

Partial Amendment to the Rules on Required CDS Clearing Fund Amount Associated with Revision of Calculation Method of Required CDS Clearing Fund Amount

I Purpose of Amendments

Given that under the Further Guidance on the PFMI and other policies, it is said to be adequate to set Initial Margin deducted from Stressed Risk Amount as the amount deducting already deposited and excessive amount in the stress test for Clearing Fund, we decided to revise the calculation method of Risk Amount Exceeding Collateral for Required CDS Clearing Fund calculation. In addition, from the viewpoint of refining CDS Clearing Fund framework, we decided to revise calculation method of Required CDS Clearing Fund Amount and therefore, to amend the Rules on Required CDS Clearing Fund Amount, as exhibited in Annex.

II Outline of Amendments

Revision of Calculation Method of Required CDS Clearing Fund Amount

- Required CDS Clearing Fund Amount shall be set as the larger of Expected Stressed Loss Share or 100 million yen. and calculation of CDS Clearing Fund Base Amount shall be abolished.
- Expected Stressed Loss Share shall be the amount obtained by prorating the total Risk Amount Exceeding Collateral of the top 2 Clearing Participants on the CDS Clearing Fund Calculation Date by Required Initial Margin Amount of each Clearing Participant before application of the measure to raise Initial Margin.
- Risk Amount Exceeding Collateral shall be the amount deducting smaller of the Required Initial Margin Amount after application of the measure to raise Initial Margin or Initial Margin Deposited Amount from Stressed Risk Value for each Clearing Participant on the CDS Clearing Fund Calculation Date.

(Remark)

Appendix of Rules on Required CDS Clearing Fund Amount

III. Enforcement Date

These revisions will come into effect on May 22, 2023.

DISCLAIMER: This is the reference translation of the original Japanese document. Japan Securities Clearing Corporation shall accept no responsibility or liability for damage or loss caused by any error, inaccuracy, or misunderstanding with regard to this translation. This document may not be reproduced or redistributed in whole or in part without the permission of Japan Securities Clearing Corporation

Rules on Required CDS Clearing Fund Amount

(Article 1 Purpose, etc.)

- 1 The purpose of these Rules on Required CDS Clearing Fund Amount (hereinafter referred to as “Rules”) is to prescribe the Required CDS Clearing Fund Amount pursuant to the provisions of Article 17 of the CDS Clearing Business Rules (hereinafter referred to as “Business Rules”) established by Japan Securities Clearing Corporation (hereinafter referred to as “JSCC”).
- 2 The terms used in these Rules shall have the meanings of the same terms used in the Business Rules unless otherwise prescribed in these Rules.

(Article 2 Required CDS Clearing Fund Amount)

- 1 The Required CDS Clearing Fund Amount of each Clearing Participant shall be calculated every business day as prescribed in “Calculation of Required CDS Clearing Fund Amount” attached hereto as Appendix; provided, however, that JSCC may change the Required CDS Clearing Fund Amount on a temporary basis only when the relevant Clearing Participant merges or is merged into another entity or JSCC otherwise deems it necessary.
- 2 Notwithstanding the provisions of the preceding Paragraph, the Required CDS Clearing Fund Amount that is to be deposited with JSCC by an applicant for the CDS Clearing Qualification shall be the amount prescribed by JSCC on each applicable occasion, taking into account such information as: (i) such applicant’s business scale, (ii) such applicant’s trading record and prospects and (iii) the amount obtained by dividing the total Required CDS Clearing Fund Amount of each Clearing Participant by the number of Clearing Participants on the date on which such applicant has applied for the CDS Clearing Qualification, and such Required CDS Clearing Fund Amount shall be applied until when the CDS Transaction entered into by such applicant after being successfully granted the CDS Clearing Qualification comes to be properly reflected in the Required CDS Clearing Fund Amount which is calculated pursuant to the provisions of the preceding Paragraph.

Supplementary Provisions

These Rules shall be enforced effective as of 19 July 2011.

Supplementary Provisions

These amended Rules shall be enforced effective as of 24 February 2014.

Supplementary Provisions

These amended Rules shall be enforced effective as of 28 February 2014.

Supplementary Provisions

1. These amendments shall come into force as of 25 September 2018.

2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after 25 September 2018.

Supplementary Provisions

1. These amendments shall come into force as of 22 May 2023.

2. Notwithstanding the provisions of Paragraph 1, if JSCC considers it inappropriate to apply amended rules due to an unavoidable reason, such as failure of the system installed by JSCC which is necessary for settlements between JSCC and Clearing Participants in relation to Cleared Contracts, these amendments shall come into force as of the date designated by JSCC which is on or after 22 May 2023.

Appendix Calculation of Required CDS Clearing Fund Amount

1. In respect of each Clearing Participant, a Required CDS Clearing Fund Amount shall be calculated as of each CDS Clearing Fund Calculation Date (which is the day on which a Required CDS Clearing Fund Amount is calculated; the same applies hereinafter) as the larger of ~~“CDS Clearing Fund Base Amount” prescribed in Item a. below and “Expected Stressed Loss Share” prescribed in Item b. below or 100 million yen.~~

~~Notwithstanding the foregoing, if both the “CDS Clearing Fund Base Amount” and the “Expected Stressed Loss Share” are below 100 million yen, the Required CDS Clearing Fund Amount shall be 100 million yen.~~

~~a. CDS Clearing Fund Base Amount~~

~~“CDS Clearing Fund Base Amount” shall be the amount calculated based on the following formula:~~

~~CDS Clearing Fund Base Amount~~

~~= Minimum Amount Covering 99% Confidence Level of Initial Margin Base Amount + Variation Margin Base Amount during the CDS Clearing Fund Calculation Period~~

~~Where:~~

~~“Minimum Amount Covering 99% Confidence Level” means the smallest figure out of those figures the number of figures not more than which makes up no less than 99% of the total number of figures concerned.~~

~~“Initial Margin Base Amount” means the amount calculated as the total of the Required Initial Margin Amount of the Clearing Participant on a given day minus the same on one (1) JSCC Business Day before such day (provided that if the amount so calculated is a negative figure, the Initial Margin Base Amount shall be treated as zero (0)). For the purpose hereof, “total of the Required Initial Margin Amount” means the sum calculated as the Clearing Participant’s Required Initial Margin Amount for the Clearing Contract (Own Account) and that for the Clearing Contract (Customer Account) on each JSCC Business Day which falls during the CDS Clearing Fund Calculation Period.~~

~~“Variation Margin Base Amount” means the amount calculated as the total of the required amount of Variation Margin of the Clearing Participant (provided that if the amount so calculated is a negative figure, the Variation Margin Base Amount shall be treated as zero (0)). For the purpose hereof, “total of the required amount of Variation Margin” means the sum calculated as the Clearing Participant’s required amount of Variation Margin for the Clearing Contract (Own Account) and that for the Clearing Contract (Customer Account) on each JSCC Business Day which falls during the CDS Clearing Fund Calculation Period.~~

~~“CDS Clearing Fund Calculation Period” in respect of the said CDS Clearing Fund Calculation~~

~~Date means the period from the day 6 months prior to such CDS Clearing Fund Calculation Date (if such day does not exist or it falls on a Business Holiday, the JSCC Business Day immediately preceding such day) to such CDS Clearing Fund Calculation Date.~~

~~b. Expected Stressed Loss Share~~

~~“Expected Stressed Loss Share” in respect of the said CDS Clearing Fund Calculation Date shall be the amount obtained by prorating the average of the Risk Amounts Exceeding Collateral of the top 2 Clearing Participants in terms of the Clearing Participant’s Risk Amount Exceeding Collateral (or, if any subsidiary or affiliate, or the parent company of such Clearing Participant, or any subsidiary or affiliate of the parent company (“Affiliated Company”) also is a Clearing Participant, the sum of Risk Amount Exceeding Collateral of the Clearing Participant and such Affiliated Company) registered during the period from the day 1 month prior to such CDS Clearing Fund Calculation Date (if such day does not exist or it falls on a Business Holiday, the JSCC Business Day immediately preceding such day) to such CDS Clearing Fund Calculation Date according to the Required Initial Margin Amount of the Clearing Participant on that CDS Clearing Fund Calculation Date (in respect of a Clearing Participant for whom the Required Initial Margin Amount is raised pursuant to the provisions of Article 29 of the Business Rules, the Required Initial Margin Amount before such raise).~~

~~For the purpose of the foregoing, “Risk Amount Exceeding Collateral” means the sum of each amount (provided that if such amount is a negative figure, the amount shall be treated as zero (0)) calculated for the Clearing Participant’s Proprietary Transaction Account and each Customer Transaction Account as the Stressed Risk Value of the Clearing Contract held in the Clearing Participant’s such Proprietary Transaction Account and each of such Customer Transaction Accounts (or the Sub Account where the same has been opened by JSCC pursuant to Paragraph 6 of Article 59 of the Business Rules) as of each JSCC Business Day falling during the said period, less the Required Initial Margin Amount for such Proprietary Transaction Account and each of such Customer Transaction Account as of the same JSCC Business Day (in respect of a Clearing Participant for whom the Required Initial Margin Amount is raised pursuant to the provisions of Article 29 of the Business Rules, the Required Initial Margin Amount before such raise).~~

~~For the purpose of the foregoing, “Stressed Risk Value” means the amount calculated in the manner prescribed by JSCC through notification, equivalent to the amount of expected loss in respect of such Clearing Contracts incurred by such Clearing Participant due to extremely large volatility of the price of the CDS transaction.~~

2. Expected Stressed Loss Share in the preceding Paragraph on the CDS Clearing Fund Calculation Date shall be the amount obtained by prorating the total the Risk Amounts Exceeding Collateral of the top 2 Clearing Participants in terms of the Clearing Participant’s Risk Amount Exceeding Collateral (or, if any subsidiary or affiliate, or the parent company of such Clearing Participant, or any subsidiary or affiliate of the parent company also is a Clearing Participant, the sum of Risk Amount Exceeding Collateral of the Clearing Participant and such affiliated companies) by Required Initial Margin

Amount of each the Clearing Participants (in respect of a Clearing Participant for whom the Required Initial Margin Amount is raised, the Required Initial Margin Amount before such raise) on the CDS Clearing Fund Calculation Date.

For the purpose of the foregoing, “Risk Amount Exceeding Collateral” means the sum of each amount (provided that if such amount is a negative figure, the amount shall be treated as zero (0)) calculated on the CDS Clearing Fund Calculation Date for the Clearing Participant’s Proprietary Transaction Account and each Customer Transaction Account (or the Sub-Account where the same has been opened by JSCC pursuant to Paragraph 6 of Article 59 of the Business Rules) as the Stressed Risk Value (the amount calculated in the manner prescribed by JSCC through notification, equivalent to the amount of expected loss in respect of such Clearing Contracts incurred by such Clearing Participant due to extremely large volatility of the price of the CDS transaction) of the Clearing Contract held in the Clearing Participant’s such Proprietary Transaction Account and each of such Customer Transaction Accounts, less the smaller of the Required Initial Margin Amount or Initial Margin Deposited Amount for such Proprietary Transaction Account and each of such Customer Transaction Account as of the same JSCC Business Day (in respect of a Clearing Participant for whom the Required Initial Margin Amount is raised , the Required Initial Margin Amount after such raise).