
Medium-Term Business Plan (FY2014-2015)

April 28, 2014

Japan Securities Clearing Corporation

1. Summary of Business Plans for Previous Fiscal Year (FY2013) (1)

1. Further Reinforcement of Business Management Base

| Key Business Plans | Steps Taken in FY2013 |
|--|---|
| <ul style="list-style-type: none"> Undertake further reinforcement of our core management and governance, in order to reflect the new domestic regulatory framework based on the Principles for Financial Market Infrastructures and Basel III, combined with direct and indirect regulation and supervision by overseas regulatory authorities | <ul style="list-style-type: none"> Established a new organizational structure, including the creation of Risk Management Office in December 2013 |
| <ul style="list-style-type: none"> Enhance risk management such as real-time risk assessment/calculation, introducing risk monitoring across markets and products, and improving the collateral scheme for JGB OTC transactions | <ul style="list-style-type: none"> Increased the frequency of risk exposure revaluation for listed derivatives products, in July 2013 Implemented real-time clearing for IRS transactions (Clearing Procedures per Trade), in February 2014 Outlined structures for revised settlement guarantee and loss compensation schemes for JGB OTC transactions in February 2014 |
| <ul style="list-style-type: none"> Facilitate in-depth discussions in order to shorten settlement cycles for JGB transactions | <ul style="list-style-type: none"> Participated in discussions at the Japan Securities Dealers Association's working groups and other entities |
| <ul style="list-style-type: none"> Merge with JGBCC to further reinforce JSCC's business management base and improve the efficiency of markets | <ul style="list-style-type: none"> Merged with JGBCC in October 2013 |

1. Summary of Business Plans for Previous Fiscal Year (FY2013) (2)

2. Further Expansion of Clearing Services

| Key Business Plans | Steps Taken in FY2013 |
|---|---|
| <ul style="list-style-type: none"> Applied for registration as a DCO with the CFTC under the Commodity Exchange Act and for recognition as a Third Country CCP (TC-CCP) by ESMA under European Market Infrastructure Regulation in order to facilitate the use of JSCC by overseas clearing participants | <ul style="list-style-type: none"> Received the Extension of Time-Limited No-Action Relief granted in December 2013 from CFTC until the end of 2014. JSCC completed the document submissions related to the application for registration as a DCO Submitted application documents to ESMA for recognition as a TC-CCP in September 2013 |
| <ul style="list-style-type: none"> Take steps to increase clearing eligible instruments and widen the scope of clearing services | <ul style="list-style-type: none"> Started to clear CNX Nifty Index Futures listed at OSE in March 2014 Implemented IRS client clearing in February 2014 Introduced a trust scheme relating to collateral for OTC derivatives, in February 2014 Started discussions on the framework for Single Name CDS clearing Upgraded systems in January 2014 to facilitate the participation of Trust Banks in the JGB OTC Clearing Business |
| <ul style="list-style-type: none"> Establish a more efficient collateral scheme | <ul style="list-style-type: none"> Discussed a concrete structure with Clearing Participants to implement cross margining of yen-denominated IRS Consolidated the Osaka Securities Exchange's CCP for OSE-listed derivatives with JSCC and their margin structures in July 2013 |

1. Summary of Business Plans for Previous Fiscal Year (FY2013) (3)

3. Steady Enhancement of Information Technology Infrastructure

| Key Business Plans | Steps Taken in FY2013 |
|---|---|
| <ul style="list-style-type: none">Strengthen system development and operational arrangements as well as capacity management and processing capabilities | <ul style="list-style-type: none">Reinforced the system capabilities for OTC derivatives with upgrades in September 2013 and February 2014 |
| <ul style="list-style-type: none">Ensure implementation of system development projects | <ul style="list-style-type: none">Upgraded the margin calculation systems in relation to the consolidation of the TSE and the OSE clearing organizations to off-set margins in July 2013.Started operations of a new clearing system for exchange-traded transactions in January 2014Upgraded systems following the consolidation of the two exchanges' derivatives markets in March 2014Upgraded system to facilitate the launch of IRS client clearing, in February 2014 |

2. Changes in the Environment Surrounding JSCC (1)

1. Domestic Regulatory Trends Surrounding CCPs

- The Financial Services Agency developed “Comprehensive Guidelines for Supervision of Financial Market Infrastructures” for clearing organizations, book-entry transfer institutions and other entities in December 2013 in view of new international regulatory conditions, such as the “Principles for Financial Market Infrastructures”.
- To keep pace with global progress in mandatory clearing requirements, the Japanese government plans to expand the scope of mandatory clearing (starting December 2014) and make the mandatory use of Swap Execution Facility (SEF) by September 2015.
- In the roadmap for reducing settlement risks of JGB transactions, JSCC and other concerned parties are expected to have systems in place and review market practices to shorten settlement cycles for JGB transactions (move to the T+1 settlement cycle for outright transactions as early as practicable in 2017).

2. International Regulatory Trends Surrounding CCPs

<The Principles for FMIs>

- CPSS/IOSCO released a consultative report on public quantitative disclosure standards for central counterparties in October 2013. This helped to clarify disclosure standards which CCPs are expected to observe in the future.

<Margin Requirements>

- In September 2013, the final report on margin requirements for non-centrally cleared derivatives was released, proposing the application of the regulations in a phased manner, starting in December 2015.

<Registration as CCPs Overseas>

- European regulations require that any non-European CCP providing clearing for European financial institutions, including their branch offices in Japan, should gain European Securities Markets and Authority’s recognition based on equivalence assessments between its home country’s regulations and European regulations. A final decision by the European Commission on its equivalence assessment, is pending publication.
- U.S. regulations require that OTC derivatives transactions conducted with U.S. financial institutions shall be cleared by a derivatives clearing organization registered with the CFTC. JSCC has applied to the CFTC to be registered as a DCO.

2. Changes in the Environment Surrounding JSCC (2)

<Capital Requirements on Exposures to CCPs>

- Under capital requirements for banks exposure to central counterparties as part of the Basel III framework, U.S. and European banks are required to calculate capital for their trade exposures to CCPs. Institutions in those jurisdictions must determine whether their CCPs are qualified central counterparties based on assessments on compliance with the Principles for FMIs.

<Wider Use of SEFs>

- The use of Swap Execution Facilities (SEFs) is increasing primarily by U.S. institutions which is resulting with the demand for the CCP clearing of transactions executed on a SEF.

3. Trends in domestic and foreign exchanges and CCPs

<Exchanges>

- Amendments to the “Financial Instruments and Exchange Act” went into effect in March 2014, allowing the establishment of comprehensive (multi-asset class) exchanges.
- The TSE’s derivatives market was incorporated into the OSE’s derivatives market in March 2014.

<CCPs>

- CME was reported to be considering clearing services for OTC derivatives in Japan, while SGX was registered as a CFTC DCO in December 2013. JSCC is expected to face intensifying competition with CCPs in other countries.

<Others>

Europe is scheduled to change the settlement cycle for equities to T+2 in October, while Singapore released a consultation paper with a goal of realizing T+2 in 2016. Australia also released a report aimed at moving to T+2.

3. Future Business Policies and Detailed Business Plans

1. Reinforcement of Business Management Foundation

[Key Business Plans]

- 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.
- Take steps to enhance risk management through the introduction of cross-asset class risk monitoring methodologies and implementation of advanced of margin models.
- Facilitate in-depth discussions in order to shorten settlement cycles for OTC JGB transactions.

2. Further Expansion of Clearing Services

[Key Business Plans]

- Obtain approval to be registered as a CFTC DCO and gain recognition as a TC-CCP under EMIR, as part of efforts to promote the use of JSCC by foreign Participants.
- Make various efforts to increase Clearing Participants and Customers.
- Take steps to increase clearing eligible instruments and widen the scope of clearing services, such as foreign currency-denominated IRS.
- Implement cross-asset portfolio margining between yen-denominated interest rate products.

3. Enhancement of IT Systems

[Key Business Plans]

- Strengthen system risk management relating to development and operational arrangements and processing capabilities.
- Ensure implementation of system development projects.