

GUIDELINES CONCERNING CREDIT STANDING OF CLEARING
PARTICIPANTS, ETC. IN IRS CLEARING BUSINESS

September 5, 2012

Amended on March 31, 2013

Japan Securities Clearing Corporation

1. Criteria for Acquisition of IRS Clearing Qualifications

- (1) As to the judgment of “it has sufficient creditworthiness” (Article 9, Paragraph 1, Item 2, a. (d) and b. (e) of the Interest Rate Swap Clearing Business Rules (hereinafter referred to as the “Business Rules”)) which is one of the requirements for IRS Clearing Qualification, any of the credit ratings¹ of the applicant for the qualification (or the parent company, etc., if guaranteed by the parent company, etc.) being at least A or equivalent will be one of the measuring factors. However, if the applicant for the qualification is not rated, then any of the credit ratings of the parent company of said applicant being at least A+ or equivalent will be one of the measuring factors.

- (2) As to the judgment of “the case where JSCC deems it necessary in light of its credit standing” (Article 9, Paragraph 1, Item 2, a. (b) and (c), and b. (b) through (d) of the Business Rules), any of the credit ratings of the applicant for the qualification (or the parent company, etc., if guaranteed by the parent company, etc.) being below A or equivalent will be one of the measuring factors. However, if the applicant for the qualification is not rated, then any of the credit ratings of the parent company of said applicant being below A+ or equivalent will be one of the measuring factors.

- (3) As to the judgment of “it has sufficient creditworthiness” and “the case where JSCC deems it necessary in light of its credit standing,” in addition to said rating based criteria, the credit standing shall be judged comprehensively by taking into consideration various elements of judgment respectively, such as the spread applied to the corporate bonds or CDS of said applicant for the qualification (including the holding company, etc. of said applicant for the

¹ For the purpose of these Guidelines, a “credit rating” means a rating relating to a company’s ability to perform its long-term debts granted by either a rating agency (which means a rating agency as set forth under Article 2, Paragraph 36 of the Financial Instruments and Exchange Act) or a corporation with special interests with such rating agency (which means a corporation with special interests as set forth in Article 116-3, Paragraph 2 of the Cabinet Office Ordinance on Financial Instruments Business, etc.), and excludes any unsolicited rating (which means a credit rating granted independently by a rating agency not based on a request of the subject corporation).

qualification), 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 the existence of any significant decrease as to financial information, such as liquidity in hand.

2. Criteria concerning Measures of Suspension of Assumption of Obligation and Revocation of IRS Clearing Qualification

(1) Among the criteria concerning the suspension of an Assumption of Obligation and revocation of IRS Clearing Qualification, in the judgment of “where JSCC determines that its creditworthiness has worsened significantly” (Article 28, Paragraph 3, Item 1, e. and Item 2, e. of the Business Rules), all of the credit ratings of the Clearing Participant (or the relevant parent company, etc., if guaranteed by the parent company, etc.) being below BBB or equivalent will be one of the measuring factors. However, if the Clearing Participant is not rated, then all of the credit ratings of the parent company of said Clearing Participant being below BBB+ or equivalent shall be one of the measuring factors.

(2) Among the criteria concerning the suspension of an Assumption of Obligation and revocation of IRS Clearing Qualification, in the judgment of “the case where JSCC determines that its creditworthiness is likely to worsen significantly” (Article 28, Paragraph 3, Item 1, a. through d. and Item 2, a. through d. of the Business Rules) where the higher criteria shall apply in the judgment of the regulatory capital adequacy ratio, etc., any of the credit ratings of the Clearing Participant (or the relevant parent company, etc., if guaranteed by the parent company, etc.) being below BBB or equivalent shall be one of the measuring factors. However, if the Clearing Participant is not rated, then any of the credit ratings of the parent company of said Clearing Participant being below BBB+ or equivalent shall be one of the measuring factors.

(3) As to the judgment of “where JSCC determines that its creditworthiness has worsened significantly” and “the case where JSCC determines that its creditworthiness is likely to worsen significantly,” in addition to said rating based criteria, the judgment of credit standing 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 the existence of any significant decrease as to financial information, such as liquidity in hand, and the status of positions, etc.

- (4) Based on the above, if it is judged that the Clearing Participant or the parent company, etc. falls under the conditions of “where JSCC determines that its creditworthiness has worsened significantly” or “the case where JSCC determines that its creditworthiness is likely to worsen significantly,” and the regulatory capital adequacy ratio, etc. falls below the level set forth in Article 28, Paragraphs 3 and 4 of the Business Rules, such measures as a suspension of the Assumption of Obligation, when prompt restoration of the creditworthiness or the regulatory capital adequacy ratio, etc. can be expected, or a revocation of the IRS Clearing Qualification, when prompt restoration cannot be expected, shall be taken.
- * The regulatory capital adequacy ratio, etc. and credit standing (including ratings) are subject to continuous monitoring, and if they come close to the level which triggers the measures such as a suspension of an Assumption of Obligations, a hearing from the Clearing Participant shall be conducted before reaching the level that triggers the said measures, and when JSCC intends to take an actual measures, it shall take procedures of the hearing (Article 35 and Article 15, Paragraphs 1 through 3 of the Business Rules). Through such procedures, the application of the higher criteria as to the regulatory capital adequacy ratio, etc. (i.e., judgment of falling under “where JSCC determines that its creditworthiness is likely to be worsened significantly”) is to be communicated.
3. Criteria concerning Raising Required Initial Margin Amount
- (1) As a criteria for the measures relating to raising Initial Margin, in the judgment of “where the Clearing Participant falls under the event specified by JSCC by notification or public notice as the cases where the creditworthiness of such Clearing Participant is not sufficient” (Article 32, Paragraph 1, Item 1, d. and Item 2, d. of the Business Rules), all of the credit ratings of the Clearing Participant (or the relevant parent company, etc., if guaranteed by the parent company, etc.) being below A- or equivalent shall be one of the measuring factors. However, if the Clearing Participant is not rated, then all of the credit ratings of the parent company of said Clearing Participant being below A or equivalent shall be one of the measuring factors.
- (2) As a criteria for the measures relating to raising Initial Margin, in the judgment of “where the Clearing Participant falls under the event specified by JSCC by notification or public notice as the cases where JSCC deems the creditworthiness of such Clearing Participant is not likely to be sufficient” (Article 24, Paragraphs 2 through 7 of the Handling Procedures of Interest Rate Swap Business Rules (hereinafter referred to as the “Business Rules Handling Procedures”)), any of the credit ratings of the Clearing Participant (or the relevant parent company, etc., if guaranteed by the parent company, etc.) being below A- or equivalent shall be one of the measuring factors. However, if the Clearing Participant is

not rated, then any of the credit ratings of the parent company of said Clearing Participant being below A or equivalent shall be one of the measuring factors.

- (3) As to the judgment of “the creditworthiness is not sufficient” and “the creditworthiness is not likely to be sufficient,” in addition to said rating based criteria, the judgment of credit standing 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.

* The regulatory capital adequacy ratio, etc. and credit standing (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 under “the creditworthiness is not likely to be sufficient”) is to be communicated.

- (4) The specific rates of raising the required Initial Margin amount according to the credit standing are as follows:

a. When the Clearing Participant is rated or guaranteed by the parent company, etc.

(a) Specific rate of increase when falling under “the creditworthiness is not sufficient”:

- When it is judged as to the creditworthiness that all of the credit ratings^(Note 1) of the Clearing Participant is below A- or equivalent^(Note 2) 10%^(Note 3)
- When it is judged as to the creditworthiness that all of the credit ratings^(Note 1) of the Clearing Participant is below BBB+ or equivalent^(Note 2) 50%^(Note 3)
- When it is judged as to the creditworthiness that all of the credit ratings^(Note 1) of the Clearing Participant is below BBB or equivalent^(Note 2) 100%^(Note 3)

(b) Specific rate of increase when falling under “the creditworthiness is not likely to be sufficient (and the regulatory capital adequacy ratio, etc. falls below the level set forth in Article 24, Paragraphs 2 through 8 of the Business Rules Handling Procedures”):

- When it is judged as to the creditworthiness that any of the credit ratings^(Note 1) of the Clearing Participant is below A- or equivalent^(Note 2) 10%^(Note 3)
- When it is judged as to the creditworthiness that any of the credit ratings^(Note 1) 50%^(Note 3)

Reference Translation

- ¹⁾ of the Clearing Participant is below BBB+ or equivalent ^(Note 2) ^(Note 3)
- When it is judged as to the creditworthiness that any of the credit ratings^(Note 1) 100%
 - ¹⁾ of the Clearing Participant is below BBB or equivalent ^(Note 2) ^(Note 3)
- b. When the Clearing Participant is not rated (excluding the case where such Clearing Participant is guaranteed by the parent company, etc.)
 - (a) Specific rate of increase when falling under the “the creditworthiness is not sufficient”:
 - When it is judged as to the creditworthiness that all of the ratings of the parent company of the Clearing Participant is below A or equivalent^(Note2) 10%
^(Note 3)
 - When it is judged as to the creditworthiness that all of the ratings of the parent company of the Clearing Participant is below A -or equivalent^(Note2) 50%
^(Note 3)
 - When it is judged as to the creditworthiness that all of the ratings of the parent company of the Clearing Participant is below BBB+ or equivalent^(Note2) 100%
^(Note 3)
 - (b) Specific rate of increase when falling under “the creditworthiness is not likely to be sufficient (and the regulatory capital adequacy ratio, etc. falls below the level set forth in Article 24, Paragraphs 2 through 4 of the Business Rules Handling Procedures”):
 - When it is judged as to the creditworthiness that any of the ratings of the parent company of the Clearing Participant is below A or equivalent^(Note2) 10%
^(Note 3)
 - When it is judged as to the creditworthiness that any of the ratings of the parent company of the Clearing Participant is below A -or equivalent^(Note2) 50%
^(Note 3)
 - When it is judged as to the creditworthiness that any of the ratings of the parent company of the Clearing Participant is below BBB+ or equivalent^(Note2) 100%
^(Note 3)

(Note 1) The ratings of the parent company, etc., if guaranteed by the parent company, etc.

(Note 2) In each case, in addition to the rating based criteria, the judgment of credit standing shall be made comprehensively by taking into consideration various elements, 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 the existence of any significant decrease as to financial information, such as liquidity in hand, and the status of positions, etc.

(Note 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

Reference Translation

Participant with a cap of the said rate of increase.

-- End of Document --