

Three-year Business Plan (FY2011 ~ FY2013)

March, 23, 2011

Japan Securities Clearing Corporation

I. Progress in FY 2010

The progress up to the end of FY2010 is as follows:

1. Further Expansion of Clearing Service

- Started providing clearing services for PTS trades.
- Started working on the tightening of the relationship with Japan Government Bond Clearing Corporation in order to improve securities settlement and clearing infrastructure, and as part of this, took actions such as the purchase of the stocks of the company and the dispatch of executives and managers.
- Published the outline of CDS clearing services and worked on the detailed consideration for the launch of the service in terms of risk management, legal and operation matters.
- Started considering the upgrading of clearing system in order to further enhance clearing functions.

2. Further Strengthening Risk Management System

- Put together a basic concept regarding the introduction of the intra-day collateral call and considered the details of operations.
- Reviewed a rate applied to securities in lieu of cash deposited as collateral (haircut) so that the rate will reflect the latest market conditions.
- Clarified IT security standards in order to further strengthen the business functions

II. Business Challenges

While an active use of central counterparty (CCP) function is being encouraged globally for various kinds of financial products due to the financial crisis in 2008, we see a growing trend of consolidation and integration activities among stock exchanges aiming to become more competitive.

- Revisions to the Financial Instruments and Exchange Act in March 2010 mandated the use of clearing organization for Index CDS and IRS trades effective sometime before November 2012.

- As in Europe and the U.S., the establishment of OTC derivatives clearing organizations is gaining momentum in Asia.
- In order to make clearing organizations more robust, CPSS/IOSCO has decided to design “Principles for financial market infrastructures” as new prescriptive standards replacing “Recommendations for Central Counterparties” which has been regarded as the best practice. Now the Principles are under public consultation. In addition, under Basel , considerations as to whether a capital charges should be imposed when trades are cleared by a clearing organization who has not met such Principles is being made.
- Wide trend of Exchanges consolidations is being publicized one after another. In addition, each stock exchange is considering the possibility of expanding the scope of products or expanding trading hours in order to meet various investment needs.

III. Corporate Philosophy and Business Policy

JSCC, as a cross-market clearing organization in Japan, has fulfilled its responsibilities to the markets by providing its clearing functions for a wide variety of transactions ranging from cash to derivatives since its establishment. In recent years, faced with a rapidly changing environment, we have been aware that JSCC is required to further expand the scope of its clearing services.

In light of this, JSCC has renovated our existing Corporate Philosophy from “We endeavor to enhance the competitiveness of Japanese securities and derivatives markets by improving the efficiency, convenience and safety in post-trade processing infrastructure” to “We endeavor to enhance the competitiveness of the Japanese financial and capital markets by improving the efficiency, convenience and safety in post-trade processing infrastructure of financial instruments transactions”, aiming to become the Japan’s leading clearing organization by providing user-friendly clearing services for the domestic and overseas market participants. The details of our business policy are as follows:

1. Extensive Clearing Services

In line with global efforts towards risk reduction since the financial crisis of 2008, the Japan’s law was amended to mandate that a certain types of OTC derivatives transactions be cleared by a clearing organization.

On the other hand, looking at stock exchanges for which JSCC mainly provides its clearing services, we expect that they will expand the scope of products or revise their existing systems more actively in order to survive the globally competitive environment brought about by the recent trend of global exchanges consolidation. Thus, in order to accommodate these changes, JSCC needs to expand our services.

Since JSCC has provided the clearing services for a wide range of products to varied participants, we believe that by expanding the scope of clearing services to include more diversified products, we can contribute to the development of the Japanese financial and capital markets through improved efficiency, convenience, and safety of transactions.

Thus, aiming to become a clearing infrastructure which can stand comparison with the U.S. and Europe clearing houses, JSCC sets “Extensive Clearing Service” as the first pillar of its business policy, and will build a foundation as all-round clearing organization evidenced by stable management resources.

2. Resilient Risk Management System

CPSS/IOSCO decided to formulate “Principles for Financial Market Infrastructures” so that CCPs abide by higher standards in terms of risk management ability, which is important to keep global financial markets stable.

In addition, the Basel Committee on Banking Supervision is proposing that transactions cleared by CCPs which do not meet the “Principles for Financial Market Infrastructures” should be required a capital charge under Basel . In order to further expand the clearing service, as described above as the first pillar, JSCC needs to implement a higher level of risk management in addition to responding to these trends in regulations.

JSCC has been making efforts to improve the risk management system, and believes that it is our duty to continuously work on the development. JSCC thus regards “Resilient Risk Management System” as the second pillar, aiming at the enhancement of our business foundation.

3. Competent System Infrastructure

Amid the significantly changing environment, JSCC has been aware that market participants require us to provide more convenient functions.

Responding to these needs, JSCC has started preparing for the upgrading of the clearing system in addition to the system operation for the launch of the CDS

clearing service.

In order to achieve the above “Extensive Clearing Service” and “Resilient Risk Management System,” systems which act as the basis should be enhanced. JSCC thus sets “Competent System Infrastructure” as the third pillar and aims to establish a system with scalability and safety so that JSCC can thrive in this competitive landscape as a core financial market infrastructure.

IV. Business Plan

1. Extensive Clearing Service

- Finalize the concrete operational procedures and other matters necessary to commence the Index CDS clearing service. In addition, advance preparation for the details of systems and frameworks for the launch of single-name CDS clearing.
- Advance preparation for the clearing services for IRS trades in terms of the detailed systems and frameworks, etc.
- Respond to the introduction of new products and new services on financial instruments exchanges and develop post-trade infrastructure to satisfy the needs of market participants with regard to settlement and clearing.
- Work on the strengthening of cooperation with Japan Government Bond Clearing Corporation.

2. Resilient Risk Management System

- Start discussion with participants for the introduction of the intra-day collateral call.
- Enhance the risk management functions in line with “Principles for Financial Market Infrastructures” published by CPSS/IOSCO.

3. Competent System Infrastructure

- Conduct system tests to ensure the stable business operations for Index CDS clearing.
- Advance preparation for developing the system for clearing services for IRS and single name CDS trades.
- Finalize requirements for the upgrading of the clearing system which focuses on the enhancement of its functions and improvement in the safety (the upgrading is scheduled to be launched in the beginning of 2014).