

Rules on Required Amount of Clearing Fund



Japan Securities Clearing Corporation

Copyright ©2010 Japan Securities Clearing Corporation. All rights reserved.

This English translation of the Rules has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

Rules on Required Amount of Clearing Fund

(In effect as of March 23, 2009)

Contents

Provisions

Supplementary Provisions

<Appendix> Table Concerning Calculation of Required Amount of Clearing Fund

(Article 1 Purpose)

These Rules set forth the required amount of clearing fund in accordance with the provisions of Article 16 of the Business Rules.

(Article 2 Required Amount of Clearing Fund)

- 1 The required amount of clearing fund of each Clearing Participant shall be the sum total of the required amount of clearing fund in respect of each category of Clearing Qualification held by the relevant Clearing Participant; provided, however, that JSCC may, on a temporary basis, change the required amount of clearing fund in cases such as cases where (i) such Clearing Participant merges or newly becomes a Designated Clearing Participant of a Non-Clearing Participant or (ii) JSCC otherwise deems necessary.
- 2 The required amount of clearing fund in respect of each category of Clearing Qualification, as referred to in the preceding Paragraph, shall be determined in accordance with *Appendix "Table Concerning Calculation of Required Amount of Clearing Fund."*
- 3 Notwithstanding the provisions of Paragraph 1, the required amount of clearing fund that is to be deposited in respect of each category of Clearing Qualification by an entity that has newly obtained Clearing Qualification shall be the amount determined by JSCC, on a case-by-case basis taking into account such information as (i) the scale of the business of the relevant applicant for Clearing Qualification, (ii) its trading record and trading prospects, and (iii) the amount of money obtained by dividing the sum total of the required amount of clearing fund in respect of Clearing Qualification for each Clearing Participant with the same Clearing Qualification as that of the date on which applications for Clearing Qualification were submitted by the number of such Clearing Participants, and such required amount of clearing fund shall be applied for the period JSCC deems necessary.

Rules on Required Amount of Clearing Fund
Supplementary Provisions

- 1 These Rules shall come into effect on January 10, 2003.
- 2 With respect to the calculation of the base amount of domestic stock, etc. for the period ending on or before January 10, 2003, the words “Contracts for Clearing” in the *Appendix* shall be deemed to be “buying/selling”.
- 3 Notwithstanding the provisions of Paragraph 2 of Article 2, the required amount of clearing fund for securities transactions applied to an entity that obtains Principal Clearing Qualification on January 14, 2003, shall be in accordance with the provisions of Paragraph 1 of Article 2.

Supplementary Provisions

- 1 These revised Rules shall come into effect on February 2, 2004.
- 2 Notwithstanding the provisions of Paragraph 3 of Article 2, the required amount of clearing fund for Share Option Contracts, JGB Futures Contracts or Stock Price Index Futures Contracts applied to an entity that obtains Share Option Clearing Qualification, JGB Futures Clearing Qualification or Stock Price Index Futures Clearing Qualification*¹ on February 2, 2004, shall be in accordance with the provisions of Paragraph 1 of Article 2.
(*¹ limited to Principal Clearing Qualification in respect of each category of Clearing Qualification)

Supplementary Provisions

These revised Rules shall come into effect on May 1, 2006.

Supplementary Provisions

These revised Rules shall come into effect on July 3, 2006.

Supplementary Provisions

These revised Rules shall come into effect on June 16, 2008.

Supplementary Provisions

These revised Rules shall come into effect on July 7, 2008.

Supplementary Provisions

These revised Rules shall come into effect on March 23, 2009.

<Appendix> Table Concerning Calculation of Required Amount of Clearing Fund

1 Required Amount of Clearing Fund for Securities Clearing*¹

(*¹ referring to required amount of clearing fund for Securities Clearing Qualification)

The Required Amount of Clearing Fund for Securities Clearing shall be the Ordinary Base Amount of Clearing Fund for Securities Clearing prescribed in A) below*¹; provided, however, that in the case where the Base Amount of Clearing Fund for Securities Clearing Subject to Daily Change prescribed in B) below exceeds the Ordinary Base Amount of Clearing Fund for Securities Clearing, the Required Amount of Clearing Fund for Securities Clearing shall be the Base Amount of Clearing Fund for Securities Clearing Subject to Daily Change.

(*¹ if such Base Amount is less than 30 million yen, the Required Amount of Clearing Fund for Securities Clearing shall be 30 million yen.)

A) Ordinary Base Amount of Clearing Fund for Securities Clearing shall be the amount calculated in accordance with the following formula —the terms used in the formula shall have the meanings set forth in (a) through (c) below.

Ordinary Base Amount of Clearing Fund for Securities Clearing

= Minimum Amount Covering 95% Confidence Level in respect of Daily Increase in Base Amount of Clearing Fund for Securities Clearing Subject to Daily Change for Base Period for Calculating the Amount of Clearing Fund

(a) Daily Increase in Base Amount of Clearing Fund for Securities Clearing Subject to Daily Change means the amount obtained by subtracting, from the Base Amount of Clearing Fund for Securities Clearing Subject to Daily Change on a given day, the Base Amount of Clearing Fund for Securities Clearing Subject to Daily Change*¹ on the preceding day.

(*¹ referring to the Base Amount of Clearing Fund for Securities Clearing Subject to Daily Change prescribed in B) below; the same applies hereinafter in this (a))

(b) Base Period for Calculating the Amount of Clearing Fund means the period from the first day*¹ of the month in which the day preceding the current day by 3 months falls to the last day*² of the preceding month; provided, however, that in the case where the current day falls before the fifth day*³ of the current month, the period means the period from the first day of the month in which the day preceding the current day by 4 months falls to the last day of the month before the preceding month; the same applies hereinafter.

(*¹ if such day falls on a holiday, the day shall be the next business day; the same applies hereinafter)

(*² if such day falls on a holiday, the day shall be the immediately preceding business day; the same applies hereinafter)

(*³ excluding holidays; the same applies hereinafter when counting the number of days)

(c) Minimum Amount Covering 95% Confidence Level means the smallest figure out of those figures which constitute the upper 5%, such that the number of figures smaller than such figure exceeds 95% of the total number of figures concerned; the same applies hereinafter.

B) Base Amount of Clearing Fund for Securities Clearing Subject to Daily Change shall be the amount*¹ calculated in accordance with the following formula; provided, however, that in the case where such amount is deemed inappropriate, the amount shall be set by JSCC —the terms used in the formula shall have the meanings set forth in (a) through (c) below.

(*¹ if such calculated amount is negative, zero shall be substituted for the actual amount)

Base Amount of Clearing Fund for Securities Clearing Subject to Daily Change

= (Total Amount Corresponding to Mark-to-Market Losses

+ Total Amount Corresponding to Potential Losses)

× (1 + Additional Rate for Other Securities)

(a) Total Amount Corresponding to Mark-to-Market Losses means sum total of the Amount Corresponding to Mark-to-Market Loss calculated in accordance with the formula below for each issue with respect to the relevant Clearing Participant's Contracts for Clearing*¹ pertaining to the securities*² concluded up to the current day and which remain unsettled —the terms used in the formula shall have the meanings set forth in (i) through (iv) below.

(*¹ excluding contracts relating to Same-Day Transactions, Buy-In and borrowing/lending of securities pursuant to the provisions of Article 64 of the Business Rules; the same applies in (b) below)

(*² excluding Japanese Government Bonds)

Amount Corresponding to Mark-to-Market Loss

= (Total amount of purchase money in respect of securities purchased on that issue - Total Current Market Value of Securities Purchased on That Issue)

+ (Total Current Market Value of Securities Sold on That Issue - The amount of proceeds from sales of securities sold on that issue)

(i) With respect to Contracts Subject to Clearing prescribed in Item (8) through Item (10) of Paragraph 2 of Article 3 of the Business Rules, the total amount of purchase money in respect of securities purchased on that issue shall be the

total amount of money to be paid.

(ii) With respect to Contracts Subject to Clearing prescribed in Item (8) through Item (10) of Paragraph 2 of Article 3 of the Business Rules, the total proceeds from sales of securities sold on that issue shall be the total amount of money to be received.

(iii) Total Current Market Value of Securities Purchased on That Issue means the value obtained by multiplying the quantity of securities purchased^{*1} by the DVP Clearing Price of that issue on the following day^{*2}.

(*¹ in the case of Contracts Subject to Clearing prescribed in Item (8) through Item (10) of Paragraph 2 of Article 3 of the Business Rules, the quantity of securities to be received)

(*² in the case of issues with respect to which a DVP Clearing Price does not exist, the price set by JSCC; the same applies hereinafter)

(iv) Total Current Market Value of Securities Sold on That Issue means the value obtained by multiplying the quantity of securities sold^{*1} by the DVP Clearing Price of that issue on the following day.

(*¹ in the case of Contracts Subject to Clearing prescribed in Item (8) through Item (10) of Paragraph 2 of Article 3 of the Business Rules, the quantity of securities to be delivered)

(b) Total Amount Corresponding to Potential Losses means the absolute value of the sum total of the Amount Corresponding to Potential Loss calculated in accordance with the formula below for each issue with respect to the relevant Clearing Participant's Contracts for Clearing pertaining to the securities^{*1} concluded up to such given day and which remain unsettled —the terms used in the formula shall have the meanings set forth in (i) and (ii) below.

(*¹ excluding Japanese Government Bonds)

Amount Corresponding to Potential Loss

= Current Market Value of Securities Balance on That Issue
× Expected Price Volatility on That Issue

(i) Current Market Value of Securities Balance on That Issue means the value calculated in accordance with the formula set forth below.

Current Market Value of Securities Balance on That Issue

= (Total quantity of securities purchased on that issue
- Total quantity of securities sold on that issue)^{*1}

× DVP Clearing Price of that issue on the following day

(*¹ in the case of Contracts Subject to Clearing prescribed in Item (8) through Item (10) of Paragraph 2 of Article 3 of the Business Rules,
“(Total quantity of securities to be received on that issue

- Total quantity of securities to be delivered on that issue)”

(ii) Expected Price Volatility on That Issue means the Minimum Amount Covering 99% Confidence Level in respect of Volatility of DVP Clearing Price of that issue for the period from the day which precedes the current day by 120 days to the current day.

(Note 1) Volatility of DVP Clearing Price of each issue means the figure calculated in accordance with the formula set forth below.

Volatility of DVP Clearing Price of each issue

$$= \frac{|\text{DVP Clearing Price of each issue on a given day} - \text{DVP Clearing Price of each issue on the preceding day}|}{\text{DVP Clearing Price of each issue on the preceding day}}$$

(Note 2) Minimum Amount Covering 99% Level of Confidence means the smallest figure out of those figures which constitute the upper 1%, such that the number of figures smaller than such figure exceeds 99% of the total number of figures concerned; the same applies hereinafter.

(c) Additional Rate for Other Securities shall be set by JSCC.

2 Required Amount of Clearing Fund for Individual Option Contracts*¹

(*¹ referring to required amount of Clearing Fund for Individual Option Clearing Qualification)

Required Amount of Clearing Fund for Individual Option Contracts shall be the amount calculated in accordance with the formula set forth below — the terms used in the formula shall have the meanings set forth in A) and B) below.

Required Amount of Clearing Fund for Individual Option Contracts

$$= \text{Base Amount of Net Settlement for Individual Option Contracts} \\ + \text{Base Amount of Margin for Individual Option Contracts}$$

A) Base Amount of Net Settlement for Individual Option Contracts means the Minimum Amount Covering 95% Confidence Level*¹ in respect of the relevant Clearing Participant’s daily Amount to be Paid*² for Individual Option Contracts in the Base Period for Calculating the Amount of Clearing Fund; the same applies in B)(b) below.

(*¹ if such amount is negative, zero shall be substituted for the actual amount)

(*² referring to the value obtained by subtracting the total amount of sales proceeds from the total amount of purchase money)

B) Base Amount of Margin for Individual Option Contracts means the amount calculated in accordance with the formula set forth below; provided, however, that in the case where such amount is deemed inappropriate, the amount shall be set by JSCC — the terms

used in the formula shall have the meanings set forth in (a) and (b) below.

Base Amount of Margin for Individual Option Contracts

= Base Amount of Margin

× Ratio of Amount of Individual Option Contracts to Amount of Net Settlement

(a) Base Amount of Margin means the Minimum Amount Covering 95% Confidence Level^{*1} in respect of the relevant Clearing Participant's daily Increase in Required Amount of Margin in the Base Period for Calculating the Amount of Clearing Fund; the same applies hereinafter.

(*1 if such amount is negative, zero shall be substituted for the actual amount)

(Note) Increase in Required Amount of Margin means the amount obtained by subtracting Required Amount of Margin^{*1} of the preceding day from Required Amount of Margin of a given day.

(*1 referring to the sum total of the required amount of Margin for the proprietary account prescribed in Article 4 of Rules on Margins, etc., the required amount of Margin for customer accounts and the required amount of Margin for the Brokerage for Clearing of Securities, etc. prescribed in Paragraph 2 of Article 25 of the same Rules; the same applies hereinafter)

(b) Ratio of Amount of Individual Option Contracts to Amount of Net Settlement shall be the amount calculated in accordance with the formula set forth below.

Ratio of Amount of Individual Option Contracts to Amount of Net Settlement

= Base Amount of Net Settlement for Individual Option Contracts

/ Total Base Amount of Net Settlement

(Note) Total Base Amount of Net Settlement means the sum total of Base Amount of Net Settlement for Individual Option Contracts, Base Amount of Net Settlement for JGB Futures Contracts^{*1} and Base Amount of Net Settlement for Index Futures Contracts^{*2}; the same applies hereinafter.

(*1 referring to the Base Amount of Net Settlement for JGB Futures Contracts set forth in A) of the following Paragraph)

(*2 referring to the Base Amount of Net Settlement for Index Futures Contracts set forth in A) of Paragraph 4)

3 Required Amount of Clearing Fund for JGB Futures Contracts^{*1}

(*1 referring to required amount of Clearing Fund for JGB Futures Clearing Qualification)

Required Amount of Clearing Fund for JGB Futures Contracts shall be the amount

Reference Translation

Rules on Required Amount of Clearing Fund calculated in accordance with the formula set forth below; provided, however, that if such amount is less than 10 million yen, Required Amount of Clearing Fund for JGB Futures Contracts shall be 10 million yen — the terms used in the formula shall have the meanings set forth in A) through C) below.

Required Amount of Clearing Fund for JGB Futures Contracts

= Base Amount of Net Settlement for JGB Futures Contracts

+ Base Amount of Margin for JGB Futures Contracts

+ Total Base Amount of Clearing Fund for Settlement by Physical Delivery and Payment

A) Base Amount of Net Settlement for JGB Futures Contracts means the Minimum Amount Covering 95% Confidence Level*¹ in respect of the relevant Clearing Participant's Net Settlement Amount*² on each Trading Day*³ in the Base Period for Calculating the Amount of Clearing Fund; the same applies in B) below.

(*¹ if such amount is negative, zero shall be substituted for the actual amount)

(*² referring to the sum total of the amounts prescribed in (a) through (c) below)

(*³ referring to the trading day specified by the Designated Market Operator in respect of JGB Futures Contracts and Option Contracts on JGB Futures; the same applies hereinafter in this paragraph)

(a) The amount calculated as the mark-to-market difference to be paid for JGB Futures Contracts*¹

(*¹ referring to the amount obtained by subtracting the amount to be received mark-to-market from the amount to be paid mark-to-market)

(b) The amount calculated as the difference to be paid for final settlement on the mini futures contracts in respect of any JGB Futures Contract prescribed by the Designated Market Operator*¹

(*¹ referring to the amount obtained by subtracting the amount to be received for final settlement from the amount to be paid for final settlement)

(c) The amount calculated as the price of Option Contracts on JGB Futures to be paid*¹

(*¹ referring to the amount of money obtained by subtracting the total amount of sales proceeds from the total amount of purchase money)

B) Base Amount of Margin for JGB Futures Contracts means the amount calculated in accordance with the formula set forth below; provided, however, that in the case where such amount is deemed inappropriate, the amount shall be set by JSCC.

Base Amount of Margin for JGB Futures Contracts

= Base Amount of Margin

×Ratio of Amount of JGB Futures Contracts to Amount of Net Settlement

(Note) Ratio of Amount of JGB Futures Contracts to Amount of Net Settlement means the amount calculated in accordance with the formula set forth below.

$$\begin{aligned} & \text{Ratio of Amount of JGB Futures Contracts to Amount of Net Settlement} \\ &= \text{Base Amount of Net Settlement for JGB Futures Contracts} \\ & \quad / \text{Total Base Amount of Net Settlement} \end{aligned}$$

C) Total Base Amount of Clearing Fund for Settlement by Physical Delivery and Payment means the sum total of the Base Amount of Clearing Fund for Settlement by Physical Delivery and Payment, which is calculated for each issue in accordance with the formula set forth below for the period from the Last Trading Day of the large futures contracts in respect of JGB Futures Contracts*¹ prescribed by the Designated Market Operator to the day immediately preceding the Day of Settlement by Physical Delivery and Payment of the trading of the each contract month — the terms used in the formula shall have the meanings set forth in (a) and (b) below.

(*¹ hereinafter referred to as “Large JGB Futures Contracts”)

Base Amount of Clearing Fund for Settlement by Physical Delivery and Payment

$$\begin{aligned} &= \text{Amount of Position of That Issue Settled by Physical Delivery and Payment} \\ & \times 100,000,000 \text{ yen} \\ & \times \text{Price Volatility of That Issue} \end{aligned}$$

(a) Amount of Position of That Issue Settled by Physical Delivery and Payment means the figure calculated, with respect to each issue of Large JGB Futures Contracts, as the difference between Final Short Position and Final Long Position*¹ held by the relevant Clearing Participant of the contract month of which the Last Trading Day has reached.

(*¹ referring to the amount obtained by subtracting the smaller amount of the two from the larger amount)

(b) Price Volatility of That Issue means the Minimum Amount Covering 99% Confidence Level in respect of Volatility of Clearing Price of That Issue concerning Large JGB Futures Contracts for a Period for Calculating Price Volatility.

(Note 1) Volatility of Clearing Price of That Issue means the figure calculated in accordance with the formula set forth below; provided, however, that in the case where the clearing price of that issue in the formula is deemed inappropriate, the price shall be set by JSCC.

Volatility of Clearing Price of That Issue

$$= | \text{Clearing Price of that issue on a given Trading Day} \\ - \text{Clearing Price of that issue on a day that precedes such given} \\ \text{Trading Day by 6 Trading Days} | \\ / \text{Clearing Price of that issue on a day that precedes such given} \\ \text{Trading Day by 6 Trading Days}$$

(Note 2) Period for Calculating Price Volatility means the period from the day which precedes the Trading Day ending at the last day of the immediately preceding month by 120 days to the last day of the immediately preceding month.

4 Required Amount of Clearing Fund for Index Futures Contracts*¹

(*¹ referring to required amount of Clearing Fund for Index Futures Clearing Qualification)

Required Amount of Clearing Fund for Index Futures Contracts shall be the amount calculated in accordance with the formula set forth below; provided, however, that if such amount is less than 10 million yen, Required Amount of Clearing Fund for Index Futures Contracts shall be 10 million yen — the terms used in the formula shall have the meanings set forth in A) and B) below.

Required Amount of Clearing Fund for Index Futures Contracts

= Base Amount of Net Settlement for Index Futures Contracts

+ Base Amount of Margin for Index Futures Contracts

A) Base Amount of Net Settlement for Index Futures Contracts means the Minimum Amount Covering 95% Confidence Level*¹ in respect of the relevant Clearing Participant's Net Settlement*² on each Trading Day*³, for Base Period for Calculating the Amount of Clearing Fund; the same applies in B) below.

(*¹ if such amount is negative, zero shall be substituted for the actual amount)

(*² referring to the sum total of the amount prescribed in (a) through (d) below)

(*³ referring to the trading day specified by the Designated Market Operator in respect of Index Futures Contracts and Index Option Contracts)

(a) The amount calculated as the mark-to-market difference to be paid for Index Futures Contracts*¹

(*¹ referring to the amount obtained by subtracting the amount to be received mark-to-market from the amount to be paid mark-to-market)

(b) The amount calculated as the differences to be paid for final settlement on Index Futures Contracts*¹

(*¹ referring to the amount obtained by subtracting the amount to be received for final settlement from the amount to be paid for final settlement)

(c) The amount calculated as the price of Index Option Contracts to be paid*¹

(*1 referring to the amount of money obtained by subtracting the total amount of sales proceeds from the total amount of purchase money)

(d) The amount calculated as differences to be paid upon an exercise of the option*1 under Index Option Contracts

(*1 referring to the amount obtained by subtracting the amount to be received for settlement pertaining to exercise of the option from the amount to be paid for settlement pertaining to exercise of the option)

B) Base Amount of Margin for Index Futures Contracts means the amount calculated in accordance with the formula set forth below; provided, however, that in the case where such amount is deemed inappropriate, the amount shall be set by JSCC.

Base Amount of Margin for Index Futures Contracts

= Base Amount of Margin

×Ratio of Amount of Index Futures Contracts to Amount of Net Settlement

(Note) Ratio of Amount of Index Futures Contracts to Amount of Net Settlement means the amount calculated in accordance with the formula set forth below.

Ratio of Amount of Index Futures Contracts to Amount of Net Settlement

= Base Amount of Net Settlement of Index Futures Contracts

/ Total Base Amount of Net Settlement

=End=