

Three-year Business Plan (FY2010~FY2012)

March, 24, 2010

Japan Securities Clearing Corporation

I. Progress in FY 2009

The progress up to the end of FY2009 is as follows:

1. Ensuring the Reliable Operational Capability

- According to the Comprehensive Improvement Plan of the Risk Management System, implemented the revision of evaluation method for collateral securities.
- Reviewed the effectiveness of the collateral model and stress tests introduced based on the Comprehensive Improvement Plan for the Risk Management Plan.
- With the launch of the new stock trading system (Arrowhead) of the Tokyo Stock Exchange (TSE), started accepting transaction data during business hours.
- Started preliminary research of the collateral system of foreign clearing organization to prepare for intra-day collateral deposit system.
- Along with the enhancement of the capacity of the exchanges' trading system, increased the number of acceptable transactions to the clearing system per day from 21,800,000 to 28,000,000.
- For the purpose of accumulating business operation know-how to establish more precise Business Continuity Plan, conducted a drill to switch from main site system operation to back-up site system operation with the cooperation of Japan Securities Depository Center, Inc (JASDEC).
- Implemented Enterprise Risk Management for the reduction of operational risk.

2. Expanding the Clearing Functions

- In cooperation with the TSE, set up the Working Group on Clearing Operations for OTC Derivatives Trades and worked on concrete operation model and IT system structure etc. with respect to the clearing service for interest rate swaps (IRS) and credit default swaps (CDS).
- Published an implementation plan to accept the trades executed on PTS as

trades eligible for clearing.

- Working with JASDEC and TSE, abolished exceptional operation of T+4 settlements as a part of post-dematerialization securities settlement system reform.

II. Business Challenges

Through the efforts in risk reduction since the financial crisis of 2008, progress toward the more active use of central counter party (CCP) function for wider variety of financial instruments transactions has been made. In view of this trend, JSCC formulated the following two business policies in keeping with its corporate philosophy.

- The FSA released a document titled “the Development of Institutional Frameworks pertaining to Financial and Capital Markets” in January 2010, suggesting mandatory use of CCPs for transactions relating to IRS (plain vanilla) and CDS index. The document also suggests market participants to consider improving the Japan’s current situation of separated CCPs for different instruments from the perspective of the reduction in settlement costs.
- CPSS/IOSCO is currently reviewing “Recommendations for Central Counterparties” to strengthen the stability of the financial markets. With the increasing needs for the use of CCPs by the market participants, more attention is being focused on the further enhancement of the risk management of CCPs.
- The Japanese exchanges are working on expanding the range of listed financial products in order to meet the wider variety of investor demand.
- Several CCPs in the U.S. and Europe started to clear CDS transactions. In addition, more financial infrastructure providers are attempting to enter into Asian markets, resulting in an intensifying competition among CCPs on the global basis.

III. Business Policy

1. Further Expansion of Clearing Service

Through the efforts in risk reduction made on a global scale since the financial crisis of 2008, progress toward the more active use of central counter party function for wider variety of financial instruments transactions has been made. In Japan, the

policy for mandatory use of clearing organization for OTC derivative transactions has been announced by the regulatory authorities.

On the other hand, since the policy of the authorities includes the possible direct entry of a foreign CCP as a way of mandatory CCP clearing, JSCC has to face competitive relationship with leading European and American clearing organizations which provide a wide range of products services. In addition, the current co-existence of five Japanese CCPs is under discussion to explore more desirable structure.

In the light of these situations, JSCC, which has been clearing exchange-traded equities, futures and options, will step up efforts to expand the scope of clearing services to include more diversified products. In doing so, JSCC will contribute to the development of the Japanese financial and capital markets through improved efficiency, convenience and safety of transactions, meeting the needs of market players. JSCC thus sets “Further Expansion of Clearing Service” as the first pillar of its business policy to seek future development necessary for more established position as a Japan’s primary securities market infrastructure.

2. Further Strengthening Risk Management System

Whilst the wider use of CCPs has been gaining momentum inevitable concentration of counterparty risk at CCP raises concern among the market participants and the authorities. The CPSS/IOSCO announced their intention to update the recommendations for Central Counterparties 2004 so that the CCPs meet higher standards in terms of risk management ability.

In addition, the Basel Committee on Banking Supervision is proposing that transactions cleared by CCPs which do not meet the CPSS/IOSCO standards should be required a capital charge. In such circumstances, CCPs are expected to achieve strong risk management procedures in place.

JSCC has been making efforts to improve the risk management system since its inception. We are aware that providing a more solid system for the financial and capital markets is our most important mission. SCC thus regards “Further Strengthening Risk Management System” as the other pillar of its business policy in order to achieve the enhancement of the quality of the clearing service leading itself on the path to sustainable growth.

IV. Business Plan

1. Further Expansion of Clearing Service

- Prepare the concrete operation procedures for clearing service for PTS.
- Work on the concrete operation model, IT system and business case analysis etc. with respect to the clearing service for OTC derivatives products.
- Provide the clearing service for the new products listed on the exchanges and actively develop post-trade infrastructure to satisfy the needs of market participants.
- Start the consideration on the upgrading of clearing system to enhance its functions.
- Explore the opportunity to cooperate with the domestic/international clearing houses.

2. Further Strengthening Risk Management System

- Start discussion with participants for the introduction of the intra-day collateral call.
- Continue efforts for the enhancement of the quality of the risk management functions in keeping with the updating of CPSS/ IOSCO recommendations for Central Counterparties 2004.
- Strengthen the basic business function by improving the IT security standards and enhancing the quality of the operation.