

January 21st, 2022

Mr. Christopher Kirkpatrick
 Secretary of the Commission
 Commodity Futures Trading Commission
 Three Lafayette Centre
 1155 21st Street, NW
 Washington, DC 20581

Re: Swap Clearing Requirement To Account for the Transition From LIBOR and Other IBORs to Alternative Reference Rates (RIN 3038–AF18)

Dear Mr. Kirkpatrick:

Japan Securities Clearing Corporation (“JSCC”) would hereby respectfully submit to the request for information and comments by the Commodity Futures Trading Commission (“CFTC”) - **Swap Clearing Requirement To Account for the Transition From LIBOR and Other IBORs to Alternative Reference Rates AGENCY: Commodity Futures Trading Commission (RIN 3038–AF18)**¹.

I. Background

JSCC received an order of exemption from registration as a derivative clearing organization (“DCO”) from the CFTC² under the U.S. Commodity Exchange Act and the CFTC Regulation 39.6. This permits JSCC to clear for U.S. clearing members and their affiliates, but not for U.S. customers. As of the date of this letter, JSCC clears the following interest rate swap denominated in Japanese Yen (“JPY IRS”), including TONA OIS which is referencing risk free rate in JPY, for its clearing members, their affiliates and non-U.S. customers.

Fixed to Floating Swap Class

Floating rate indexes	JPY-TONA-OIS-COMPOUND or JPY-TONA-OIS Compound (“OIS”)	JPY-TIBOR-ZTIBOR or JPY-Euroyen TIBOR (“Z TIBOR”) (1M,3M,6M)	JPY-TIBOR-17097 or JPY-TIBOR (“D TIBOR”) (1M,3M,6M)
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¹ Swap Clearing Requirement To Account for the Transition From LIBOR and Other IBORs to Alternative Reference Rates (RIN 3038–AF18): <https://www.cftc.gov/sites/default/files/2021/11/2021-25450a.pdf>

² AMENDED ORDER OF EXEMPTION FROM REGISTRATION (15th May 2017): <https://www.cftc.gov/sites/default/files/idc/groups/public/@otherif/documents/ifdocs/jscddcoexemptamdorder5-15-17.pdf>

Termination date range	3 days – 14623 days	3days – 10971 days	3days – 10971 days
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Basis Swap Class (Tenor)

Floating rate indexes	Z TIBOR (1M,3M,6M)	D TIBOR (1M,3M,6M)	OIS
Termination date range	3days – 10971 days	3days – 10971 days	3 days – 14623 days

Basis Swap Class (Curve)

Floating rate indexes	OIS vs Z TIBOR	OIS vs D TIBOR	Z TIBOR vs D TIBOR
Termination date range	3days – 10971 days	3days – 10971 days	3days – 10971 days

Based on discussions with market participants and following a public consultation, in December 2021, JSCC completed the conversion of JPY IRS referencing Libor to TONA OIS³. Since the end of 2021, JSCC has ceased to accept for clearing any new JPY IRS referencing Libor.

JSCC would like to take the opportunity to respond to each of the CFTC’s requested information and comments in the following sections, specifically in relation to the replacement of JPY LIBOR IRS in the Clearing Requirement with JPY TONA OIS.

II. Request for Information by the CFTC

The Commission recognizes that information related to the transition away from IBORs is changing daily, and that the information reflected in certain statements above may have changed as of the publication of this request for information. The Commission invites commenters to provide new or updated information related to any aspect of the transition away from IBORs that may offer additional background for the Commission to consider. In addition, the Commission encourages commenters to include the assigned number of the specific request for information below in their responses in order to facilitate staff’s review of information provided.

Swaps Subject to the Clearing Requirement

³ On the weekend of 4th December 2021, existing cleared JPY LIBOR IRS were converted to TONA OIS, except for those Libor swaps for which the last rate reset was prior to the end of 2021. Also, Libor swaps generated by a swaption exercise were cleared until the end of 2021 and were subject to a second conversion to OIS at the end of 2021.

A summary of JSCC's conversion plans are available on JSCC's website:

https://www.jpx.co.jp/jsc/en/cimhll00000001ri-att/Outlines_concerning_Handling_of_LIBOR_Referencing_Swaps_to_OIS_etc_EN.pdf

- The Commission requests that DCOs provide, for swaps currently subject to the Clearing Requirement referencing each of GBP LIBOR, JPY LIBOR, CHF LIBOR, USD LIBOR, and SGD SOR-VWAP, in each of the fixed-to-floating swap, basis swap, FRA, and OIS classes, data for the month ending November 30, 2021 concerning: (A) the amount of notional cleared, including as a percentage of total notional cleared of all swaps; (B) total notional outstanding, including as a percentage of total notional outstanding; and (C) total number of clearing members clearing such swaps, including as a percentage of the total population of clearing members.

● **JSCC Comments to this information/comment request**

	vs Fixed		Basis Swap			Others		Total (including LIBOR, TIBOR and OIS)	
	LIBOR	%	LIBOR LIBOR vs ZTIBOR LIBOR vs DTIBOR	LIBOR vs OIS	%		%		%
(A) the amount of notional cleared (JPY Bil, notional)	25,311	20.1%	1,985	0	1.6%	98,905	78.4%	126,201	100.0%
(B) total notional outstanding (JPY Bil, notional)	1,010,210	51.3%	350,579	237	17.8%	608,349	30.9%	1,969,137	100.0%
(C) total number of clearing members clearing such swaps	23	92.0%	12	0	48.0%			25	100.0%

Note. Data on cleared amount and notional outstanding are counted on cleared-trade base (double-counting for each counterparty to JSCC).

The migration of swaps from Libor to the alternative reference rates has now largely been completed for non-USD currencies. Therefore, we would request that the CFTC makes an assessment to amend the Clearing Requirement based on the most recent data available.

- The Commission requests that DCOs provide an assessment of the DCO's ability to conduct an auction of a defaulting clearing member's positions in swaps referencing LIBOR after December 31, 2021 (not including certain USD LIBOR tenors and SGD SOR-VWAP that will continue until June 30, 2023), if the DCO has not conducted, or is not planning on conducting, a conversion event.

● **JSCC Comments to this information/comment request**

JSCC has already completed the conversion event as explained in I. above. Therefore, JSCC does not have any specific comment related to this question.

For clarity, at the conversion, JSCC booked new cleared JPY IRS (LIBOR vs OIS basis swaps), in order to preserve the LIBOR payments that were already fixed prior to the end of 2021. As such, the LIBOR legs of those basis swaps are the same as the fixed rate legs. Therefore, for default management purposes, these

trades will be treated in the same manner as any other cleared TONA OIS. Creation of these basis swaps during the conversions is just a temporary measure, as these will expire at the settlement of the rates that were fixed prior to the end of 2021.

- The Commission requests that DCOs provide an assessment of the DCO's ability to transfer or port to other clearing members a defaulting clearing member's positions in swaps referencing LIBOR after December 31, 2021 (not including certain USD LIBOR tenors and SGD SOR-VWAP that will continue until June 30, 2023).*

- **JSCC Comments to this information/comment request**

JSCC has already completed the conversion event, as explained in II. 2. above.

- The Commission would like to know whether any clearing member firms of DCOs have experienced challenges with respect to the transition from any IBOR to an alternative reference rate, and any related DCO conversion event, including whether and how such challenges were resolved, and whether clearing member firms believe there are any steps the Commission can take to help resolve ongoing challenges.*

- **JSCC Comments to this information/comment request**

We understand JSCC's clearing members successfully managed the transition from JPY LIBOR to TONA OIS, including with the conversion events on the weekends of the 4th and 31st of December 2021.

As stated in the response to #8, prior to JSCC's conversions, markets had organically shifted liquidity from JPY IRS referencing Libor to TONA OIS, by the industry initiative known as "TONA FIRST", and the expected clearing mandate of TONA OIS under the Japanese regime.

JSCC converted 143,319 of cleared JPY IRS referencing Libor to TONA OIS over the weekend of December 4th, and 348 over the weekend of December 31st, without causing any operational issues for either JSCC or its clearing members.

- The Commission requests that registered swap dealers and other market participants provide data related to market participants' outstanding net LIBOR risk as of November 30, 2021.*

- **JSCC Comments to this information/comment request**

JSCC does not have any specific comment related to this question.

Swaps Not Currently Subject to the Clearing Requirement

6. *The Commission requests that DCOs file submissions with the Commission under Commission regulation 39.5 for any swaps that have been or may be identified as swaps that reference an alternative reference rate that are not currently subject to the Clearing Requirement and for which a DCO has not previously filed a submission under Commission regulation 39.5(b).*

- **JSCC Comments to this information/comment request**

JSCC would voluntarily submit information which would be required under the Part 39.5. Please see Attachment - Information on Swap under the CFTC Regulation §39.5 for Determination on Clearing Requirement.

7. *The Commission requests that DCOs provide for swaps that reference one of the alternative reference rates including, GBP SONIA, JPY TONA, CHF SARON, €STR, and USD SOFR in each of the fixed-to-floating swap, basis swap, FRA, and OIS classes, data from the quarter ending September 30, 2021 concerning: (A) the amount of notional cleared, including as a percentage of total notional cleared of all swaps; (B) total notional outstanding, including as a percentage of total notional outstanding; and (C) total number of clearing members clearing such swaps, including as a percentage of the total population of clearing members.*

- **JSCC Comments to this information/comment request**

	vs Fixed		Basis Swap		Others	%	Total (including LIBOR, TIBOR and OIS)	%
	OIS	%	LIBOR vs OIS	%				
(A) Amount of notional cleared (JPY Bil, notional)	164,243	45.0%	110	0.0%	200,518	55.0%	364,870	100.0%
(B) Total notional outstanding (JPY Bil, notional)	197,335	9.8%	223	0.0%	1,819,679	90.2%	2,017,237	100.0%
(C) Total number of clearing members clearing such swaps	25	100.0%	6	24.0%			25	100.0%

Note. Data on cleared amount and notional outstanding are counted on cleared-trade base (double-counting for each counterparty to JSCC).

The migration of swaps from Libor to the alternative reference rates has now largely been completed for non-USD currencies. Therefore, we would request that the CFTC makes an assessment to amend the Clearing Requirement based on the most recent data available.

III. Request for Comments

The Commission requests comment on all aspects of the swap clearing requirement and any related regulations that may be affected by the transition away from LIBOR and the other IBORs to alternative reference rates. The Commission seeks comments on these matters generally and commenters are encouraged to address any relevant matters that are not specifically identified in the requests for comment below.

- **General Comments of JSCC for this section**

While not currently included in the Clearing Requirement, TONA OIS is accepted for clearing at 3 registered DCOs (CME Clearing, Eurex Clearing, & LCH Ltd) and one DCO exempted from the registration (JSCC). All these DCOs have already completed their conversion events.

The conversion of JPY IRS referencing Libor, which is included in the current Clearing Requirement, to TONA OIS was completed without any issue. Market liquidity has now completely shifted from JPY Libor IRS to TONA OIS.

The Financial Services Agency (Japan) and Bank of England⁴ have already announced updates to their clearing mandates, which replace JPY Libor with TONA OIS as the mandated swap.

Therefore, we would request that the CFTC should consider amending the current Clearing Requirement, to replace JPY LIBOR swaps with TONA OIS.

Current Swap Clearing Requirement-Related Questions

1. *Are market participants concerned about access to clearing for certain swaps that are subject to the Clearing Requirement? If so, are there any Commission actions or regulatory amendments that could facilitate the IBOR transition for market participants?*

- **JSCC Comments to this information/comment request**

JSCC does not have any specific comment related to this question.

⁴ <https://www.bankofengland.co.uk/paper/2021/derivatives-clearing-obligation-introduction-of-contracts-referencing-tona-ps>

2. *Please discuss recommendations for how the Commission should modify its Clearing Requirement under Commission regulation 50.4 and any related advantages or disadvantages (including anticipated costs) that might be expected from a specific approach.*

- **JSCC Comments to this information/comment request**

We would request that the CFTC should modify its Clearing Requirement under Commission regulation 50.4 to include TONA OIS in the scope of the Clearing Requirement, given the liquidity and completion of the migration from JPY Libor IRS. Please see our comments in General Comments of JSCC for this section and #20 of this section. The modification should be implemented as soon as possible now that all DCOs clearing TONA OIS have already completed their conversion events.

3. *More specifically, should the Commission modify the termination date range, or any other specifications, with respect to SONIA OIS, AONIA OIS, CORRA OIS or any other OIS that are subject to the Clearing Requirement and for which the index has been nominated as an alternative reference rate? If such an amendment is recommended, please discuss a potential timeline for considering and adopting a modification and the reasons for adopting such timeline.*

- **JSCC Comments to this information/comment request**

Please see our comments in #2 in this section.

4. *Should the Commission revise the clearing requirement related to the SGD SOR- VWAP rate as part of the initial LIBOR transition or should market participants be given additional time to consider changes to SGD SOR-VWAP Clearing Requirement because it is based on USD LIBOR (and may continue until 2023)?*

- **JSCC Comments to this information/comment request**

JSCC does not have any specific comment related to this question.

Swap Clearing Requirements for Alternative Reference Rates

5. *Are market participants concerned about access to clearing for certain swaps that reference alternative reference rates and are not currently subject to the Clearing Requirement? If so, please explain current or anticipated barriers to clearing swaps in alternative reference rates.*

- **JSCC Comments to this information/comment request**

JSCC does not have any specific comment related to this question.

6. *Are there any steps related to the SOFR transition that have not been completed that would enable a significant number of market participants to submit swaps referencing SOFR to clearing? Are there specific metrics or products associated with the new SOFR rate that need to be developed before swaps referencing SOFR can be used by a broad range of market participants?*

- **JSCC Comments to this information/comment request**

JSCC does not have any specific comment related to this question, as we do not have a plan to clear swaps referencing SOFR.

7. *Would requiring the clearing of swaps referencing SOFR or other alternative reference rates that are not currently subject to the Clearing Requirement affect the ability of a DCO to comply with the CEA's core principles for DCOs?*

- **JSCC Comments to this information/comment request**

As provided in the response to #8, JPY swap market liquidity has already fully transitioned from IRS referencing LIBOR to TONA OIS. Therefore, there would be no concern for DCOs to accept it for clearing.

Including JPY TONA OIS in the CFTC's Clearing Requirement would not affect the ability of DCOs to comply with the CEA or the relevant legal and regulatory regime in any other jurisdiction.

Additionally, please refer to JSCC's statement in its information provision concerning submission of swap under the CFTC Regulation §39.5, addressing the requirement of §39.5(b)(3)(i), as Attachment of this letter.

8. *Are there specific data the Commission should consider in determining whether significant notional amount and liquidity exists in swaps referencing SOFR or other alternative reference rates that are not currently subject to the Clearing Requirement?*

- **JSCC Comments to this information/comment request**

As per the following information, the JPY swap market has already fully transitioned from IRS referencing LIBOR to TONA OIS:

- On March 26th 2021, the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks (an industry forum organized by the Bank of Japan), published a report stated that a large majority of respondents supported TONA as a desirable replacement for JPY LIBOR.⁵
- On the weekend of December 4th 2021, all the major CCPs clearing JPY LIBOR IRS – LCH, CME, Eurex and JSCC - completed the conversion of cleared JPY IRS referencing Libor to TONA OIS. From 2022, except for limited cases if any, new JPY IRS referencing Libor would not be cleared by these CCPs⁶.
- Clearing of TONA OIS is available at CME, Eurex, and LCH, in addition to JSCC.
- Financial Services Agency (Japan)⁷ and the Bank of England⁸ have already mandated the clearing of TONA OIS, to replace JPY Libor IRS.

Additionally, please refer to JSCC's statement in its information on swap under the CFTC Regulation §39.5, addressing the requirement of §39.5(b)(3)(ii)(A) for the requested data on TONA OIS outstanding cleared positions, as Attachment of this letter.

9. *Are there specific thresholds that the Commission should apply with respect to notional amount and liquidity in determining whether swaps referencing SOFR or other alternative reference rates that are not currently subject to the Clearing Requirement should be subject to the clearing requirement?*

⁵ Report from the Sub-Group for the Development of Term Reference Rates is available at the following link (See "2. Alternative benchmark in the JPY interest rate swaps market"):
https://www.boj.or.jp/en/paym/market/jpy_cmte/cmt210326b.pdf

⁶ Eligible clearing lists of IRS:
CME: <https://www.cmegroup.com/trading/interest-rates/cleared-otc.html#>
Eurex: <https://www.eurex.com/ec-en/clear/eurex-otc-clear/interest-rate-swaps>
JSCC: <https://www.jpx.co.jp/jscc/en/cash/irs/product.html>
LCH: <https://www.lch.com/services/swapclear/what-we-clear>

⁷ FSA Weekly Review No.465 (English): <https://www.fsa.go.jp/en/newsletter/weekly2021/465.html>
Japanese: <https://www.fsa.go.jp/news/r3/shouken/20211105/20211105.html>

⁸ Derivatives clearing obligation - modifications to reflect interest rate benchmark reform: Amendments to BTS 2015/2205:
<https://www.bankofengland.co.uk/paper/2021/~link.aspx?id=210237E25A144CFE97ABED411DAA407D&z=z>
Derivatives clearing obligation - introduction of contracts referencing TONA: Amendment to BTS 2015/2205:
<https://www.bankofengland.co.uk/paper/2021/derivatives-clearing-obligation-introduction-of-contracts-referencing-tona-ps>

- **JSCC Comments to this information/comment request**

We believe it would be reasonable for the CFTC to consider the swap trading and clearing activity of any entity in a U.S. banking group, including those entities not registered as swap dealers. The CFTC may request this data on clearing activity of swaps with alternative reference rates from DCOs as necessary to evaluate amendments to the Clearing Requirement.

Given the global nature of swap markets, the CFTC should consider, as a threshold factor, whether each currency's home country regulator is mandating the clearing of swaps referencing alternative reference rates.

10. *Have market participants observed sufficient outstanding notional exposures and trading liquidity in swaps referencing SOFR during both stressed and non-stressed market conditions to support a clearing requirement?*

- **JSCC Comments to this information/comment request**

JSCC does not have any specific comment related to this question.

11. *Is there adequate pricing data for DCO risk and default management of swaps referencing SOFR? Why or why not?*

- **JSCC Comments to this information/comment request**

JSCC does not have any specific comment related to this question, as we do not have a plan to clear swaps referencing SOFR.

12. *What are the challenges that DCOs may face or have faced in accepting new SOFR swaps or swaps referencing other alternative reference rates for clearing that are not currently subject to the Clearing Requirement from a governance, rule framework, operational, resourcing, or credit support infrastructure perspective?*

- **JSCC Comments to this information/comment request**

JSCC has been clearing TONA OIS since 2014, without facing any challenge from a governance, rule framework, operational, resourcing, or credit support infrastructure perspective.

Additionally, please refer to JSCC's statement in its information on swap under the CFTC Regulation §39.5, addressing the requirement of 39.5(b)(3)(ii)(B) for the availability of rule framework, capacity, operational expertise and resources, and credit support infrastructure to clear the contract, as Attachment to this letter.

13. *Would requiring the clearing of swaps referencing SOFR mitigate systemic risk? Please explain why or why not and provide supporting data.*

● **JSCC Comments to this information/comment request**

JSCC does not have any specific comment related to this question, as JSCC has no plan to clear for swaps referencing SOFR.

14. *Would requiring the clearing of swaps referencing SOFR increase risk to DCOs? If so, are DCOs capable of managing that risk? Please explain why or why not and provide supporting data.*

● **JSCC Comments to this information/comment request**

JSCC does not have any specific comment related to this question, as JSCC has no plan to clear for swaps referencing SOFR.

15. *Would adopting a clearing requirement for swaps referencing SOFR or other alternative reference rates that are not currently subject to the Clearing Requirement materially and beneficially affect trading activity in those swaps?*

● **JSCC Comments to this information/comment request**

Adopting swaps referencing alternative reference rates in the Clearing Requirement would beneficially affect activity of swaps referencing those rates, and would be in line with the Pittsburgh G-20 commitments. Central clearing provides highly reliable and transparent arrangements, enabling regulators to easily access the desired swap data of each counterparty.

16. *How and when should the Commission evaluate whether to require clearing for interest rate swaps denominated in USD that reference alternative reference rates other than SOFR, such as credit-sensitive benchmark rates (e.g., Ameribor and BSBY)? Provided that one or more DCOs have made such swaps available for clearing, are there additional factors or considerations beyond those specified in Section*

2(h)(2)(D)(ii) of the CEA that the Commission should consider in determining whether to adopt a clearing requirement for such swaps?

● **JSCC Comments to this information/comment request**

JSCC does not have any specific comment related to this question, as JSCC has no plan to clear for swaps denominated in USD.

17. Would adopting a clearing requirement for a new product that references an alternative reference rate, or expanding the scope of the Clearing Requirement to cover additional maturities, create conditions that increase or facilitate an exercise of market power over clearing services by any DCO that would: (i) adversely affect competition for clearing services and/or access to product markets for swaps referencing alternative reference rates (including conditions that would adversely affect competition for these product markets and/or increase the cost of such swaps); or (ii) increase the cost of clearing services? Please explain why or why not and provide supporting data.

● **JSCC Comments to this information/comment request**

In relation to TONA OIS, it has been accepted for clearing at 3 registered DCOs (CME Clearing, Eurex Clearing, & LCH Ltd) and one DCO exempted from the registration (JSCC). Therefore, we believe that replacing JPY-LIBOR with TONA OIS would not change (i) the existing competition for clearing services of JPY swaps nor (ii) the cost of clearing services, in any regard.

JSCC's clearing fee schedule is available at the following link:

<https://www.jpx.co.jp/jsc/en/cash/irs/fee.html>

18. What new information, if any, should the Commission consider as it prepares to review whether interest rate swaps linked to the alternative reference rates should be subject to a clearing requirement? Are there specific regulatory requirements that the Commission should consider when reviewing overall market conditions, such as uncleared margin requirements implemented by prudential regulators and/or the uncleared margin requirements for swap dealers and major swap participants under part 23 of the Commission's regulations?

● **JSCC Comments to this information/comment request**

In determining the scope of the Clearing Requirement, the CFTC should consider, as a threshold factor, whether each currency's home country regulator is mandating the clearing of swaps referencing alternative reference rates.

As stated in the response to #8 of this section, the Financial Services Agency (Japan) and the Bank of England have already mandated the clearing of TONA OIS, to replace JPY Libor IRS. JSCC is in favour of a harmonised treatment of swaps across jurisdictions, as this would reduce the burden for market participants of complying with clearing mandates across multiple jurisdictions, as well as enhancing the safety and transparency of the swap markets.

New Swap Product Documentation

19. *With respect to all new swap products, including those referencing alternative reference rates, is there additional documentation that the Commission should require DCOs to submit with swap submissions beyond the documentation that Commission regulation 39.5 currently requires?*

- **JSCC Comments to this information/comment request**

We believe the Part 39.5 documentation is already very comprehensive.

We would propose that review of submissions based on Commission regulation 39.5 should duly consider the equivalent home country regulatory and supervisory regime applied to non-U.S. DCOs, particularly DCOs exempted from the registration and registered DCOs under the alternative compliance framework in part 39 of Commission regulation.

Swap Clearing Requirement Specifications

20. *The Commission recognizes that at this time a majority of the swaps subject to the Clearing Requirement fall within the fixed-to-floating swap class. That may change as new alternative reference rates are adopted and will be characterized as OIS or other types of swaps. Should the Commission designate any additional classes of swaps or specifications for purposes of classifying swaps under Commission regulation 50.4? Do DCOs or market participants have suggestions about how to reorganize or structure the classes of swaps subject to the clearing requirement under Commission regulation 50.4? Should the Commission include a new class covering variable notional swaps as a table under Commission regulation 50.4(a)?*

- **JSCC Comments to this information/comment request**

We would request that the CFTC should consider including TONA OIS in the scope of the Clearing Requirement, given the liquidity and completion of the migration from JPY Libor IRS, while we do not think it is necessary to change the categorizations under the specification under 50.4.

In addition, we view that there is sufficient liquidity in Variable Notional Swaps on TONA OIS for them to be included in the scope of the Clearing Requirement.

Cost-Benefit Considerations

21. The Commission requests comment from DCOs and market participants on the nature and extent of any operational, compliance, or other costs they may incur as a result of potential changes to the Clearing Requirement in response to the market-wide shift to alternative reference rates. Please provide supporting data.

● JSCC Comments to this information/comment request

DCOs and market participants have already incurred significant costs to transition LIBOR swaps denominated in non-USD currencies to alternative reference rates. Therefore, we do not believe there would be any additional costs to be borne by DCOs and market participants if the CFTC includes alternative reference rates, such as TONA OIS, in the Clearing Requirement.

Rather, amendments of the current Clearing Requirement to include swaps with alternative reference rates would maintain the current momentum in the shift of swaps from bilateral to cleared markets, which would enhance safety and transparency. Furthermore, harmonising OTC swap clearing mandates implemented across various jurisdictions would lower the operational and compliance burden for market participants of complying with differing clearing mandates, where they are active across multiple jurisdictions.

We are at your disposal to address any questions or requests for additional information⁹. Should you have any questions on the attachments or any other requests, please do not hesitate to contact Tetsuo Otashiro, Head of Clearing Planning, at +81-50-3361-0928 or by email to t-otashiro@jpx.co.jp.

⁹ In addition to this letter and Attachment, please refer to the two sets of the referential documents.

Yours sincerely,



Mr. Masaki SHIZUKA

President & CEO

Japan Securities Clearing Corporation

Appendix 1

Outlines of JSCC's LIBOR conversions

Outlines concerning Handling of Conversion of LIBOR Referencing Swaps to OIS, etc.

September 7, 2021
Japan Securities Clearing Corporation

I. Purpose

In the announcement of ICE Benchmark Administration, the administrator of LIBOR, on March 5, 2021, "Feedback Statement on Consultation on Potential Cessation," and the announcement of Financial Conduct Authority (FCA) on the same day, "FCA announcement on future cessation and loss of representativeness of the LIBOR benchmarks," the permanent cessation of LIBOR publication as of December 31, 2021, excluding certain tenors of USD LIBOR, was announced.

To deal with the permanent cessation of JPY LIBOR publication in JSCC's IRS Clearing Service, JSCC will establish required frameworks for conversion of IRS Cleared Contracts referencing JPY-LIBOR-BBA as their Floating Rate Option to JPY-TONA-OIS Compound (hereinafter referred to as "OIS Conversion"), exclusion of IRS referencing JPY-LIBOR-BBA as their Floating Rate Option from eligible IRS Transactions and other necessary procedures.

II. Outlines

Item	Description	Remarks
I. Implementation of OIS Conversion and Make JPY-LIBOR Ineligible for Clearing		
1. Implementation of OIS Conversion		
(1) OIS Conversion Method	<ul style="list-style-type: none">IRS Cleared Contracts referencing JPY-LIBOR-BBA as their Floating Rate Option existing as of the close of business on the day designated by JSCC will be replaced with IRS Cleared Contracts referencing JPY-TONA-OIS Compound as their Floating Rate Option in a manner prescribed by JSCC.	<ul style="list-style-type: none">The day designated by JSCC will be December 3, 2021.IRS Cleared Contracts referencing JPY-LIBOR-BBA as their Floating Rate Option for which the interest rate applicable to the final calculation period will be fixed on or before the date of permanent discontinuation of JPY LIBOR publication (December 31, 2021) will not be subject to the OIS Conversion.

Item	Description	Remarks
(2) Fee	<ul style="list-style-type: none"> • Fee shall be as follows: <ul style="list-style-type: none"> ➤ Residual LIBOR Special Fee Monthly fee of JPY500/IRS Cleared Contract referencing JPY-LIBOR-BBA as its Floating Rate Option remaining as of the end of Oct. and Nov. 2021. ➤ Conversion Fee JPY3,500 per Cleared Contract subject to OIS Conversion. 	<ul style="list-style-type: none"> • Other details of OIS Conversion shall be separately prescribed by JSCC. • Under the rules, the process is as described on the left. However, system-wise, IRS Cleared Contracts referencing JPY-LIBOR-BBA as their Floating Rate Option will be terminated, and, at the same time, new Cleared Contracts referencing JPY-TONA-OIS Compound as their Floating Rate Option will come into existence. • Residual LIBOR Special Fee shall be set for Clearing Members and Affiliates. Conversion Fee shall be set for Clearing Members, Affiliates and Clients. • No annual limits shall be set for Class C shareholder Clearing Members and their Affiliates. • Conversion Fee is the fee for one-time OIS conversions to be implemented as of December 3, 2021 and as of December 30, 2021 (see 1.(1) and 2. Remarks) and conversion of trades into IRS referencing JPY-TONA-OIS Compound as their Floating Rate Option to be implemented on and after January 4, 2021 (see 2. Remarks).
2. Make JPY-LIBOR-BBA Trades Ineligible for Clearing	<ul style="list-style-type: none"> • After the implementation of the OIS Conversion, IRS Transactions referencing JPY-LIBOR-BBA as their Floating Rate Option will be ineligible for clearing. 	<ul style="list-style-type: none"> • Up to Dec. 30, 2021, JSCC clears swaps referencing JPY-LIBOR-BBA as their Floating Rate Option that would come into existence as a result of swaption exercise as

Item	Description	Remarks
		<p>eligible trades for clearing. Then, JSCC will implement OIS conversion with respect to IRS Cleared Contracts referencing JPY-LIBOR-BBA as their Floating Rate Option that exist as of the end of business on Dec. 30, 2021 in a manner prescribed by JSCC.</p> <ul style="list-style-type: none"> For certain period of time after Jan. 4, 2022, any IRS referencing Fallback Rate(TONA) as its Floating Rate Option that would come into existence as a result of swaption exercise will be converted to IRS referencing JPY-TONA-OIS Compound as its Floating Rate Option in a manner prescribed by JSCC, and then the converted IRS will be cleared.
<p>II. Expansion of Clearing Eligibility of JPY Denominated IRS</p> <p>1. Extension of Remaining Period to Maturity of JPY TIBOR (D-TIBOR) Referencing Trades</p> <p>2. Make Transactions Referencing 2021 ISDA</p>	<ul style="list-style-type: none"> From viewpoint of diversification of solutions to prepare for market change due to the permanent cessation of JPY-LIBOR-BBA publication, the remaining period to the Termination Date of the IRS Transactions eligible for clearing referencing JPY TIBOR (JPY-TIBOR-17097 and JPY-TIBOR) will be extended to 30 years. IRS Transactions governed by the 2021 ISDA Definitions which are the same coverage as the IRS Transactions currently eligible 	<ul style="list-style-type: none"> Currently, JSCC clears IRS Transactions referencing JPY-TIBOR-17097 with remaining period up to 20 years. As to IRS Transactions currently eligible for clearing at JSCC, there will be changes in the definition of Floating Rate

Item	Description	Remarks
Definitions Eligible for Clearing	for clearing will be eligible IRS Transactions for JSCC clearing.	<p>Option in the 2021 ISDA Definitions. So, the rules will be amended to cover the Floating Rate Option after change (JPY-TIBOR, JPY-Euroyen TIBOR and JPY-TONA-OIS Compound).</p> <ul style="list-style-type: none"> ISDA Definitions to govern Cleared Contracts will be changed from 2006 ISDA Definitions to 2021 ISDA Definitions.
III. Implementation Timing	<ul style="list-style-type: none"> To be implemented on December 6, 2021. 	<ul style="list-style-type: none"> Residual LIBOR Special Fee described in I.1.(2) to be applied from the last day of Oct. 2021.

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