

Increases in Required Initial Margin Amount related to JGB OTC Transaction

October 1, 2013

Amended on October 14, 2014

Amended on May 1, 2018

Amended on June 10, 2019

Amended on December 18, 2023

Japan Securities Clearing Corporation

1. Increase related to Net Worth (*jun zaisan*) or Net Assets (*jun shisan*) (Article 3, Paragraph 1, Item (1) of Rules on Required Initial Margin Amount related to JGB OTC Transaction (herein after referred to as “Margin Requirement Rules”)

Criteria and increased amount related to Required Initial Margin Amount based on net worth of Clearing Participants that are Financial Instruments Business Operators or net assets of the Clearing Participants other than the Financial Instruments Business Operators shall be as described below; provided that such increase shall not apply to a Clearing Participant for which a guarantee has been extended by Parent Company, Etc. (such Clearing Participant shall be hereinafter referred to as “Clearing Participant Guaranteed by Parent Company, Etc. under Special Provision”):

Criteria for Increase	Increased Amount
Less than ¥5 bil, but ¥3 bil ^{*1} or more	There shall be no increase ^{*2} .
Less than ¥3 bil ^{*1} , but ¥2 bil or more	The normal Required Initial Margin Amount ^{*3} multiplying 0.5
Less than ¥2 bil, but ¥1 bil or more	The normal Required Initial Margin Amount

^{*1} In the case of a Clearing Participant which has obtained the JGB OTC Transaction Clearing Qualification through the application as stipulated in Article 6, Paragraph 3 of the Business Rules (Special Provisions on Intermediary), two and a half billion (2,500,000,000) yen.

^{*2} JSCC shall request necessary reporting from a Clearing Participant when its net worth or net asset falls below five (5) billion yen.

^{*3} The “Normal Required Initial Margin Amount” means the Required Initial Margin Amount calculated in accordance with the provisions of Article 2, Paragraph 1 of the Margin Requirement Rules. The same applies hereinafter.

2. Increase related to Initial Margin Ratio (Article 3, Paragraph 1, Item (2) and Paragraph 2 of Margin Requirement Rules)

[REFERENCE TRANSLATION]

Criteria and increased amount related to the Initial Margin Ratio (referring to the value obtained by dividing Required Initial Margin Amount ^{*1, *2} by net worth, for Clearing Participants that are Financial Instruments Business Operators, or net assets, for Clearing Participants other than Financial Instruments Business Operators)^{*3} shall be as follows^{*4, *5}:

Criteria for Increase	Increased Amount
75% or more, but less than 87.5%	There shall be no increase ^{*6, *7, *8}
87.5% or more, but less than 100%	the normal Required Initial Margin Amount* multiplying 0.2
100% or more	the normal Required Initial Margin Amount multiplying 0.4

^{*1} For the purpose of applying the provisions of 2. to a Clearing Participant which has multiple Netting Accounts (excluding Trust Accounts), the applicable Required Initial Margin Amount shall be the total of the Required Initial Margin Amounts for each of these Netting Accounts.

^{*2} For the purpose of applying the provisions of 2 to a Clearing Participant Guaranteed by Parent Company, Etc. under Special Provision, the applicable Required Initial Margin Amount shall be the total of the Required Initial Margin Amount for the Clearing Participant Guaranteed by Parent Company Etc. under Special Provision and that for its Parent Company, Etc. (limited to those extending a Guarantee by Parent Company, Etc. for such Clearing Participant Guaranteed by Parent Company, Etc. under Special Provision).

^{*3} For Trust Accounts, the Initial Margin Ratio shall be the value calculated as follows:

$$\text{Initial Margin Ratio} = \frac{\text{Required Initial Margin Amount (Total of such amounts for all Trust Accounts, if there are multiple Trust Accounts)}}{\text{JGB balance in the balance of trust assets} \times (1 - \text{Largest Market Price Fluctuation Risk Factor} / 100)}$$

^{*4} For the purpose of applying the provisions of 2. to a Clearing Participant which has Trust Accounts, the increase of the Required Initial Margin Amount shall apply separately with respect to (i) the Netting Accounts other than Trust Accounts and (ii) the Trust Accounts.

^{*5} For the purpose of applying the provisions of 2. to a JGB OTC Agency Clearing Participant which has multiple Netting Accounts other than Trust Accounts, the increase of the Required Initial Margin Amount shall apply with respect to a house account, summing Required Initial Margin Amount by each Netting Account and with respect to a customer account, summing Required Initial Margin Amount by each Netting Account separately and deeming each total amount as Required Initial Margin Amount for the house account and the customer account, respectively.

^{*6} JSCC shall request necessary reporting from a Clearing Participant when its Initial Margin Ratio exceeds 75%.

^{*7} JSCC shall request necessary reporting from a JGB OTC Agency Clearing Participant, if total amount of Required Initial Margin Amount for house account and customer (other corporate entities and the like in the corporate group to which the relevant Agency Clearing Participant belongs) account of the relevant Agency Clearing Participant exceeds 150%.

^{*8} JSCC shall request necessary reporting from a JGB OTC Agency Clearing Participant, if total amount of Required Initial Margin Amount for house account and customer accounts of the relevant Agency Clearing Participant exceeds 300%.

3. Increase according to Creditworthiness (Article 29-2 of Business Rules)

- (1) As criteria for the measures relating to increasing Initial Margin, in the judgment of “where the Clearing Participant falls on any of the cases designated by JSCC as the case where the Clearing Participant is not sufficiently creditworthy” (Article 29-2, Item (1), d. and Item (2), d. of the Business Rules), all of the credit ratings* of the Clearing Participant (or the Parent Company, Etc. (limited to those extending a Guarantee by Parent Company, Etc. for such Clearing Participant Guaranteed by Parent Company, Etc. under Special Provision) of such Clearing Participant, if it is a Clearing Participant Guaranteed by Parent Company Etc. under Special Provision) being below A- or equivalent shall be one of the measuring factors. However, if such Clearing Participant (if such Clearing Participant is a Clearing Participant Guaranteed by Parent Company Etc. under Special Provision, such Parent Company Etc.) is not rated, then all of the credit ratings of the Parent Company, Etc. (if such Clearing Participant is a Clearing Participant Guaranteed by Parent Company, Etc. under Special Provision, excluding such Parent Company, Etc. which extends a Guarantee by Parent Company, Etc. for such Clearing Participant Guaranteed by Parent Company, Etc. under Special Provision) (or, if none of the Clearing Participant and its Parent Company, Etc. is rated, an entity deemed appropriate by JSCC, such as an Affiliate (referring to subsidiaries and affiliates of an entity, and the Parent Company, Etc. of such entity, and subsidiaries and affiliates of such Parent Company, Etc.; the same applies hereinafter) of such Clearing Participant other than the Parent Company, Etc.) of said Clearing Participant being below A or equivalent shall be one of the measuring factors.

*1“Credit rating” means a rating related to an ability to perform long-term debt granted by any of the Credit Rating Agencies (as such term defined in Article 2, Paragraph 36 of the Financial Instruments and Exchange Act) or any Specified Affiliate thereof (as such term defined in Article 116-3, Paragraph 2 of the Cabinet Office Ordinance on Financial Instruments Business, Etc.), but excludes any rating independently determined by rating agencies without a request of the subject entity; the same applies, hereinafter.

- (2) As criteria for the measures relating to increasing Initial Margin, in the judgment of “it falls on any of the cases designated by JSCC as the case where the Clearing Participant may not be sufficiently creditworthy” (Article 29-2, Item (1), a. to c. and Item (2), a. to c. of the Business Rules), any of the credit ratings of the Clearing Participant (or the Parent Company, Etc. (limited to those extending a Guarantee by Parent Company, Etc. for such Clearing Participant Guaranteed by Parent Company, Etc. under Special Provision) of the Clearing Participant, if it is a Clearing Participant Guaranteed by Parent Company, Etc. under Special Provision) being below A- or equivalent shall be one of the measuring factors. However, if such Clearing Participant is not rated, then any of the credit ratings of the Parent Company, Etc. (if such Clearing Participant is a Clearing Participant Guaranteed by Parent Company,

Etc. under Special Provision, excluding such Parent Company, Etc. which extends a Guarantee by Parent Company, Etc. for such Clearing Participant Guaranteed by Parent Company, Etc. under Special Provision) (or, if none of the Clearing Participant and its Parent Company, Etc. is rated, an entity deemed appropriate by JSCC, such as an Affiliate of such Clearing Participant other than the Parent Company, Etc.) of said Clearing Participant being below A or equivalent shall be one of the measuring factors.

- (3) As to the judgment of “is not sufficiently creditworthy” and “may not be sufficiently creditworthy,” in addition to said rating based criteria, the judgment of creditworthiness shall be made comprehensively by taking into consideration various elements respectively, such as the spread applied to the corporate bonds or CDS of said Clearing Participant (including the holding company, etc. of said Clearing Participant), comparison of market information, such as stock prices, with corporations satisfying the rating element mentioned above and the existence of sudden fluctuation of stock price recently, etc., as well as existence of any significant decrease as to financial information, such as liquidity in hand, and the status of positions, etc.
- (4) With respect to Capital-to-Risk Ratio for a Financial Instruments Business Operator^{*2} (or in the case of the Special Financial Instruments Business Operator, the level of its Capital-to-Risk Ratio and consolidated Capital-to-Risk Ratio; the same applies in this Paragraph) the level set by JSCC under Article 29-2, Item (1), a. and Item (2), a. of the Business Rules shall be 250%.

^{*2}. The regulatory capital adequacy ratio, etc. and creditworthiness (including ratings) are subject to continuous monitoring, and if they come close to the level which triggers the increase of Initial Margin, a hearing shall be conducted before reaching the level that triggers the said measures. Through such procedures, the application of higher criteria as to the regulatory capital adequacy ratio, etc. (i.e., judgment of falling on “is not sufficiently creditworthy”) is to be communicated; the same applies, hereinafter.

- (5) With respect to non-consolidated or consolidated capital adequacy ratio for a bank, etc., the level set by JSCC under Article 29-2, Item (1), B) and Item (2), B) of the Business Rules shall be as follows:

A) In the case of Banks (meaning a bank, a Cooperative Structured Financial Institution or The Shoko Chukin Bank, Ltd., the same applies hereinafter) that is a financial institution subject to Uniform International Standards, the level set forth in a. to c. below (in the case where it is a foreign bank, the level equivalent thereto):

- (a) Its non-consolidated or consolidated Common Equity Tier 1 ratio (for an institution which operates with investment from its members, its non-consolidated or consolidated common capital contribution Tier 1 ratio; the same applies

hereinafter) is 5.625 percent;

- (b) Its non-consolidated or consolidated Tier 1 ratio is 7.5 percent; and
- (c) Its non-consolidated or consolidated Total Capital ratio is 10 percent.

B) In the case of Banks other than financial institutions subject to Uniform International Standards (hereinafter referred to as “Financial Institution subject to Japanese Standard”), its non-consolidated or consolidated capital adequacy ratio under the domestic standards is five (5) percent.

(6) With respect to non-consolidated solvency margin or consolidated solvency margin ratio of an insurance company, the level set by JSCC under Article 29-2, Item (1), C) and Item (2), C) of the Business Rules shall be five hundred (500) percent.

(7) Criteria and increased amount related to creditworthiness shall be as follows:

A) When a Clearing Participant is rated or is a Clearing Participant Guaranteed by Parent Company, Etc. under Special Provision:

(a) Case designated by JSCC as the case where a Clearing Participant is not sufficiently creditworthy:

Criteria for Increase	Increased Amount
When it is judged as to the creditworthiness that all of the credit ratings ^{*1} of the Clearing Participant is below A- or equivalent	The larger of the normal Required Initial Margin Amount multiplied by 0.1 or the Expected Loss Amount related to Fails Charges and expense for procuring funds costs ^{*2} multiplied by 0.1 ^{*3}
When it is judged as to the creditworthiness that all of the credit ratings ^{*1} of the Clearing Participant is below BBB+ or equivalent	The larger of the normal Required Initial Margin Amount multiplied by 0.5 or the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*2} multiplied by 0.5 ^{*3}
When it is judged as to the creditworthiness that all of the credit ratings ^{*1} of the Clearing Participant is below BBB or equivalent	The larger of the normal Required Initial Margin Amount or the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*3}

- (b) When its Capital-to-Risk Ratio, non-consolidated or consolidated capital adequacy ratio, or non-consolidated or consolidated solvency margin ratio falls below the level set by JSCC, and it falls on any of the cases designated by JSCC as the case where it may not be sufficiently creditworthy:

Criteria for Increase	Increased Amount
When it is judged as to the creditworthiness that any of the credit ratings ^{*1} of the Clearing Participant is below A- or equivalent	The larger of the normal Required Initial Margin Amount multiplied by 0.1 or the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*2} multiplied by 0.1 ^{*3}
When it is judged as to the creditworthiness that any of the credit ratings ^{*1} of the Clearing Participant is below BBB+ or equivalent	The larger of the normal Required Initial Margin Amount multiplied by 0.5 or the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*2} , multiplied by 0.5 ^{*3}
When it is judged as to the creditworthiness that any of the credit ratings ^{*1} of the Clearing Participant is below BBB or equivalent	The larger of the normal Required Initial Margin Amount, the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*3}

- B) When a Clearing Participant is not rated (and is not a Clearing Participant Guaranteed by Parent Company Etc. under Special Provision)

- (a) Case designated by JSCC as the case where a Clearing Participant is not sufficiently creditworthy:

Criteria for Increase	Increased Amount
When it is judged as to the creditworthiness that all of the ratings of the Parent Company, Etc. of the Clearing Participant is below A or equivalent	The larger of the normal Required Initial Margin Amount multiplied by 0.1 or the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*2} multiplied by 0.1 ^{*3}
When it is judged as to the creditworthiness that all of the ratings of the Parent Company, Etc. of	The larger of the normal Required Initial Margin Amount

the Clearing Participant is below A -or equivalent	multiplied by 0.5 or the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*2} , multiplied by 0.5 ^{*3}
When it is judged as to the creditworthiness that all of the ratings of the Parent Company, Etc. of the Clearing Participant is below BBB+ or equivalent	The larger of the normal Required Initial Margin Amount or the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*3}

- (b) When its Capital-to-Risk Ratio, non-consolidated or consolidated capital adequacy ratio, or non-consolidated or consolidated solvency margin ratio falls below the level set by JSCC, and it falls on any of the cases designated by JSCC as the case where it may not be sufficiently creditworthy:

Criteria for Increase	Increased Amount
When it is judged as to the creditworthiness that any of the ratings of the Parent Company, Etc. of the Clearing Participant is below A or equivalent	The larger of the normal Required Initial Margin Amount multiplied by 0.1 or the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*2} multiplied by 0.1 ^{*3}
When it is judged as to the creditworthiness that any of the ratings of the Parent Company, Etc. of the Clearing Participant is below A -or equivalent	The larger of the normal Required Initial Margin Amount multiplied by 0.5 or the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*2} , multiplied by 0.5 ^{*3}
When it is judged as to the creditworthiness that any of the ratings of the Parent Company, Etc. of the Clearing Participant is below BBB+ or equivalent	The larger of the normal Required Initial Margin Amount or the Expected Loss Amount related to Fails Charges and expense for procuring funds ^{*3}

*1 The ratings of the Parent Company, Etc., if it is a Clearing Participant Guaranteed by Parent Company Etc. under Special Provision.

*2 "The Expected Loss Amount related to Fails Charges and expense for procuring funds" means the total

of the amount specified in below (i) and (ii);. the same applies hereinafter)

- (i) The amount equal to Fails Charges expected to be imposed on the assumption that for Japanese government bonds in relation to Transactions Subject to Clearing, for all positions to be delivered of which Settlement Day, Etc. arrives during the period of three (3) days (excluding holidays) starting on the immediately following day of the Calculation Day of Required Initial Margin Amount, the relevant Clearing Participant causes Fails for three (3) consecutive days.
- (ii) The amount equal to expense for procuring funds expected to be required on the assumption that funding is procured pursuant to the provisions in Article 74 of the Business Rules, for the purpose of performing the Obligation to Pay Related to Participants Settlement, the Security Settlement Obligation Related to Individual Issue Transaction and the Security Settlement Obligation Related to Subsequent Collateral Allocation Repo Transactions, Etc. for all positions of such Clearing Participant of which Settlement Date, Etc. arrives during the period of three (3) days (excluding holidays) starting on the immediately following day of the Calculation Day of Required Initial Margin Amount.

*3 The specific rate of increase shall be determined taking into consideration the financial status, such as liquidity in hand, Etc. and the status of positions of the Clearing Participant with a cap of the said rate of increase.

4. Trigger level of Intraday Initial Margin and increase of Required Initial Margin Amount(Related to Article 23, Paragraphs 1 and Paragraph 2 of the Handling Procedures of Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules)

(1) Trigger level of Intraday Initial Margin

The value prescribed by JSCC as stipulated in Article 23, Paragraphs 1 of the Handling Procedures of Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules shall be the value obtained by rounding Market Price Fluctuation Risk Factor for the Setoff Class D (7-10) of Interest-Bearing Japanese government bonds to the nearest second decimal places, and then discarding the fraction at the interval of five hundreds (0.05).

(2) Method for increasing Required Initial Margin Amount by Intra-day Initial Margin

The method prescribed by JSCC as stipulated in Article 23, Paragraphs 2 of the Handling Procedures of Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules shall be increasing Second Required Initial Amount and Third Required Initial Amount as stipulated in Article 2, Paragraph 2 of the Rules on Required Initial Margin Amount related to JGB OTC Transaction to the amount calculated by revising the formula in 1. of Appendix "Table Concerning Calculation of Required Initial Margin Amount" attached thereto as follows.

Required Initial Margin Amount

= (Required Initial Margin Amount in relation to FOS Settlement + the amount equal to restructuring cost in relation to Japanese government bonds) × Increase Rate*1 + the

amount equal to the Repo Rate Fluctuation Risk + required amount of market impact charge

*1 "Increase Rate" shall be the difference between the contract price at the close of morning session and the contract price at the close of afternoon session on the previous day (of the ten (10) year JGB Futures (central contract month), divided by Market Price Fluctuation Risk Factor for Setoff Class D (7-10) of Interest-Bearing Japanese government Bonds, discarding the fraction less than 0.1 and adding 0.1. In such case, if such value exceeds two (2), the increase rate shall be 2.

5. Application Timing of Increased Amount

For the increased amount as stipulated in Paragraphs 1 to 3 above, whenever Required Initial Margin is calculated, whether or not each criteria is satisfied shall be judged and the increased amount shall apply, if the criteria is satisfied at the time of First Required Margin Amount, from calculation for Second Required Margin Amount, if the criteria is satisfied at the time of Second Required Margin Amount, from calculation for Third Required Margin Amount, if the criteria is satisfied at the time of Third Required Margin Amount, from calculation for First Required Margin Amount on the immediately following day of the day such criteria is satisfied (or, if such day falls on a holiday, immediately following day that is not a holiday).

6. Handling procedure of when Satisfying multiple criteria

When a Clearing Participant satisfies multiple Criteria set forth in Sections 1 to 4 above, among each Required Initial Margin Amount applying each applicable criterion, the highest amount shall apply.

7. Data to be Used for Judgment of Satisfaction of Increase Criteria

In the judgment of a satisfaction of the Criteria set forth in Paragraphs 1 and 2 above, the latest data reported to JSCC in the ordinary course shall be used; provided that when JSCC specifically requested submission of financial data from a Clearing Participant, such data most recently reported to JSCC shall be used.

End of Document