

Operational Procedures for Clearing Brokerage for Interest Rate Swap

September 5, 2012
Amended on February 24, 2014
Amended on September 24, 2015
Amended on February 15, 2016
Amended on April 11, 2016
Amended on March 13, 2017
Amended on December 3, 2018
Japan Securities Clearing Corporation

1. Prerequisites for Clearing Brokerage

Clearing Brokerage for Interest Rate Swap transactions can be conducted if the following conditions are met:

- (1) An IRS Clearing Participant and a Customer have entered into the Interest Rate Swap Clearing Brokerage Agreement (Exhibit Form 3 of Handling Procedures of Interest Rate Swap Business Rules) or Interest Rate Swap Clearing Brokerage Agreement (Exhibit Form 3-2 of Handling Procedures of Interest Rate Swap Business Rules);
- (2) A Customer has submitted the Letter of Undertaking (Exhibit Form 4 of Handling Procedures of Interest Rate Swap Business Rules) or Letter of Undertaking (Exhibit Form 4-2 of Handling Procedures of Interest Rate Swap Business Rules) to JSCC; and
- (3) The method of requesting a Clearing Brokerage prescribed by JSCC in a public notice (hereinafter referred to as “MarkitWire and Other Methods”)¹ is made available for Customers

2. Operational Procedures for Clearing Brokerage

(1) Application for Clearing Brokerage

When MarkitWire is used, JSCC processes a request for Clearing Brokerage in respect of IRS Transactions using Bilateral Model of MarkitWire².

JSCC processes a request for Clearing Brokerage in respect of IRS Transactions using “SWXT” command or other relevant commands when Bloomberg VCON (Voice Confirmation) offered by Bloomberg Finance L.P. (hereinafter simply referred to as

¹ The method prescribed by JSCC in the public notice entitled “Re: Matters Prescribed as Method of Request for Clearing.”

² If an IRS Clearing Participant desires to undertake clearing brokerage, it must submit to JSCC in advance Customer information to feed into the database of JSCC and MarkitWire.

“Bloomberg VCON”) is used³, and “BBTI” command, “SWXT” or other relevant commands when Bloomberg ETP (Electric Trading Platform) (hereinafter simply referred to as “Bloomberg ETP”) is used⁴.

When QUICK-Confirmation is used, JSCC processes a request for Clearing Brokerage in respect of IRS Transactions using a function on QUICK-Confirmation⁵.

When Clear Markets Japan ETP (Electronic Trading Platform) (hereinafter simply referred to as “Clear Markets Japan ETP”) is used, JSCC processes a request for Clearing Brokerage in respect of IRS Transactions using a function on Clear Markets Japan ETP⁶.

a. A Customer which belongs to the same Corporate Group as its Clearing Broker (hereinafter referred to as Affiliate)

(a) Registration of IRS Transactions by Affiliate

If an Affiliate requests Clearing Brokerage in respect of IRS transactions using MarkitWire, it shall register a Client Clearing Deal or Direct Deal on MarkitWire. The Affiliate shall set its Clearing Broker as Clearing Broker, select JSCC as Clearing House and set Yes in Send for Clearing.

If an Affiliate requests Clearing Brokerage in respect of IRS transactions using VCON, the Affiliate shall set the Clearing Broker in “Dealer FCM,” and select “JSCC” for “Central Cpty.”

If an Affiliate requests Clearing Brokerage in respect of IRS transactions using “BBTI” command of Bloomberg ETP, the Affiliate shall set the Clearing Broker in “FCM,” and select “JSCC” for “CCP.”

If an Affiliate requests Clearing Brokerage in respect of IRS transactions using “SWXT” command of Bloomberg ETP, the Affiliate shall set the Clearing Broker in “Dealer FCM,” and select “JSCC” for “Central Cpty.”

If an Affiliate requests Clearing Brokerage in respect of IRS transactions using QUICK-Confirmation, the Affiliate shall set the Clearing Broker in “Book ID”, and select “JSCC” for “CCP.”

If an Affiliate requests Clearing Brokerage in respect of IRS transactions using Clear Markets Japan ETP, the Affiliate shall set the Clearing Broker in “Clearing FCM”, and select “JSCC” for “CCP.”

³ If an IRS Clearing Participant desires to undertake clearing brokerage, it must submit to JSCC in advance Customer information to feed into in the database of JSCC and VCON.

⁴ If an IRS Clearing Participant desires to undertake clearing brokerage, it must submit to JSCC in advance Customer information to feed into in the database of JSCC and Bloomberg ETP.

⁵ If an IRS Clearing Participant desires to undertake clearing brokerage, it must submit to JSCC in advance Customer information to feed into in the database of JSCC and QUICK-Confirmation.

⁶ If an IRS Clearing Participant desires to undertake clearing brokerage, it must submit to JSCC in advance Customer information to feed into in the database of JSCC and Clear Markets Japan ETP.

(b) Transmission of transaction data to JSCC

If an Affiliate and its Execution Broker feed information necessary for request of Clearing Brokerage for an IRS transaction (application for clearing) on MarkitWire and Other Methods, MarkitWire and Other Methods send the transaction data to JSCC. The transmission of such data indicates the completion of a request of Clearing Brokerage.

JSCC receives such transaction data during business hours for clearing (from 9:00 to 12:00, from 13:00 to 16:00 and from 17:30 to 19:00; the same applies hereinafter). After receiving such data, JSCC performs formality checks on the transaction, and checks if both parties involved in the application for clearing have deposited with JSCC Initial Margin exceeding the margin required to clear calculated based on all the positions in the transaction applied and cleared trades.

If such transaction data is erroneous, or if the Initial Margin deposited falls short of the margin required to clear, a telegram message stating Reject is sent to MarkitWire and Other Methods⁷

b. A Customer that does not belong to the same Corporate Group as its Clearing Broker (hereinafter referred to as Client)

(a) Registration of IRS transactions by Client

If a Client desires to request Clearing Brokerage in respect of IRS transactions using MarkitWire, it must register a Client Clearing Deal on MarkitWire and Other Methods. The Client shall set its Clearing Broker as Clearing Broker, select JSCC as Clearing House and set Yes in Send for Clearing.

If a Client desires to request Clearing Brokerage in respect of IRS transactions using VCON, Bloomberg ETP, QUICK-Confirmation or Clear Markets Japan ETP, it shall follow the same procedures as specified in a. (a) above.

(b) Transmission of Transaction Data to JSCC

If a Client and its Execution Broker registers information in the database of MarkitWire and Other Methods that is necessary for a request of Clearing Brokerage for IRS transactions, MarkitWire and Other Methods will send the transaction data to JSCC.

⁷ An IRS Clearing Participant may check transactions relating to the Clearing Brokerage applied by a Customer using the Web Portal Registration Status Report (distributed every 15 minutes every JSCC business day from around 8:05 to around 20:05).

JSCC will perform formality checks to see if the transaction data is erroneous. If it is not, the transaction data is sent to the Clearing Broker.

(c) Authorization by Clearing Broker

A Clearing Broker shall determine, after receiving the transaction data from JSCC, whether to approve the Clearing Brokerage relating to the transaction. If the Clearing Broker approves such a transaction, it means the completion of a request for clearing for JSCC.

JSCC receives the transaction data concerning the application during business hours for clearing. After receiving the data, JSCC checks if both parties to the clearing application have deposited with JSCC Initial Margin exceeding the margin required to clear, calculated based on all the positions in the transaction applied and cleared trades.

If the Initial Margin deposited falls short of the margin required to clear, a telegram message stating Reject is sent to MarkitWire and Other Methods.

(2) Clearing for Clearing Brokerage

JSCC performs clearing of a trade after confirming that Initial Margin deposited by both parties are equivalent to or over the margin required to clear, as stated in (1) a (b) or b (c).

3. Treatment of Per Trade Compression for Clearing Brokerage

(1) Request for Per Trade Compression

A Customer will request Per Trade Compression to the Clearing Broker using a method agreed between the Clearing Broker and the Customer.

Upon receipt of a request for Per Trade Compression from a Customer, it shall apply to JSCC for Per Trade Compression through Web Portal+.

(2) Per Trade Compression

Upon receipt of an application for Per Trade Compression as specified in (1) above, JSCC will confirm a satisfaction of the Per Trade Compression Conditions. If a satisfaction of the Per Trade Compression Conditions is confirmed, JSCC will approve the application for Per Trade Compression, and then Per Trade Compression will become effective.

4. Treatment of Blended Rates Compression for Clearing Brokerage

(1) Request for Blended Rates Compression

A Customer will request Blended Rates Compression to the Clearing Broker using a method agreed between the Clearing Broker and the Customer

Upon receipt of a request for Blended Rates Compression from a Customer, it shall apply to JSCC for Blended Rates Compression through Web Portal+.

(2) Blended Rates Compression

Upon receipt of an application for Blended Rates Compression as specified in (1) above, JSCC will confirm a satisfaction of the Blended Rates Compression Conditions. If a satisfaction of the Blended Rates Compression Conditions is confirmed, JSCC will approve the application for Blended Rates Compression, and then Blended Rates Compression will become effective.

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