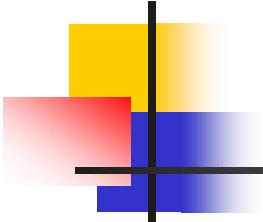


# Three-year Business Plan (FY2012~FY2014)

March 28, 2012  
Japan Securities Clearing Corporation

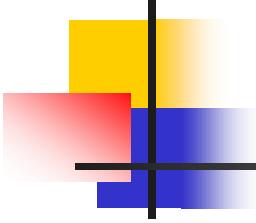


# I . Progress in FY 2011- I

- For the medium-term management plan, JSCC has created a business plan covering the following three policies: '1. Extensive Clearing Service, 2. Resilient Risk Management System, and 3. Competent System Infrastructure. As at the end of FY2011, the progress made against each policy is as follows:

## 1. Business Plan for “Extensive Clearing Service”

- ✓ Prepared the concrete operational procedures for the launch of index CDS trades. In addition, the detailed system and framework for the launch of the clearing service of the single name CDS trades will be considered.
  - ⇒ A clearing service for index CDS trades was launched last July, and has continuously provided a stable clearing service thereafter.
  - ⇒ This was followed by researching the calculation method of Margin for single name CDS trades, detailed discussions will be conducted with the market participants.
- ✓ As for the handling of the IRS clearing business, the detailed framework and system development will be considered.
  - ⇒ The system requirements were signed off last November after discussions with market participants covering both the IRS framework and the system development. The outline of the clearing service for IRS trades was completed in March.
- ✓ Working on the strengthening of cooperation with Japan Government Bond Clearing Corporation.
  - ⇒ Jointly considered the measures that can be taken in response to the market consultation proposal for “Principal for the Financial Market Infrastructure”
  - ⇒ A further exchange of personnel was made with the aim of further strengthening the relationship between the two organizations.



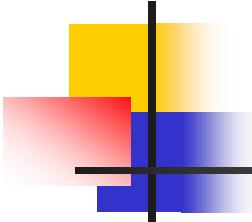
# I . Progress in FY 2011— II

## 2. Business Plan for “Resilient Risk Management System”

- ✓ Start discussions with participants for the introduction of the intra-day collateral call in clearing of cash products.
  - ⇒ Completed the system development required for the introduction of the framework as well as the investigation of the trigger criteria relating to the intra-day collateral call. Planning to conduct the discussions/considerations with the market participants in order to design the outline of Intra-day collateral call in clearing of cash products.
- ✓ Enhance the risk management functions in line with “Principles for financial market infrastructures” published by CPSS/IOSCO.
  - ⇒ Submitted comments on the market consultation proposal for “Principles for Financial Market Infrastructures’.
  - ⇒ Verified the adequacy in relation to the collateral model and stress tests in accordance with the current ‘Recommendations for Central Counterparties’ and confirmed no problem was identified.

## 3. Business Plan for “Competent System Infrastructure”

- ✓ Conduct system tests to ensure the stable business operations for Index CDS clearing.
  - ⇒ Completed the system implementation for CDS indexed trades last July.
- ✓ Consider and develop the system for clearing services for IRS and single name CDS trades.
  - ⇒ Finalized the system requirements for the IRS business and commenced work on the system development last November
- ✓ Finalize requirements for the upgrading of the clearing system which focuses on the enhancement of its functions and improvement in the safety.
  - ⇒ Finalized the system requirements for the next version of the clearing system taking into account the opinions expressed by the market participants.



## II . Business Challenges – I

### 1. Trend of Domestic Regulations that relates to the clearing organization

- The mandatory use of clearing organization for OTC derivatives trades in a phased manner.

Eligible institution	<p>【Phase 1 (Nov. 2012 onwards)】</p> <ul style="list-style-type: none"><li>Financial Instruments business operators which meet the requirements to participate in the clearing organization and conduct high-frequency and high-volume OTC derivatives trades.</li></ul>	<p>【Phase 2 (about 2 years after the start of Phase 1)】</p> <ul style="list-style-type: none"><li>Consider the expansion of the scope of the eligible institutions to include financial instruments business operators whose counterparty risk exposure exceeds a certain level in the event of a default.</li></ul>
Eligible Trade	<p>【Phase 1 (Nov. 2012 onwards)】</p> <ul style="list-style-type: none"><li>JPY- LIBOR IRS</li><li>Index CDS (iTraxx Japan)</li></ul>	<p>【Afterwards】</p> <ul style="list-style-type: none"><li>Consider the expansion of the scope of trade eligibility to include the following trades considering the size of the trade, the extent of the standardization, and the level of coverage for clearing services at the clearing organization.<ul style="list-style-type: none"><li>✓ JPY-TIBOR IRS, Dollar/Euro-denominated IRS, single name CDS related to Japanese equity, index/single name CDS related to European and North American issues.</li></ul></li></ul>

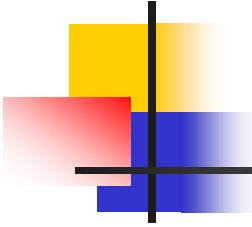
- Entry into the domestic financial market by 'foreign clearing organizations' has been allowed since April 2011

### 2. Trend of Financial Instruments Exchange

- It's been made public that Tokyo Stock Exchange Inc. (TSE) will be merged with Osaka Securities Exchange Co., Ltd. (OSE) (founding of the integrated holding company) in January 2013. In this business merger, JSCC is positioned to play a role as the clearing organization across the group.
- With the synergies provided as a result of the merger, the collateral efficiency improvements are expected through the integration of the clearing organizations which cover derivatives trades.

### 3. Trend regarding Considerations for the Comprehensive Exchange

- In "Summarization" published by "Review team for the comprehensive exchange" comprised of FSA, MAFF, and METI on February 24, 2012, it is publicly stated that the regulation/supervision for the comprehensive exchange will be unified, and that the framework will be developed in order to secure the collaboration.



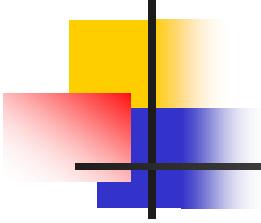
## II . Business Challenges— II

### 4. Trend of the New Global Standard and Global Regulations regarding the Clearing Organization

- “Principles for Financial Market Infrastructures” (FMI Principles) are scheduled to be finalized shortly following the market consultation conducted last year. Subsequently, after a specific evaluation method has been finalized to measure compliance, proper regulatory measures will be set forth to address how compliance can be met within Japan.
- It is also planned that “Basel III” will impose a higher risk weight for trades where a clearing organization that does not comply with ‘Basel III’ standards is used.
- In the United States, ‘Dodd-Frank Act’ will mandate the use of a clearing organization which has obtained DCO (Derivatives Clearing Organization) registration for clearing OTC derivatives trades.
- As for Europe, the establishment of ‘European Market Infrastructure Regulation (EMIR) is currently under consideration so that use of designated clearing organizations can be mandated.

### 5. Trend of the Foreign Clearing Organization

- With regard to OTC derivatives trades, investigations and preparations are in progress mainly at clearing organizations located in the United States/Europe, which will develop the global expansion of the clearing business.
- In Asian regions, investigations have been conducted to allow the clearing organizations in each country to handle domestic OTC derivatives trades.



### III. Business Policy and Main Business Plan for FY2012~FY2014 – I

- As the current financial and capital markets landscape is rapidly changing both domestically and globally, JSCC have identified the following four principles and related actions in order to build on their status as Japan's clearing house, increase their ability to compete with international clearing houses, and contribute to the growth of the domestic financial capital market.

#### 1. Extensive Clearing Services

- Possible expansion of scope of mandatory clearing in respect of OTC derivatives is expected to occur in a phased manner.
- In addition to increasing the levels of interaction with the Japan Government Bond Clearing Corporation, increased efforts are planned to widely contribute to improving the convenience, efficiency, and safety of the market as Japan's leading clearing organization.  
⇒ "*Extensive Clearing Services*" will be continuously set as the first pillar of the business policy aiming to provide the clearing services to a wide range of products.

<Main Business Plan>

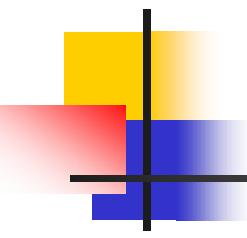
- ✓ The launch of a clearing service for the IRS business
- ✓ Expansion of the product range eligible for the IRS and CDS clearing services (covering IRS Tibor, single name CDS, etc) as well as the clearing participants.  
Other than the above, addressing the ongoing regulatory changes related to OTC derivative trades.
- ✓ Increasing the level of cooperation with Japan Government Bond Clearing Corporation in relation to the measures to be taken for FMI Principles

#### 2. Steady Strengthening of Risk Management

- While there is a movement to mandate the use of the clearing organization, the requirements for the risk management infrastructure of a clearing organization become even higher, including the establishment of FMI Principles.
- In order to compete with foreign clearing organizations, having an established risk management infrastructure is regarded as a minimum requirement.  
⇒ "*Steady Strengthening of Risk Management Infrastructure*" will be set as the second pillar of the business policy in an effort to constantly improve the effectiveness of risk management

<Main Business Plan>

- ✓ Responses to the observation of the FMI principles, including the introduction of an intra-day collateral call for cash products.
- ✓ Considerations for an advanced risk management method, taking the Wrong-Way risk and other factors into consideration.
- ✓ Reconfirmation of BCP in the event of system failure and the unexpected events.



### III. Business Policy and Main Business Plan for FY2012~FY2014 – II

#### 3. Strengthening of the System Function

- In order to achieve ‘the extensive clearing service’ and ‘the steady strengthening of the risk management’, it is necessary that stable running of the system is constantly ensured as well as delivering enhancements which will strengthen system functionality.  
⇒ “*The strengthening of the system functions*” will be set as the third pillar so that the strengthening of the system will improve the adaptability, efficiency and ensure the safety will be functionally achieved.

<Main Business Plan>

- ✓ The launch of the next version of the clearing system
- ✓ The system enhancement for the expansion of the products eligible for OTC derivatives

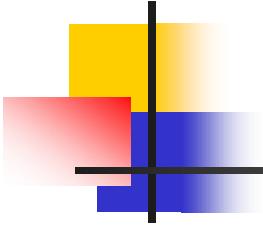
#### 4. Assured Implementation of the Responses to the Merger of TSE and OSE (Note)

- Will need to steadily develop the framework, the system, and the organization which enables the clearing business to be integrated with a degree of certainty, in line with the merger of TSE and OSE.  
⇒ Aiming to achieve the integration of the clearing functions, “*the assured implementation of the responses to the merger of TSE and OSE*” will be set as the fourth pillar.

<Main Business Plan>

- ✓ Provide support to integrate the derivatives clearing functions in line with the merger of TSE and OSE
- ✓ Deliver system enhancements required by the merger of TSE and OSE.

(Note) The responses to the merger of TSE and OSE will be taken at both TSE and OSE only when the conditions are met that a license and such can be obtained from the relevant authorities, including the confirmation if a cease and desist order is not made by The Fair Trade Commission in relation to the procedures and responses regarding the relevant business merger.



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