

Introduction to IRS

- IRS is a derivative transaction on an interest rate, where two parties exchange (swap) two different interest rates (i.e., a fixed rate and a floating rate, different floating rates) on the Payment Date.
- There is no principal exchange, with the trading parties only exchanging the interest rate payments.
- Provides a tool for the hedging of interest rate fluctuation risk.

Clearing

- After the over-the-counter execution of IRS, JSCC will stand between the trading parties to be a party to all claims/obligations, thereby JSCC becomes counterparty to each trading party and guarantees the settlement of future cashflows.
- JSCC's settlement guarantee allows each individual trading party to execute trades without worrying about the credit risk of their original counterparty.

【IRS Clearing (Illustration)】

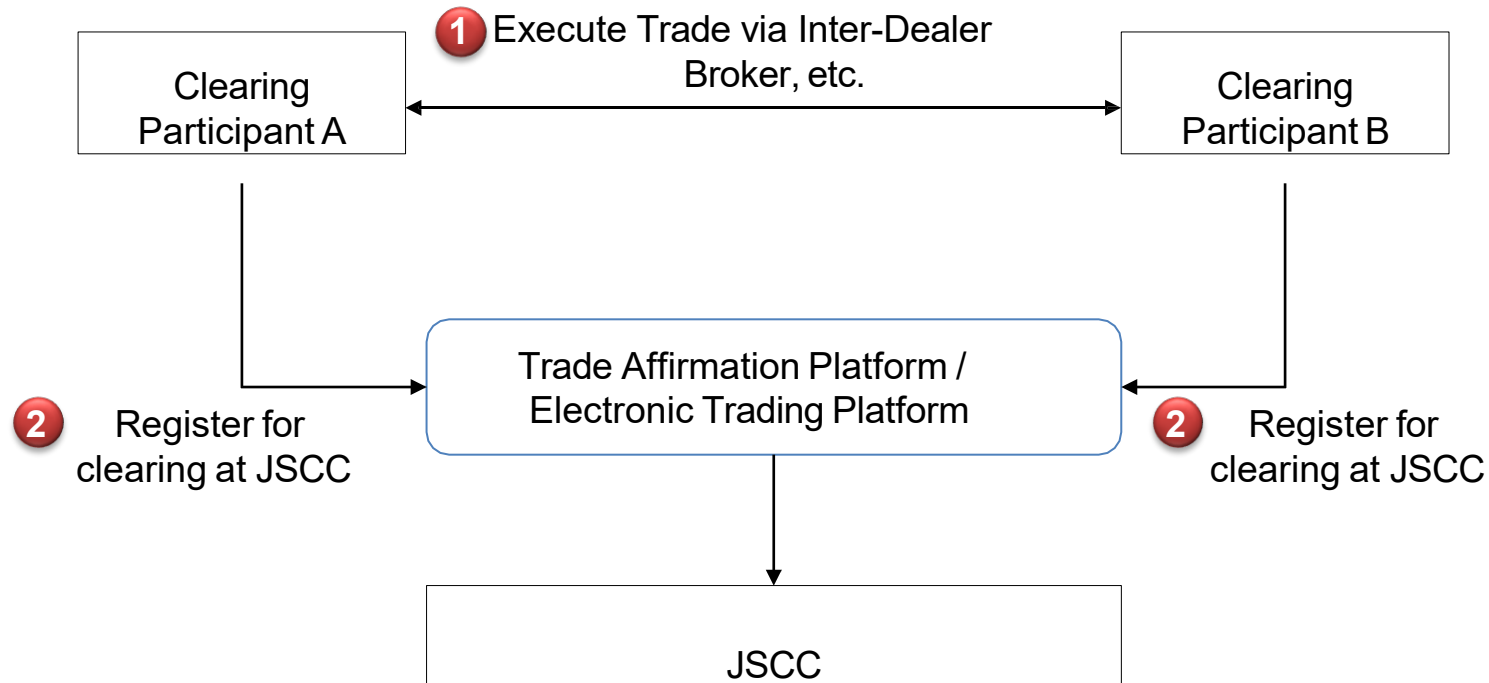


Clearing

Clearing Participant's Application for Clearing a new trade

- Both trade counterparties apply for Clearing via a trade affirmation platform / electronic trading platform(*).

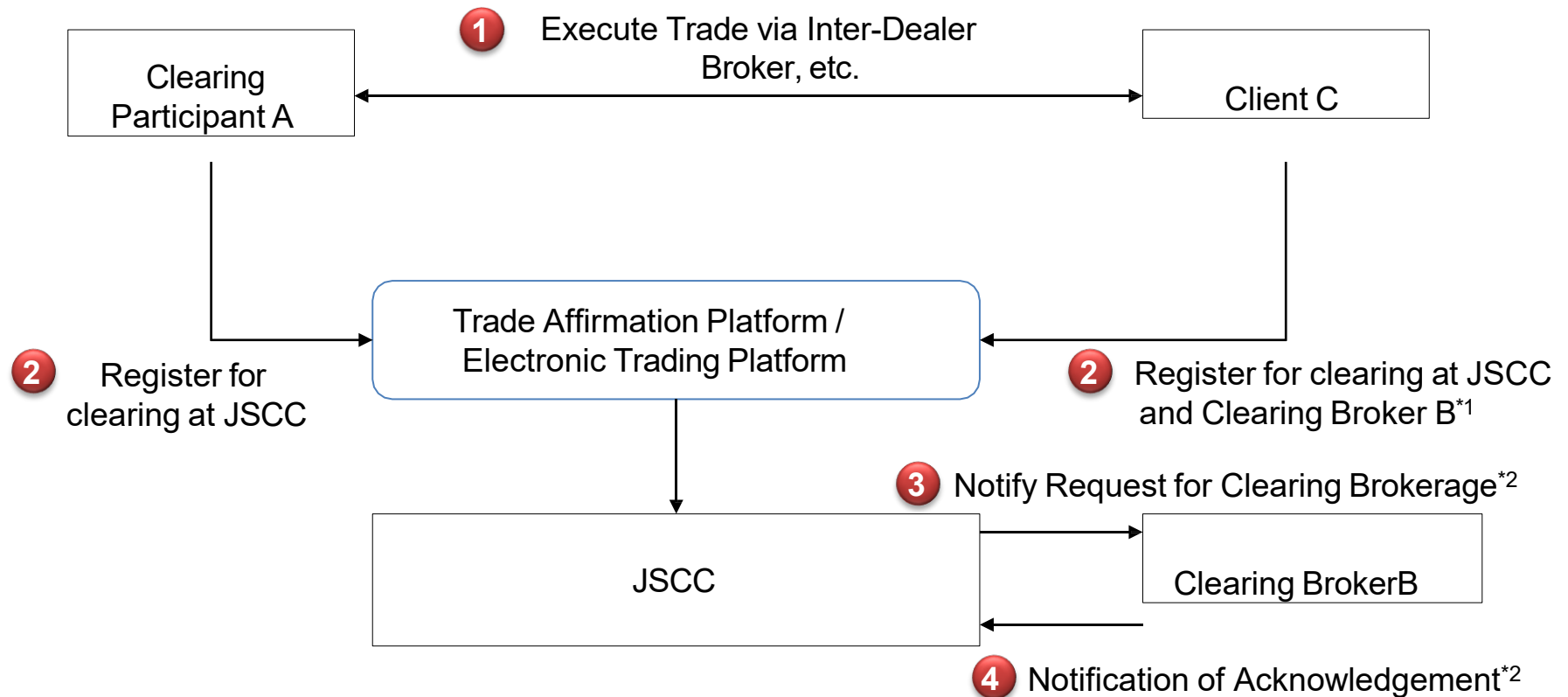
(*) Trade Affirmation Platforms / Electronic Trading Platforms that have a direct connection with JSCC are; OSTTRA Connect for Rates, Tradeweb, Bloomberg VCON, Bloomberg ETP.



Clearing

Client's Application for Clearing

- Both trade counterparties (Clearing Participant A and Client C) register to clear the trade at JSCC, and Client C must elect a Clearing Broker, via a Trade Affirmation Platform/Electronic Trading Platform.
- JSCC only clears the trade once acknowledgment is received from the Clearing Broker



*1 The relationship between Clearing Broker B (agent) and Client C (customer), as prescribed in the "Brokerage for Clearing of Securities, etc." (Having executed an "IRS Clearing Brokerage Agreement" prescribed by JSCC)

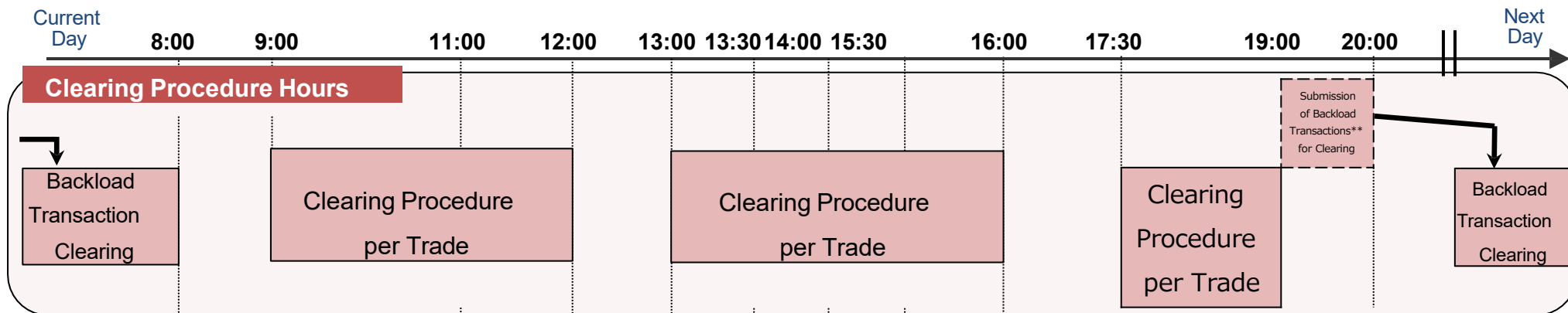
*2 For Client transactions executed on either SEF or MTF, if a prior request is made by a Clearing Broker, notifications of ③ and ④ can be skipped.

Clearing

Clearing Procedure

- New trades are cleared between: 09:00 - 12:00, 13:00 – 16:00, and 17:30 – 19:00 (JST)
- Trades submitted for clearing go through an eligibility check, collateral sufficiency check*, and other required checks, and are then cleared on a real-time basis (“Clearing Procedure per Trade”)

* If a trade is submitted for clearing outside of a specified clearing window (before 09:00, 12:00 – 13:00, 16:00 – 17:30, and after 19:00), the trade will be cleared in the next clearing window.



* Refer to the next page for the overview of the criteria that JSCC clears a trade with the insufficient Collateral Amount upon new clearing request.

**Backload Transactions can be submitted for clearing during the period from 19:00 to 20:00. Trade Date must be at least 10 JSCC business days before the date of application for clearing.

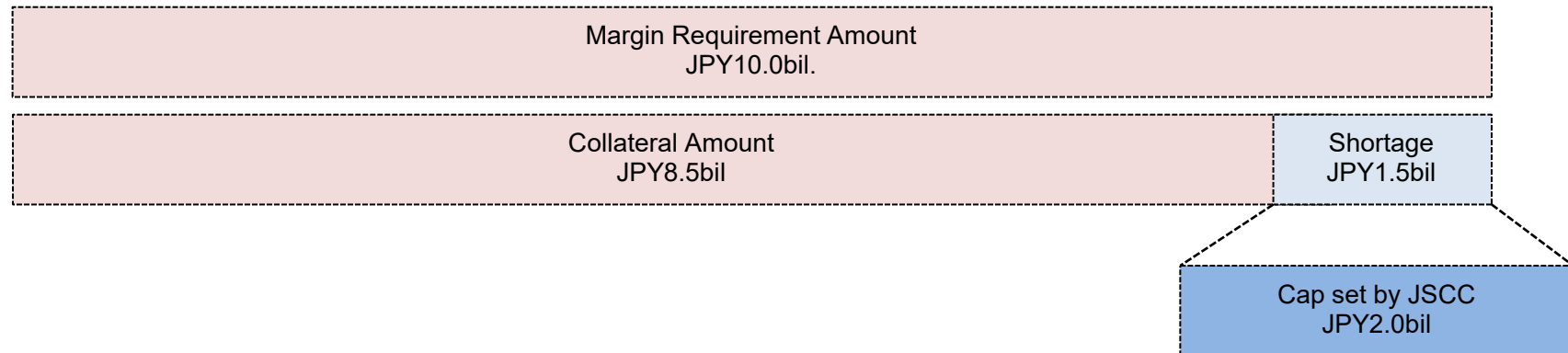
Clearing

Overview of the criteria that JSCC clears a trade with the insufficient Collateral Amount upon new clearing request

JSCC clears trades even if the amount sufficient to cover the Margin Required Amount has not been deposited for a trade for which clearing application is submitted, so long as the certain criteria prescribed by JSCC are met.

For example, when Margin Requirement Amount is JPY10.0bil. and Collateral Amount is JPY8.5bil., shortage amount is JPY1.5bil. Because this amount is less than JPY2.0bil., the cap amount per each Clearing Participant set by JSCC, clearing becomes effective.

* A Customer shall be subject to its limit the Clearing Broker allocates within the hard limit per a Clearing Participant.



- Judgment of successful clearing for Compression and/or Position Transfer is out of the scope of the criteria adoption.
- Margin Requirement Amount for each of Initial Margin, Variation Margin and Intraday Margin is calculated including trades for which clearing becomes effective with the insufficient Collateral Amount to cover Margin Requirement Amount upon clearing request and if shortage arises against Collateral Amount (i.e., margin call is triggered), such shortage needs to be met by the deposit cutoff time. Regardless of an adoption of the criteria that JSCC clears a trade with the insufficient Collateral Amount upon new clearing request, a Clearing Broker deposits margin to cover Customer's shortage, after liaising with its Customer.