

Guideline for Client Clearing Authorization in Interest Rate Swap Clearing Business

February 24, 2014

Amended on September 24, 2015

Japan Securities Clearing Corporation

I. Position of the Guideline

- This Guideline describes checking points prescribed by JSCC with regard to its authorization for a Clearing Participant¹ to undertake Client Clearing for a Customer which does not belong to the same Corporate Group as its Clearing Broker (“ Client Clearing”) with respect to the IRS Clearing Business under the provisions of Article 12-2 of IRS Clearing Business Rules.

1. Such a Clearing Participant may be an applicant for IRS Clearing Qualification which apply for the qualification along with JSCC’s authorization for Client Clearing.

II. Content of the Guideline

- If a Clearing Participant desires to undertake Client Clearing, it must have the requisite business capability for Client Clearing. This Guideline describes the provisions of IRS Clearing Business Rules as well as primary examination review points and confirmation points², as explained below.
2. The provisions of IRS Clearing Business Rules and the descriptions of the Guideline may change due to JSCC’s future rule changes.

Confirmation Points Related to Client Clearing Authorization	Provisions of IRS Clearing Business Rules	Primary Review Points and Confirmation Points (Guideline)
Business Capability	JSCC shall determine whether the Applicant has the capability to settle Cleared Contracts, manage risk and avoid conflicts of interest related to Client Clearing in light of review points and confirmation points	[Settlement Procedures] • JSCC will check if the Applicant has the requisite business capability to perform the following procedures in accordance with operational procedures prescribed by JSCC: approval of Client

Confirmation Points Related to Client Clearing Authorization	Provisions of IRS Clearing Business Rules	Primary Review Points and Confirmation Points (Guideline)
	<p>prescribed by JSCC in a notification or a public notice. JSCC shall give an authorization for handling Client Clearing if it determines that such Clearing Participant has the requisite business capability. (Article 12-2)</p>	<p>Brokerage Contracts requested by a Customer (excluding a Customer which belongs to the same Corporate Group as an applicant for JSCC's Client Clearing authorization (the same shall apply in the Guideline)); and deposit and withdrawal of Initial Margin and Cash Settlement Amount (Variation Margin, Interests on Variation Margin, Coupons and Upfront Fees).</p> <p>[Risk Management]</p> <ul style="list-style-type: none"> • JSCC will check if the Applicant has the requisite business capability to properly manage risks involved with Customers by looking at the Applicant's examination of Customers in starting Client Clearing, a Clearing Broker's response to a deterioration in the credit standing of Customers, and the Applicant's handling of increased risks associated with positions. <p>[Compliance]</p> <ul style="list-style-type: none"> • JSCC will check if the Applicant has the requisite business capability to prevent a Customer's interests from being unfairly harmed through conflict of interest management measures, including a step to block communication with any divisions with which the Applicant could have a conflict of interest.

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