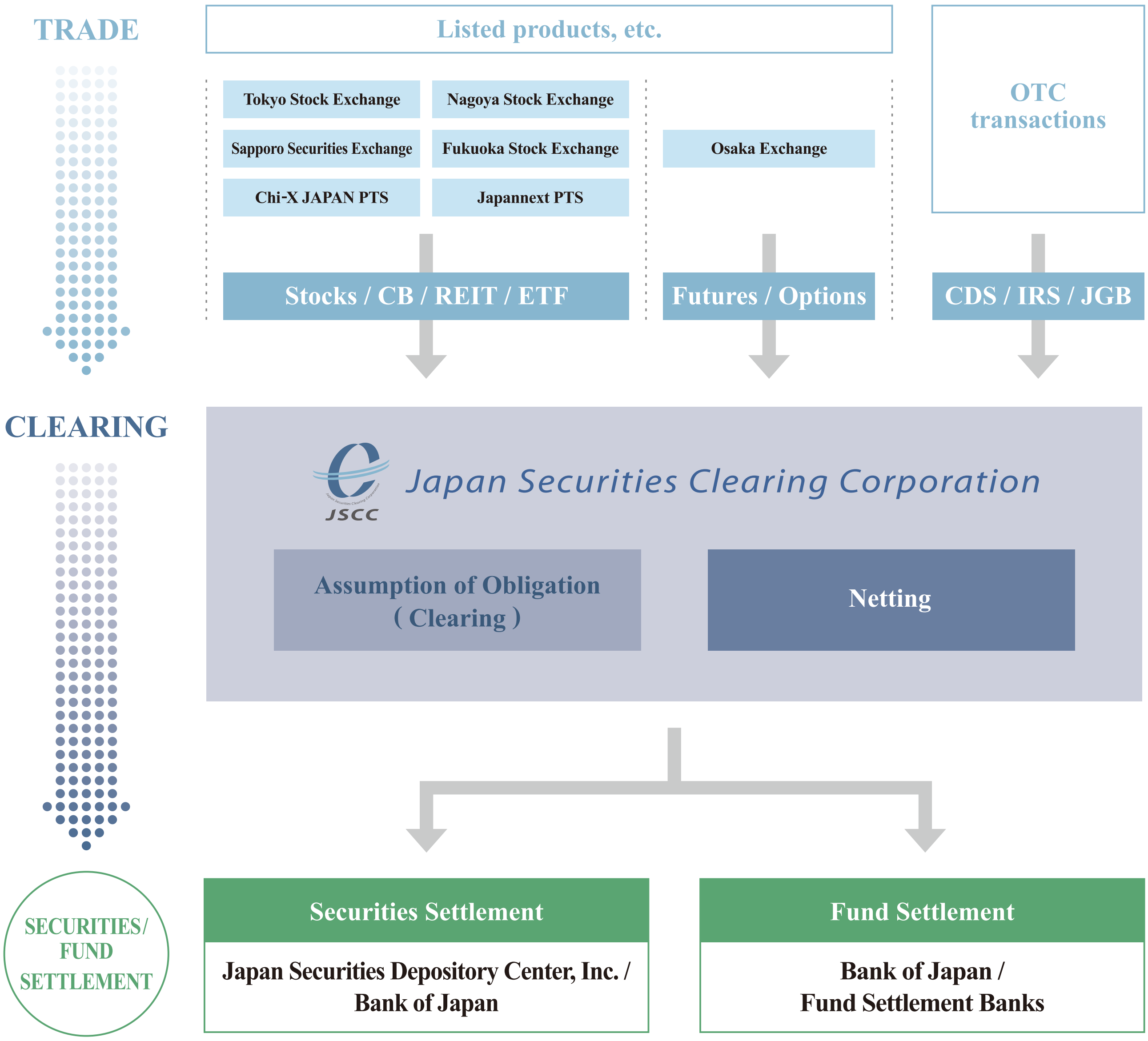
Expanding Roles of Clearing Houses

Since the bankruptcy of Lehman Brothers, various measures have been implemented to stabilize the global financial system, such as the Group of 20 Pittsburgh Summit Leader's Statement that requires mandatory CCP clearing for OTC derivatives, regulatory capital reforms under Basel III which includes a reduction in risk weight for qualifying CCPs, and margin requirements for non-cleared derivatives trades released by BCBS-IOSCO.

As more OTC derivatives will be subject to mandatory CCP clearing in Japan, JSCC is expected to play a greater role in financial and capital markets amid rising expectations for CCPs.

JSCC's Role in Financial and Capital Markets

JSCC provides clearing of a wide range of transactions, such as cash transactions executed on all Japanese securities exchanges and Proprietary Trading Systems (PTS), listed derivatives, OTC derivatives and JGB OTC transactions.



OTC Derivatives Clearing

JSCC started clearing of credit default swaps (Index CDS) in July 2011 and Yen LIBOR-based IRS clearing in October 2012. Since its launch, 21 major financial institutions from Japan, the U.S. and Europe have been participating in the service, with the amount of daily transactions now reaching several trillion yen and the balance in cleared trades increasing steadily.

We have strived to extend services to a wider range of participants, offering clearing of Yen TIBOR-based IRS since February 2013 and client clearing for IRS since February 2014.

We will continue our efforts to expand the scope of eligible transactions and participants while providing safe clearing services for participants under a solid risk management framework.

● Milestones for OTC Derivatives Clearing Initiatives

Development at JSCC		Regulatory Environment
	Dec 2014	**Amendment of Cabinet Office Ordinance on Restrictions on Over-the-Counter Derivatives Transactions, etc. (tentative)** ➡ Mandatory CCP clearing applied to a wider scope of trades in July and participants in December (expect)
	Jul 2014	
Started IRS Client Clearing	Feb 2014	
Started Yen TIBOR-based IRS clearing	Feb 2013	
	Nov 2012	**Enforcement of "Amendment Act of Financial Instruments and Exchange Act, etc."** ➡ Mandatory CCP clearing came into effect
Started IRS clearing	Oct 2012	
Released "The Outline of Interest Rate Swaps Clearing"	Mar 2012	
Started Index CDS clearing	Jul 2011	
Released "The Outline of Credit Default Swaps Clearing"	Jun 2010	
	May 2010	**Enactment of "Act for Partial Amendment to Financial Instruments and Exchange Act, etc."** ➡ Amendment Act related to mandatory CCP clearing was established
	Jan 2010	**JFSA released "Development of Institutional Frameworks Pertaining to Financial and Capital Markets"** ➡ The report indicated that standardized OTC derivatives should be cleared through CCPs (mandatory CCP clearing).
	Sep 2009	**G20 Pittsburgh Summit** ➡ "All standardized OTC derivatives contracts should be cleared and settled through CCPs."
Set up the Working Group on Clearing Operations for OTC Derivatives Trades ➡ Started to design detailed functionalities of clearing services for CDS and IRS	May 2009	
Set up the Study Group on Post-Trade Processing of OTC Derivatives Trades ➡ Released its final report in March 2009	Sep 2008	**Bankruptcy of Lehman Brothers**

Our Major Future Initiatives

As a core financial and capital market infrastructure, JSCC will continue to undertake various projects to promote greater efficiency, serviceability and safety.

We are currently engaged in the following initiatives :

Initiative to Expand Scope of Eligible Transactions and Participants

JSCC will continue its efforts to expand the scope of eligible transactions and participants to improve the reliability and safety of financial and capital markets.

We have been discussing new clearing services for foreign currency-denominated IRS and single-name CDS.

Initiative to Offer Cross Margining between Yen-denominatid IRS with other Products

As JSCC's participants, financial institutions deposit margin for clearing of listed derivatives and OTC derivatives according to their positions. Amid the tightening of international regulations on OTC derivatives in recent years, they are requested to provide a considerable amount of collateral.

JSCC has been discussing the feasibility of cross margining of Yen-denominated IRS with other products, which would offset risks between different transactions and reduce the burden of collateral for participants.

Initiative to Facilitate the Use of JSCC among Overseas Participants

Countries around the world have been developing rules in line with the statement issued at the 2009 G20 Pittsburgh Leaders' Summit, which requires that standardized OTC derivatives contracts should be cleared through central counterparties.

Under U.S. regulations, any CCP that desires to clear OTC derivatives for U.S.-based financial institutions must be registered as a Derivatives Clearing Organization with U.S. Commodity Futures Trading Commission. JSCC has applied to be registered as a DCO with regard to its clearing services for IRS.

European regulatory authorities are also expected to mandate the use of authorized CCPs to provide clearing for Europe-based institutions under European Market Infrastructure Regulation. JSCC has applied to be recognized as a third-country CCP under EMIR.

Initiative to Shorten Settlement Cycle for JGB Transactions

JSCC is participating as a CCP in an ongoing industry-wide effort to shorten the settlement cycle for JGB transactions.

JSCC's Compliance with PFMIs

Principles for FMIs

The Principles for financial market infrastructures (PFMIs) set out risk management standards to be maintained by CCPs and other financial market infrastructures. The PFMIs were published by the Committee on Payment and Settlement Systems (CPSS), a body of the Bank for International Settlements for strengthening the financial market infrastructure through promoting sound and efficient payment, clearing and settlement systems, as well as the International Organization of Securities Commissions (IOSCO), an international institution comprised of securities supervisory authorities and other entities in many parts of the world.

Overview of PFMIs

The PFMIs contain 24 principles to be maintained by financial market infrastructures and five responsibilities of central banks, market regulators, and other relevant authorities for financial market infrastructures.

The 24 principles are comprised of :

General organization
1. Legal basis
2. Governance
3. Framework for the comprehensive management of risks

Credit and liquidity risk management
4. Credit risk
5. Collateral
6. Margin
7. Liquidity risk

Settlement
8. Settlement finality
9. Money settlements
10. Physical deliveries

Central securities depositories and exchange-of-value settlement systems
11. Central securities depositories
12. Exchange-of-value settlement systems

Default management
13. Participant-default rules and procedures
14. Segregation and portability

General business and operational risk management
15. General business risk
16. Custody and investment risks
17. Operational risk

Access
18. Access and participation requirements
19. Tiered participation arrangements
20. FMI links

Efficiency
21. Efficiency and effectiveness
22. Communication procedures and standards

Transparency
23. Disclosure of rules, key procedures, and market data
24. Disclosure of market data by trade repositories

JSCC's Compliance with PFMIs

The PFMIs require CCPs to provide information related to participants, relevant authorities and general investors. The CPSS and the IOSCO has made the framework for information disclosure open to the public to promote better understanding of CCPs' services, risk profiles and risk management-related operations.

JSCC believes it is fully compliant with the PFMIs and preparing to provide discloses in line with this framework.

Steady Strengthening of Risk Management System

Framework of Risk Management

As JSCC assumes credit and settlement risks on behalf of clearing participants, it needs to recognize and manage these risks appropriately. In terms of credit risk management for clearing participants, JSCC has a set of risk management system including the clearing participant qualification requirements, monitoring system on the financial and management soundness and risk exposure of clearing participants' positions.

JSCC acts as a central counterparty by interposing itself between clearing participants in order to assume their claims and obligations. Even in the event of the default of a clearing participant, JSCC is required to complete settlements for other participants. JSCC has a settlement guarantee system designed on the principle of self-responsibility, which is used to cover any losses first with the defaulting participant's posted collaterals and then with other resources secured within a multi-tiered loss compensation scheme.

Clearing Participant Requirements

JSCC specifies clearing participant requirements by the type of clearing qualifications. Clearing participant requirements are comprised of entry requirements and maintenance requirements. Clearing qualifications for listed products and JGB OTC transactions are further classified into two types: Principal Clearing Participant qualification and Agency Clearing Participants qualification. Principal Clearing Participant is entitled to settle only its own transactions and its customers' transactions, while Agency Clearing Participants is entitled to settle transactions executed by non-clearing participants as well as its own and customers' transactions.

Monitoring of Clearing Participants

JSCC regularly monitors clearing participants' governance structures, business execution capabilities and financial conditions. When problem is recognized, JSCC may suspend clearing for the participant and may revoke its clearing qualification if necessary.

Collateral System

To ensure proper risk management of participants' positions, JSCC requires participants to deposit collateral for both listed products and OTC derivatives. The type of eligible collateral and calculation methodologies differ according to the type of transactions.

Management of a Participant's Default

In the event of the default of a clearing participant, JSCC first suspends the delivery of settlement funds, securities and posted collateral to the defaulting participant. Then, its positions are settled in accordance with a predetermined loss compensation scheme as stipulated by the type of transactions.

Regardless of the type of transactions, JSCC completes all the settlements for non-defaulting participants as a central counterparty and assures the safety of transactions for clearing participants.

In addition, JSCC has signed agreements on liquidity supply with fund settlement banks to secure short-time liquidity in the event of a clearing participant's default.

Risk Management System for Listed Products

Clearing Participant Requirements

[Main requirements for listed products clearing qualifications]

Financial Instruments Business Operator	Principal	Agency
Capital	JPY 300 million or more	
Net Asset	JPY 2 billion or more	JPY 20 billion or more
Capital-to-Risk Ratio	over 200%	

Registered Financial Institution		Principal	Agency
Stated Capital or Total Amount of Contribution		JPY 300 million or more	
Net Asset		JPY 2 billion or more	JPY 20 billion or more
Capital Adequacy Ratio	**Uniform International Standard**	(1) over 4.5% in Tier 1 (common stocks, etc.) Ratio※1 (2) over 6% in Tier 1 Ratio※1 (3) over 8% in Total Capital Ratio	
	Domestic Standard	over 4%※2	
Solvency Margin Ratio		over 400%	

※1 Transitional measures will be in place through March 30, 2015. ※2 Registered financial institutions, to which international standards are not applied, are required to have a capital adequacy ratio of over 8%.

Collateral System

Cash Transaction	Collateral Type	Outline
	Clearing Fund	● Must be deposited to cover 99% of losses that could arise from price fluctuations over the past 120 days. ● The required amount is calculated daily.
	Collateral for Facilitating Settlement	● Deposited voluntarily by participants to receive securities early for the DVP settlement of a cash transaction.

Futures and Options Transaction	Collateral Type	Outline
	Clearing Margin	● Must be deposited to cover 99% of losses that could arise from price and volatility fluctuations. ● The required amount is calculated daily via SPAN®* ※ * The SPAN ® (Standard Portfolio Analysis of Risk) system is a methodology that calculates risk-based margin developed by Chicago Mercantile Exchange (CME).
	Clearing Fund	● Must be deposited to cover the following losses: ① Losses arising from the defaults of multiple clearing participants in extreme but plausible market conditions; and ② Losses arising from unpaid mark-to-market differences and settlement funds owed to the defaulting clearing participant. ● The required amount is calculated monthly.

Loss Compensation Scheme

If JSCC incurs losses from the default of a clearing participant, the losses will be compensated under the following multi-tiered scheme :

First Tier — **Collateral deposited by the defaulting clearing participant**
(Clearing Fund contributed by the defaulting clearing participant)

Second Tier — **Compensation by exchanges**
(Cash trades : about JPY 11.1 billion; Futures/options : about JPY 17.4 billion as of July 31, 2014)

Third Tier — **Compensation by JSCC**
(About JPY 17.3 billion as of July 31, 2014)

Fourth Tier — **Clearing Fund contributed by non-defaulting participants**
(Applicable only to futures and options)

Fifth Tier — **Special clearing charges collected from non-defaulting clearing participants**

Risk Management System for OTC Derivatives Transactions

● Risk Management System for CDS Clearing

Clearing Participant Requirements [Main requirements for CDS clearing qualification]

Financial Instruments Business Operator

Item	Criteria
Capital	JPY100 billion or more
Capital-to-Risk Ratio	over 200%
Credit Standing[※3]	Having certain level of creditworthiness

Registered Financial Institution

Item		Criteria
Capital		JPY 100 billion or more
Capital Adequacy Ratio	**Uniform International Standard**	(1) over 4.5% in Tier 1 (common stocks, etc.) Ratio[※1] (2) over 6% in Tier 1 Ratio[※1] (3) over 8% in Total Capital Ratio
	Domestic Standard	over 4%[※2]
Solvency Margin Ratio		over 400%
Credit Standing[※3]		Having certain level of creditworthiness

※1 Transitional measures will be in place through March 30, 2015. ※2 Registered financial institutions to which uniform international standards are not applied are required to have a capital adequacy ratio of over 8%.
※3 Judged comprehensively based on such factors as ratings of the clearing participant.

Collateral System

Collateral Type	Outline
Initial Margin	● Must be deposited to cover more than 99% of the average of top 1% losses expected from price fluctuations over the past 750 days. ● The required amount is calculated daily. ● In addition, extra charges are added, as described below, for the risk associated with the clearing participant's position. ・A certain amount is added to initial margin for a CDS seller to cover risk exposures in the case of a credit event for the reference entity (short charge). ・A certain amount is added for each index series to cover its liquidity risk (bid/offer charge). ・A certain amount is added with respect to the index series subject to a credit event in order to hedge the risk exposure between the occurrence of the credit event and the settlement of the credit event (credit event margin).
Variation Margin	● Must be deposited in an amount determined using the mark-to-market method to cover daily price fluctuations.
Clearing Fund	● Must be deposited to cover the risk of the following two losses: ・Losses arising from a shortage of margin deposited by two defaulting participants with the two largest risks in extreme but plausible market conditions. ・Losses arising from the default of a clearing participant when daily variation margin or IM for a clearing participant has not been paid by a predetermined cut-off time. ● The required amount is calculated weekly.

Loss Compensation Scheme

If JSCC incurs losses from the default of a clearing participant, the losses will be compensated under the following multi-tiered scheme :

First Tier — Collateral deposited by the defaulting clearing participant

Second Tier — Compensation by JSCC (About JPY 2 billion as of July 31, 2014)

Third Tier — Clearing Fund contributed by non-defaulting participants (※1) and compensation by JSCC (About JPY 2 billion as of July 31, 2014)

Fourth Tier — Special clearing charges collected from non-defaulting clearing participants (※2)

Fifth Tier — Compensation by the recipients of variation margin

※1 Limited to CDS Clearing Fund
※2 Will be capped with the amount of clearing fund for the clearing participant's default that had occurred by the 30 th days from the first default (if another default has occurred during that period, 30th day from the relevant default)

● Risk Management System for IRS Clearing

Clearing Participant Requirements ［Main requirements for IRS clearing qualification］

Financial Instruments Business Operator	
Item	**Criteria**
Capital	the lower of USD 50 million or JPY 5 billion, or more
Capital-to-Risk Ratio	over 200%
Credit Standing※3	Having certain level of creditworthiness

Registered Financial Institution		
Item		**Criteria**
Capital		the lower of USD 50 million or JPY 5 billion, or more
Capital Adequacy Ratio	**Uniform International Standard**	(1) over 4.5% in Tier 1 (common stocks, etc.) Ratio※1 (2) over 6% in Tier 1 Ratio※1 (3) over 8% in Total Capital Ratio
	Domestic Standard	over 4%※2
Solvency Margin Ratio		over 400%
Credit Standing※3		Having certain level of creditworthiness

※1 Transitional measures will be in place through March 30, 2015. ※2 Registered financial institutions to which uniform international standards are not applied are required to have a capital adequacy ratio of over 8%.
※3 Judged comprehensively based on such factors as ratings of the clearing participant.

Collateral System

Collateral Type	Outline
Initial Margin	● Must be deposited to cover the average of largest daily losses in terms of variance in NPV, which is calculated for each scenario generated based on changes in market data for any five days during a the previous 1,250-day period. ● The required amount is calculated daily. ● An liquidity charge is added to initial margin for a clearing participant exposed to risks from large positions greater than a predetermined level.
Variation Margin	● Must be deposited in an amount determined using the mark-to-market method to cover daily price fluctuations.
Intraday Margin	● Must be deposited within the day for positions held by the clearing participant at noon in the amount equivalent to variation margin recalculated based on the most recent market data, to or from which initial margin recalculated using the most recent market data is added or deducted.
Clearing Fund	● Must be deposited to cover losses from the defaults of two clearing participants with the two largest risks in extreme but plausible market conditions due to a shortage of margin deposited by the defaulting participants. ● The required amount is calculated weekly.

Loss Compensation Scheme

If JSCC incurs losses from the default of a clearing participant, the losses will be compensated under the following multi-tiered scheme :

First Tier Collateral deposited by the defaulting clearing participant

Second Tier Compensation by JSCC (About JPY 2 billion as of July 31, 2014)

Third Tier Clearing Fund contributed by non-defaulting participants (※1) and compensation by JSCC (About JPY 2 billion as of July 31, 2014)

Fourth Tier Special clearing charges collected from non-defaulting clearing participants (※2)

Fifth Tier Compensation by the recipients of variation margin

※1 Limited to IRS Clearing Fund
※2 Will be capped with the amount of clearing fund for the clearing participant's default that had occurred by the 30th days from the first default (if another default has occurred during that period, 30th day from the relevant default)

Risk Management System for JGB OTC Transactions

JSCC will revise the risk management system for its JGB OTC clearing service in October 2014. The revision will involve changes to the margin system and the loss compensation scheme.

For the schemes due to be changed, the tables below show information concerning revised requirements.

Clearing Participant Requirements [Main requirements for JGB OTC clearing qualification]

Financial Instruments Business Operator	Principal	Agency
Capital	JPY 300 million or more	
Net Asset	JPY 5 billion or more	JPY 20 billion or more
Capital-to-Risk Ratio	over 200%	

Registered Financial Institution		Principal	Agency
Stated Capital or Total Amount of Contribution		JPY 300 million or more	
Net Asset		JPY 2 billion or more	JPY 20 billion or more
Capital Adequacy Ratio	**Uniform International Standard**	(1) over 4.5% in Tier 1 (common stocks, etc.) Ratio※1 (2) over 6% in Tier 1 Ratio※1 (3) over 8% in Total Capital Ratio	
	Domestic Standard	over 4%※2	
Solvency Margin Ratio		over 400%	

※1 Transitional measures will be in place through March 30, 2015. ※2 Registerd financial institutions, to which uniform international standards are not applied, are required to have a capital adequacy ratio of over 8%.

Collateral System

Collateral Type	Outline
Initial Margin	● Must be deposited to cover the risk of price fluctuations that could occur if a clearing participant fails to perform the FOS (Funds only settlement) settlement and DVP settlement of variation margin. ● The required amount to cover the risk of a FOS settlement failure is equivalent to the average of 20 largest amounts of funds settled by the clearing participant over the past 120 business days. The required amount to cover the risk of a DVP settlement failure is an amount that covers more than 99% of daily fluctuations of JGBs in market value. ● An extra Market Impact Charge is added as to initial margin for a clearing participant exposed to risks greater than a predetermined level.
Variation Margin	● Must be deposited in an amount determined using the mark-to-market method to cover daily price fluctuations.
Clearing Fund	● Must be deposited to cover losses in the event of the defaults of multiple clearing participants in extreme but plausible market conditions due to a shortage of initial margin deposited by the defaulting clearing participants.

Loss Compensation Scheme

If JSCC incurs losses from the settlement failure by a clearing participant, the losses will be compensated under the following multi-tiered scheme :

- **First Tier** — Margin and Clearing Fund, etc. contributed by the defaulting clearing participant
- **Second Tier** — Compensation by JSCC ※
- **Third Tier** — Clearing Fund contributed by non-defaulting clearing participants and compensation by JSCC ※
- **Fourth Tier** — Special clearing charges collected from non-defaulting clearing participants
- **Fifth Tier** — Clearing Fund contributed by original transaction pro-rata clearing participants and compensation by JSCC
- **Sixth Tier** — Special clearing charges collected from original transaction pro-rata clearing participants
- **Seventh Tier** — Special clearing charges collected from the recipients of variation margin

※ The amount is under deliberation as of July 31, 2014

JSCC Awarded Asia Risk's "Clearing House of the Year"

JSCC was awarded "Clearing House of the Year" in the "Asia Risk Awards 2013" sponsored by the Asia Risk magazine

Clearing House of the Year

AsiaRisk AWARDS 2013

"Clearing House of the Year" is given to clearing houses recognized as pursuing innovative initiatives and making best practices in derivatives markets. JSCC received the award for its achievements in the clearing service for Yen-denominated interest rate swaps, which has expanded rapidly since its launch in October 2012, and for the prospects expected from the merger with Japan Government Bond Clearing Corporation (JGBCC).

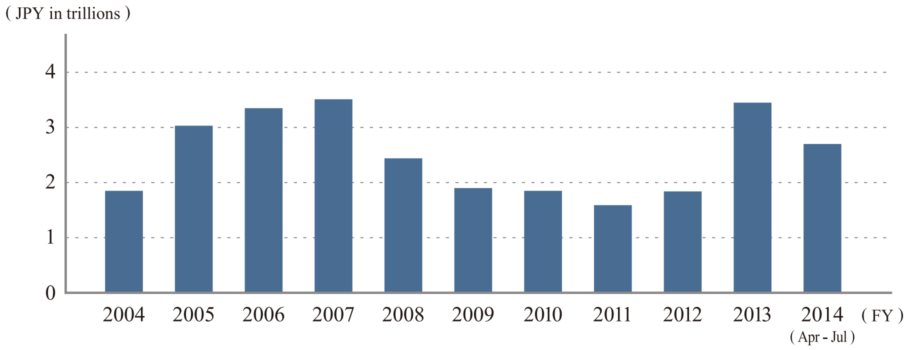
We will strive to fulfill our role as a pivotal clearing and settlement infrastructure for Asian financial and capital markets, as CCPs are expected to play an increasingly prominent role amid the ongoing global financial regulatory reforms.

Business Statistics

Amount of Obligations Assumed concerning Listed Products

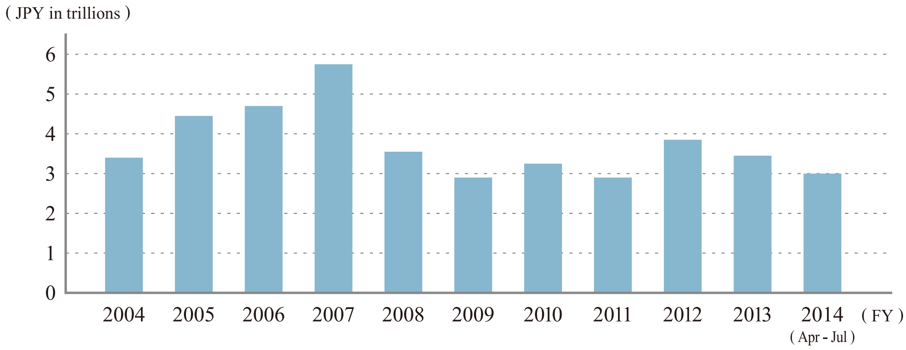
Cash Products
[daily average amount]

JPY 2,728.0 billion
(April to July 2014)



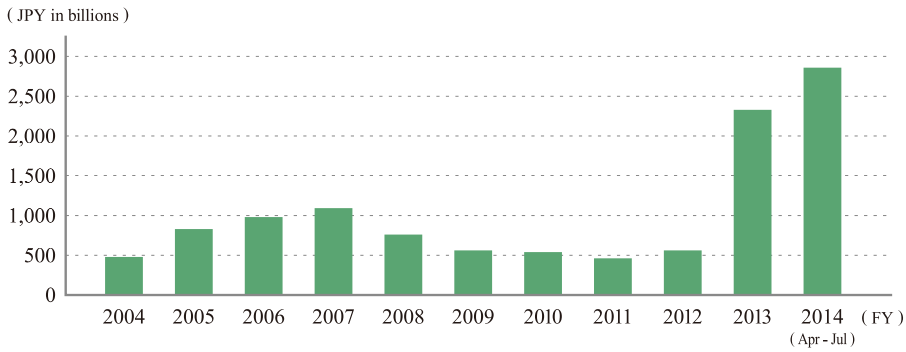
JGB futures
[daily average amount; face value-based]

JPY 3,009.3 billion
(April to July 2014)



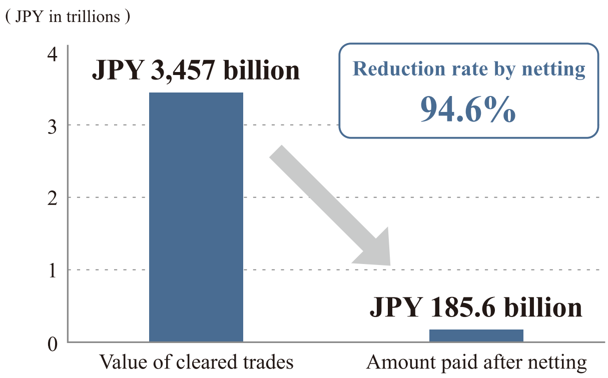
Indexed futures
[daily average amount]

JPY 2,862.4 billion
(April to July 2014)

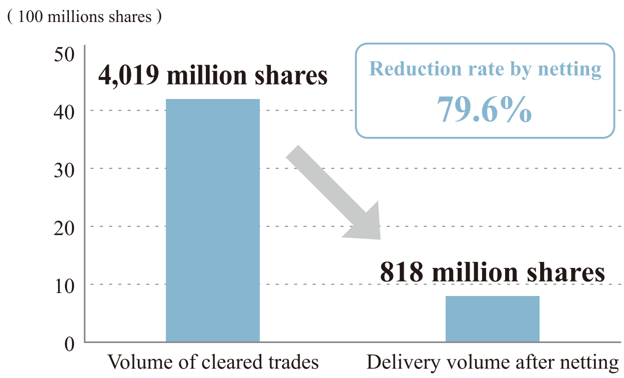


Netting Results concerning Listed Products

● **Value-based daily average (FY2013)**

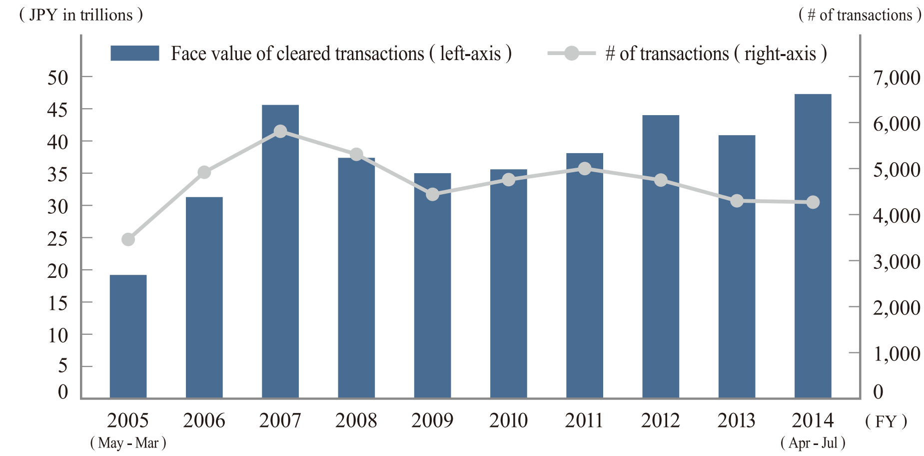


● **Volume-based daily average (FY2013)**

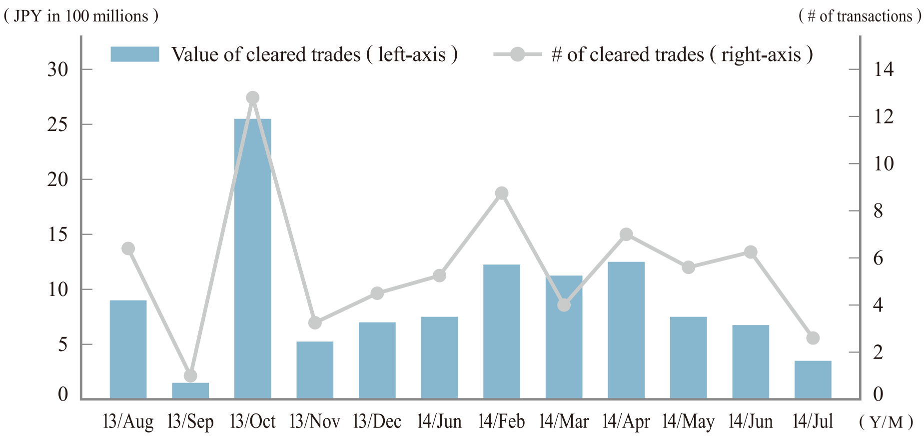


Clearing Volume and Value of JGB
(daily average)

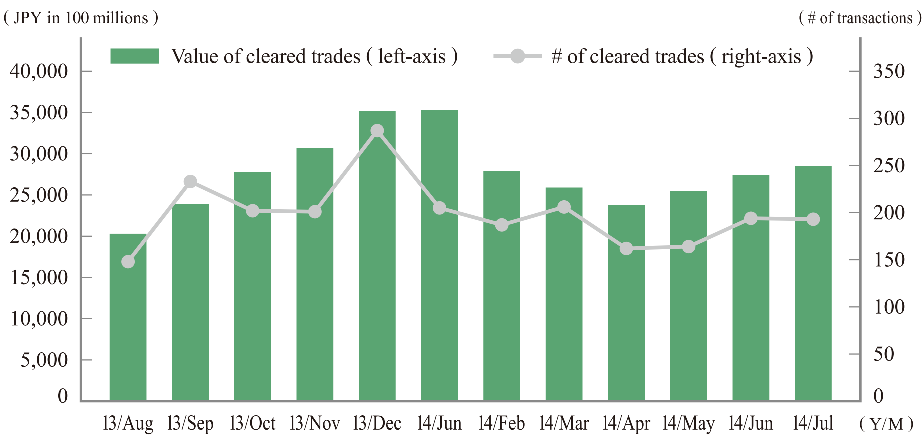
Note :
The figures through September 2013 were from JGBCC before the merger.



Clearing Volume and Value of CDS
(average of per clearing cycle)



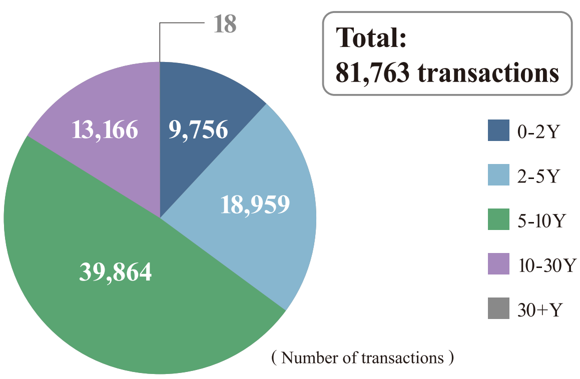
Clearing Volume and Value of IRS
(daily average)



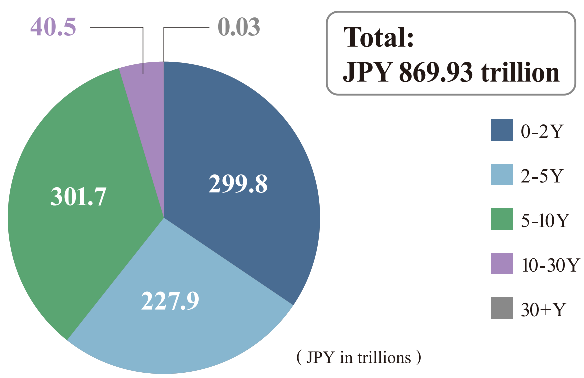
Number and Value of Cleared IRS

※As of the end of July 2014

● **Number of cleared transactions by tenor**



● **Value of cleared transactions by tenor**



Clearing Participants (as of July 31, 2014)

Listed Products Clearing Participants (122 companies)

	Clearing participant name	a	b	c	d
A	ABN AMRO Clearing Tokyo Co., Ltd.	○	○	○	
	ACE SECURITIES CO.,LTD.	○	○	○	
	AIZAWA SECURITIES CO., LTD.	○	○	○	
	Akatsuki Securities, Inc.	○	○	○	
	ANDO SECURITIES CO., LTD.		○	○	
	Aozora Bank, Ltd.		○		
	ARK SECURITIES CO.,LTD.	○	○	○	
B	THE BANK OF FUKUOKA, LTD.		○		
	The Bank of Kyoto, Ltd.		○		
	THE BANK OF SAGA LTD.		○		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		○		
	The Bank of Yokohama, Ltd.		○		
	Bansei Securities Co.,Ltd			○	
	Barclays Securites Japan Limited	○	○	○	
	BNP Paribas Securities (Japan) Limited	○	○	○	
C	The Chiba Bank, Ltd.		○		
	Chibagin Securities Co.,Ltd	○	○	○	
	CHUBU SECURITIES FINANCING CO.,LTD.	○			
	The Chugoku Bank, Limited		○		
	Citibank Japan Ltd.	★	★	★	
	Citigroup Global Markets Japan Inc.	○	○	○	
	CLSA Securities Japan Co.,Ltd	○			
	Credit Agricole Securities Asia B.V.	○	○		
	Credit Suisse Securities (Japan) Limited	○	○	○	
D	Daiko Clearing Services Corporation	★	★	★	
	Daiwa Securities Co.Ltd.	○	○	○	
	Deutsche Securities Inc.	○	○	○	
E	Eiwa Securities Co.,Ltd.		○	○	
F	Fukuoka Securities Co.,Ltd.	○	○	○	
G	GMO CLICK Securities, Inc.	○		○	
	Goldman Sachs Japan Co ., Ltd .	○	○	○	
	The Gunma Bank, Ltd.		○		
H	H.S. SECURITIES CO.,LTD.	○	○	○	
	The Hachijuni Bank, Ltd.		○		
	HACHIJUNI SECURITIES Co.,Ltd.	○			
	Hibiki Securities Inc.	○		○	
	THE HIKARI SECURITIES CO.,LTD.	○	○	○	
	HINODE SECURITIES CO.,LTD.	○	○	○	
	HIROTA SECURITIES CO.,LTD.	○	○	○	
	The Hongkong and Shanghai Banking Corporation Limited	★		★	
	HSBC SECURITIES (JAPAN) LIMITED	○	○	○	
	The Hyakujushi Bank, Ltd.		○		
I	Ichiyoshi Securities Co.,Ltd.	○	○	○	
	The Imamura Securities Co., Ltd.	○	○	○	
	IwaiCosmo Securities Co.,Ltd.	★	○	○	
J	JP Morgan Securities Japan Co., Ltd.	○	○	○	★
	Japan Asia Securities Co.,Ltd.	○	○	○	
	JAPAN SECURITIES FINANCE CO., LTD.	○			
	The Joyo Bank, Ltd.		○		
K	kabu.com Securities Co.,Ltd.			○	○
	KIMURA SECURITIES CO.,LTD.	○	○	○	
	The Kosei Securities Co.,Ltd.	○	○	○	○
	KYOKUTO SECURITIES CO.,LTD.	○	○	○	
	Kyowa Securities Co.,Ltd.	○	○	○	
L	Leading Securities Co., Ltd.	○			
	livestar Securities Co.,Ltd.	○	○	○	
M	Macquarie Capital Securities (Japan) Limited	○			
	Maruhachi Securities Co.,Ltd.	○	○	○	
	MARUKUNI SECURITIES CO.,LTD.	○			
	Marusan Securities Co.,Ltd.	○	○	○	
	MATSUI SECURITIES CO.,LTD.	○	○	○	○
	Merrill Lynch Japan Securities Co.,Ltd.	★	○	○	○
	MIKI SECURITIES CO.,LTD.	○	○	○	
	MITA SECURITIES Co.,Ltd.	○		○	
	Mito Securities Co.,Ltd.	○	○	○	
	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	○	○	○	
	Mitsubishi UFJ Trust and Banking Corporation		○		
	Mizuho Bank, Ltd.		○		
	Mizuho Securities Co.,Ltd.	○	○	○	
	Mizuho Trust & Banking Co.,Ltd.		○		
	Monex, Inc.	○		○	○
	MONEY PARTNERS CO.,LTD				○
	Morgan Stanley MUFG Securities Co., Ltd.	○	○	○	
	Musashi Securities Co ., Ltd.	○	○	○	○
N	NAGANO SECURITIES CO.,LTD.	○	○	○	
	NAITO SECURITIES CO.,LTD.	○	○	○	
	The Nakahara Securities Co.,Ltd.	○	○	○	
	NatixisJapan Securities Co.,Ltd.	○	○	○	
	New-S Securities Co.,Ltd.	○			
	Newedge Japan Inc.		○	○	
	Niigata Securities Co.,Ltd.	○			
	NISHIMURA SECURITIES CO.,LTD.	○			
	THE NISHI-NIPPON CITY BANK, LTD.		○		
	NISSAN CENTURY SECURITIES CO., LTD.	○	○	○	○
	Nomura Securities Co.,Ltd.	○	○	○	○
O	The Ogaki Kyoritsu Bank, Ltd.		○		
	OKACHI SECURITIES CO.,LTD.	○	○	○	
	OKASAN SECURITIES CO.,LTD.	★	○	○	
	Okasan Niigata Securities Co.,Ltd.	○	○	○	
	OKAYASU SECURITIES, Co.,Ltd	○			
P	Phillip Securities Japan,Ltd.	○	○	○	
R	Rakuten Securities, Inc.	○	○	○	
	Resona Bank, Limited		○		
	Retela Crea Securities Co.,Ltd.	○	○	○	
S	San-ei Securities Co.,Ltd.	○	○	○	
	SANKO SECURITIES CO.,LTD.	○	○	○	
	Sankyo Securities Co., Ltd.	○		○	
	SBI SECURITIES Co., Ltd.	○	○	○	

Types of clearing qualification

a : Cash Products **b** : JGB Futures, etc. **c** : Indexed Futures, etc. **d** : FX
○ : Principal Clearing Participant ★ : Agency Clearing Participant

	Clearing participant name	a	b	c	d
	Securities Japan, Inc.	○	○	○	
	The SenshuIkeda Bank, Ltd.		○		
	The 77 Bank, Ltd.		○		
	Shinkin Central Bank		○		
	Shinkin Securities Co., Ltd.		○		
	THE SHIZUOKA BANK, LTD.		○		
	The Shoko Chukin Bank, Ltd.		○		
	Sinsei Bank, Limited		○		
	SMBC Friend Securities Co.,Ltd.	○	○	○	
	SMBC Nikko Securities Inc.	○	○	○	
	Societe Generale Securities (North Pacific) Ltd.	○	○	○	
	Sumitomo Mitsui Banking Corporation		○		
	Sumitomo Mitsui Trust Bank, Limited		○		
T	TAKAGI SECURITIES CO.,LTD.	○	○	○	

	Clearing participant name	a	b	c	d
	THE TACHIBANA SECURITIES CO.,LTD.	○	○	○	
	Tokai Tokyo Securities Co.,Ltd.	○	○	○	
	TOYO SECURITIES CO.,LTD.	○	○	○	
U	UBS Securities Japan Co., Ltd.	○	○	○	
	UTSUMIYA SECURITIES CO.,LTD.	○	○	○	
Y	YAHATA SECURITIES CO.,LTD.	○			
	YAMAGEN Securities Co.,Ltd.	○	○	○	
	Yamani Securities Co.,Ltd.	○	○	○	
	YAMAWA SECURITIES CO.,LTD.		○	○	
	The Yutaka Securities Co.,Ltd.	○	○	○	○
	Principal	82	99	78	10
	Agency	6	2	3	1

CDS Clearing Participants (10 companies)

Clearing participant name		
BNP Paribas	Goldman Sachs Japan Co., Ltd.	Morgan Stanley MUFG Securities Co., Ltd.
Citigroup Global Markets Japan Inc.	Merrill Lynch Japan Securities Co., Ltd.	Nomura Securities Co., Ltd.
Daiwa Securities Co. Ltd.	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	
Deutsche Bank Aktiengesellschaft	Mizuho Securities Co., Ltd.	

IRS Clearing Participants (22 companies)

Clearing participant name			
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Daiwa Securities Co. Ltd.	Mizuho Bank, Ltd.	Societe Generale
Barclays Bank PLC	Deutsche Bank Aktiengesellschaft	Morgan Stanley MUFG Securities Co., Ltd.	Sumitomo Mitsui Banking Corporation
BNP Paribas	Goldman Sachs Japan Co., Ltd.	Nomura Securities Co., Ltd.	Sumitomo Mitsui Trust Bank, Limited.
Citigroup Global Markets Japan Inc.	JPMorgan Securities Japan Co., Ltd.	Resona Bank, Limited.	UBS AG
Crédit Agricole Corporate & Investment Bank	Merrill Lynch Japan Securities Co., Ltd.	The Royal Bank of Scotland plc	
Credit Suisse Securities (Japan) Limited	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	SMBC Nikko Securities Inc.	

OTC JGB Clearing Participants (37 companies)

○ : Principal Clearing Participant ★ : Agency Clearing Participant

Clearing participant name	Eligibility Type
The Bank of Tokyo-Mitsubishi UFJ.,Ltd.	○
Barclays Securities Japan Limited	○
BNP Paribas Securities (Japan) Limited	○
Credit Agricole Securities Asia B.V., Tokyo Branch	○
Central Tanshi Co.,Ltd	○
Central Totan Securities Co.,Ltd	○
Citibank Japan Ltd.	★
Citigroup Global Markets Japan Inc.	○
Credit Suisse Securities (Japan) Limited	○
Daiwa Securities Co.Ltd.	○
Deutsche Securities Inc.	○
Goldman Sachs Japan Co.,Ltd.	○
Japan Bond Trading Co.,Ltd.	○

Clearing participant name	Eligibility Type
Japan Trustee Services Bank,Ltd.	○
JPMorgan Securities Japan Co.,Ltd	○
Japan Securities Finance Co.,Ltd	○
The Master Trust Bank of Japan ,Ltd.	○
Merrill Lynch Japan Securities Co.,Ltd.	○
Mitsubishi UFJ Morgan Stanley Securities Co.,Ltd.	○
Mizuho Bank, Ltd.	○
Mizuho Securities Co.,Ltd.	○
Morgan Stanley MUFG Securities Co.,Ltd.	○
Nomura Securities Co.,Ltd	○
The Nomura Trust and Banking Co.,Ltd	○
The Norinchukin Bank	○
Okasan Securities Co.,Ltd	○

Clearing participant name	Eligibility Type
RBS Securities Japan Limited	○
SMBC Friend Securities Co., Ltd.	○
SMBC Nikko Securities Inc.	○
Societe Generale Securities (North Pacific) Ltd.	○
Sumitomo Mitsui Banking Corporation	○
Sumitomo Mitsui Trust Bank, Limited	○
Tokai Tokyo Securities Co.,Ltd.	○
The Tokyo Tanshi Co.,Ltd	○
Trust & Custody Services Bank, Ltd.	○
UBS Securities Japan Co., Ltd.	○
Ueda Yagi Tanshi Co.,Ltd.	○

Financial Statements

Balance Sheet

(JPY in millions)

ASSETS	2014 As of 2014.3.31	2013 As of 2013.3.31
CURRENT ASSETS	1,150,685	444,503
Cash and bank deposits	34,982	24,494
Accounts receivable - trade	1,976	1,582
Marketable securities	802	–
Deferred tax assets	224	71
Margin funds for derivatives	700,606	230,213
Deposits for clearing funds	136,751	106,862
Deposits as collateral for facilitating settlement	10,500	10,000
Margin funds for when-issued transactions	191	192
Margin funds in trust for CDS	3,829	2,825
Deposits for clearing funds in trust for CDS	1,303	994
Margin funds in trust for IRS	114,707	46,499
Deposits for clearing funds in trust for IRS	50,188	20,707
Margin funds for FX	16,317	–
Deposits for clearing funds for FX	491	–
Margin funds for JGB	77,784	–
Other current assets	27	59
PROPERTY AND EQUIPMENT	3,222	3,489
Net property and equipment	145	104
Buildings	75	73
Equipment and furniture	70	30
Net intangible fixed assets	1,588	0
Software	637	0
Software in progress	950	–
Investments and other assets	1,488	3,384
Investments in securities	1,297	1,583
Investments in an affiliated company	–	1,750
Long-term prepaid expenses	120	1
Deferred tax assets	2	1
Guarantee money deposits	80	48
Other investments and other assets	5	–
DEFERRED CHARGES	18	21
Share issuance expenses	18	21
TOTAL	**1,153,926**	**448,015**

LIABILITIES	2014 As of 2014.3.31	2013 As of 2013.3.31
CURRENT LIABILITIES	1,117,148	420,145
Accounts payable - trade	1,318	992
Margin funds received for derivatives	700,606	230,213
Deposits received for clearing funds	136,751	106,862
Deposits received as collateral for facilitating settlement	10,500	10,000
Margin funds received for when-issued transactions	191	192
Margin funds received for CDS	3,829	2,825
Deposits received for clearing funds for CDS	1,303	994
Margin funds received for IRS	114,707	46,499
Deposits received for clearing funds for IRS	50,188	20,707
Margin funds received for FX	16,317	–
Deposits received for clearing funds for FX	491	–
Margin funds received for JGB	77,784	–
Income taxes payable	2,732	550
Consumption taxes payable	293	61
Accrued bonuses	62	47
Accrued bonuses for directors	19	20
Other current liabilities	49	178
NON-CURRENT LIABILITIES	0	3
Long-term accounts payable	0	3
TOTAL LIABILITIES	**1,117,148**	**420,149**
EQUITY		
Shareholders' equity	36,777	27,865
Capital stock	8,950	7,350
Capital surplus	9,476	6,900
Capital reserve	9,476	6,900
Retained earnings	18,351	13,615
Other retained earnings	18,351	13,615
Settlement guarantee reserve for security trades and others	12,800	12,180
General reserve	810	410
Retained earnings-unappropriated	4,741	1,025
Treasury stock	△0	–
TOTAL EQUITY	**36,777**	**27,865**
TOTAL	**1,153,926**	**448,015**

(The figures less than a million yen are rounded down to the nearest million yen.)

Statement of Income

(JPY in millions)

		2014 2013.4.1 to 2014.3.31	2013 2012.4.1 to 2013.3.31
OPERATING REVENUES	Total operating revenues	19,133	9,516
	Clearing fees	17,995	8,786
	Monthly fees	189	145
	Maintenance fees on cash products and derivatives	439	439
	Other operating revenues	510	144
	Total operating expenses	11,739	7,889
	Outsourcing business costs	9,923	6,712
	Salaries and compensation	762	533
	Real estate rental fees	112	58
	Facility expenses	39	30
	Other operating expenses	901	555
	OPERATING INCOME	7,394	1,626
OTHER INCOME	OTHER INCOME	54	88
	Interest income	44	40
	Subsidy income	–	35
	Other	9	12
	OTHER EXPENSES	16	56
	Office relocation cost	–	44
	Other	–	11
	ORDINARY INCOME	7,432	1,658
INCOME BEFORE INCOME TAXES		**7,579**	**1,658**
Current		2,994	674
Deferred		△151	△33
NET INCOME		**4,736**	**1,017**

(The figures less than a million yen are rounded down to the nearest million yen.)

Statement of Changes in Equity

April 1, 2013 - March 31, 2014

(JPY in millions)

	Equity										Total Net Asset
	Capital Stock	Capital Surplus			Retained Earnings				Treasury Stock	Total Equity	
					Other Retained Earnings			Total Retained Earnings			
		Additional Paid-in Capital	Other Capital Surplus	Total Capital Surplus	Settlement Guarantee Reserve for Security Trades and Others	General Reserve	Unappropriated				
Balance, March 31, 2013	**7,350**	**6,900**	**–**	**6,900**	**12,180**	**410**	**1,025**	**13,615**	**–**	**27,865**	**27,865**
Changes during the current term											
Issuance of new shares	1,000	272		272						1,272	1,272
Increase by share exchange	600	2,304		2,304					△0	2,903	2,903
Transfer to general reserve						400	△400				
Transfer to settlement guarantee reserve for security trades and others					620		△620				
Purchase of treasury stock※									△0	△0	△0
Retirement of treasury stock			△0	△0					0		
Transfer of other capital surplus			0	0			△0	△0			
Net income							4,736	4,736		4,736	4,736
Total amount of change	1,600	2,576		2,576	620	400	3,715	4,735	△0	8,911	8,911
Balance, March 31, 2014	**8,950**	**9,476**	**–**	**9,476**	**12,800**	**810**	**4,741**	**18,351**	**△0**	**36,777**	**36,777**

※ With regard to the purchase of treasury stock, JSCC acquired Class A shares in exchange for Class D shares in accordance with provisions relating to the exercise of a shareholder's put option. Shares less than one unit were exchanged for cash.

(The figures less than a million yen are rounded down to the nearest million yen.)

Management and Auditors

As of July 31, 2014

Board of Directors

President & CEO
Hironaga Miyama

Executive Vice President
Makoto Sonobe

Managing Director
Yasushi Suzuki

Michinori Ando
Executive Managing Director,
SMBC Nikko Securities Inc.

Moriyuki Iwanaga
Senior Executive Officer & CFO,
Japan Exchange Group, Inc.

Masakazu Kubota
Director General,
Keidanren

Noriaki Nagai
Senior Corporate Managing Director,
Nomura Securities Co., Ltd.

Masahisa Nakagawa
Executive Managing Director,
Daiwa Securities, Co. Ltd.

Yasumasa Nishi
President & CEO,
DIAM Co.,Ltd.

Yoshiyuki Hoshino
Managing Director,
Barclays Securities Japan Limited

Seiji Miyauchi
Director,
Kyokuto Securities Co., Ltd.

Mikio Yamashita
Director,
Morgan Stanley MUFG Securities Co., Ltd.

CRO

Executive Officer, Chief Risk Officer
Mitsuhiro Hasegawa

Auditors

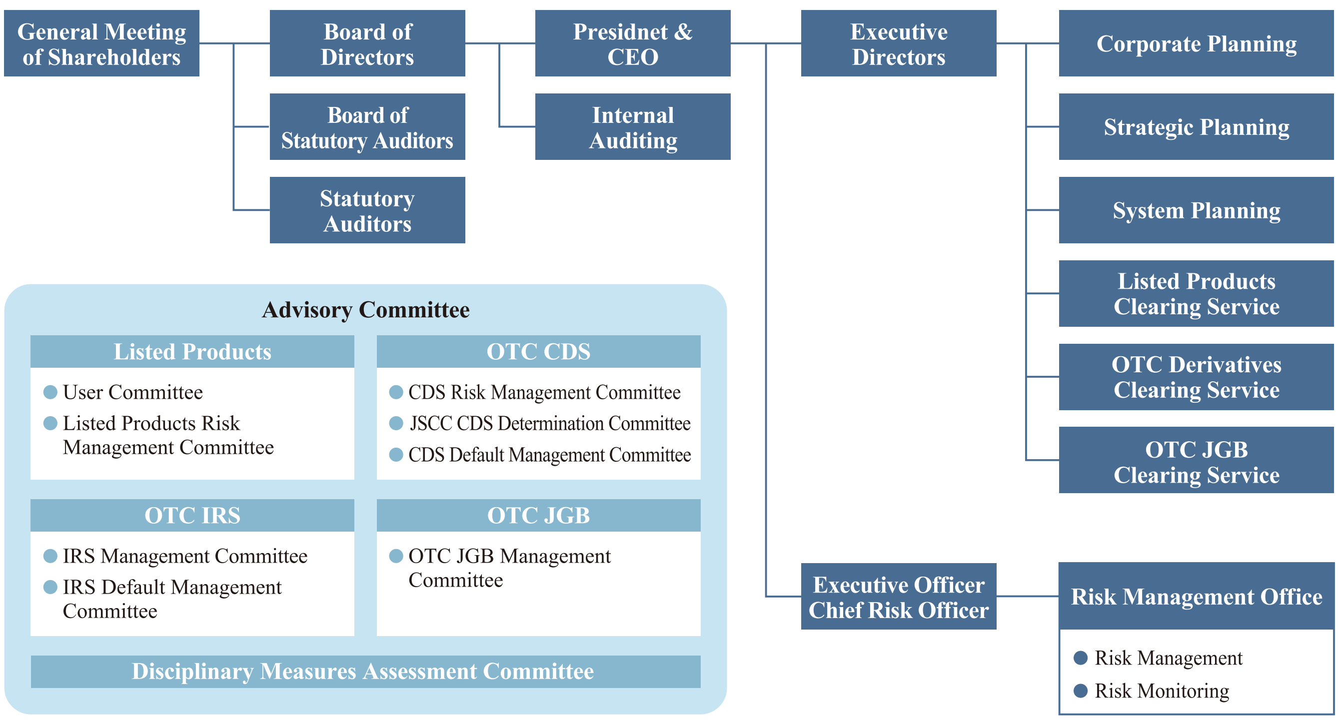
Standing Statutory Auditor
Akira Sato

Statutory Auditor
Shigeru Nakajima
Attorney-at-law

Statutory Auditor
Tsutoo Matsumoto
CPA

Organization Chart

As of July 31, 2014



Company Profile

As of July 31, 2014

Company Name	Japan Securities Clearing Corporation
President & CEO	Hironaga Miyama
Head Office	2-1 Nihombashi-Kabuto-Cho, Chuo-ku, Tokyo 103-0026, Japan
TEL	+81-3-3665-1234
URL	http://www.jscc.co.jp
Date of Incorporation	July 1, 2002（Commences business on January 14, 2003）
Capital	JPY 8,950,000,000
Shareholders	**Class A Shares** ● Japan Exchange Group, Inc. ● Nagoya Stock Exchange, Inc. ● Fukuoka Stock Exchange ● Sapporo Securities Exchange **Class B Shares** ● Japan Exchange Group, Inc. **Class C Shares** ● Japan Exchange Group, Inc. ● The Bank of Tokyo-Mitsubishi UFJ, Ltd. ● Barclays Bank PLC ● BNP Paribas Securities (Japan) Limited ● Citigroup Global Markets Japan Inc. ● Credit Suisse Securities (Japan) Limited ● Daiwa Securities Group Inc. ● Deutsche Securities Inc. ● Goldman Sachs Japan Co., Ltd. ● JP Morgan Securities Japan Co., Ltd. ● Merrill Lynch Japan Securities Co., Ltd. ● Mizuho Bank, Ltd. ● Morgan Stanley MUFG Securities Co., Ltd. ● Nomura Holdings, Inc. ● Resona Bank, Limited ● The Royal Bank of Scotland plc (Tokyo Branch) ● Sumitomo Mitsui Banking Corporation ● Sumitomo Mitsui Trust Bank, Limited ● Société Générale (Société Générale Bank) ● UBS AG (Bank) **Class D Shares** ● Japan Exchange Group, Inc. ● The Bank of Tokyo-Mitsubishi UFJ., Ltd. ● Barclays Securities Japan Limited ● BGC shokenkaisha Ltd. ● BNP Paribas Securities (Japan) Limited ● Credit Agricole Securities Asia B.V. Tokyo Branch ● Central Tanshi Co.,Ltd ● Central Totan Securities Co., Ltd. ● Credit Suisse Securities (Japan) Limited ● Daiwa Securities Co. Ltd. ● Deutsche Securities Inc. ● Japan Bond Trading Co., Ltd. ● JPMorgan Securities Japan Co., Ltd. ● Japan Securities Finance Co., Ltd. ● Merrill Lynch Japan Securities Co., Ltd. ● Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ● Mizuho Bank, Ltd. ● Mizuho Securities Co., Ltd. ● Morgan Stanley MUFG Securities Co., Ltd. ● Nomura Holdings, Inc. ● The Norinchukin Bank ● OKASAN SECURITIES GROUP INC. ● Sumitomo Mitsui Banking Corporation ● Tokai Tokyo Financial Holdings, Inc. ● Totan Holdings Co., Ltd. ● UBS Securities Japan Co., Ltd. ● Ueda Yagi Tanshi Co., Ltd.

Japan Securities Clearing Corporation

2-1 Nihombashi-Kabuto-cho, Chuo-ku, Tokyo 103-0026, Japan