



18 April 2024

To: Japan Securities Clearing Corporation

Dear Sirs/Madams

Introduction of Stress Add-on IM and Partial Revision of Clearing Fund Calculation Method in Listed Financial Derivatives Clearing Service

FIA¹ appreciates the opportunity to provide comments on JSCC's proposed "Introduction of Stress Add-on IM and Partial Revision of Clearing Fund Calculation Method in Listed Financial Derivatives Clearing Service."

Please find below our comments. Unless otherwise defined, capitalised terms used in this letter will bear the same meanings ascribed to them in the consultation paper.

Item 1 - Establish Framework of Charging Initial Margin Add-on based on Stress Loss Over IM in Listed Financial Derivatives Clearing Service

We are supportive of mechanisms that promote a "defaulter-pays" approach. This includes requiring additional margin from members with exceptionally high exposures, thereby limiting the potential drain on mutualized default resources by any single member.

While SLOIM-based add-ons may be considered, they should not replace an adequately sized Default Fund. Additionally, these add-ons should only be collected from participants with high stress losses compared to others. As demonstrated by JSCC, relying on Stress Risk Add-on Margin (**SAM**) significantly reduces the mutualized resources available for defaults, ultimately limiting the financial resources available to JSCC through assessments. Furthermore, JSCC's back-testing results suggest SAM exhibits procyclicality at the member level, raising concerns about potential instability.

As the PFMI aptly points out, a procyclical add-on charge could exacerbate instability during periods of increased market volatility or stress, especially where a CCP applies add-ons linked to counterparty

¹ FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from about 50 countries as well as technology vendors, law firms and other professional service providers. FIA's mission is to support open, transparent and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. As the principal members of derivatives clearinghouses worldwide, FIA's clearing firm members play a critical role in the reduction of systemic risk in global financial markets. Further information is available at www.fia.org.



credit risk. To enhance predictability for participants, we encourage the JSCC to fully disclose stress testing scenarios to allow participants to anticipate potential margin calls.

In light of the above, we strongly advocate for strengthening the base initial margin methodology instead of utilizing SAM to adjust the balance between defaulter-pays and mutualized default resources.

We also wish to highlight some specific comments and requests for clarity:

- a. The stress add-on logic should be incorporated into the standard margin calculation logic files. This would enable system vendors to readily access the data, allowing members to seamlessly pass on these amounts to their clients.
- b. To enhance member understanding of the methodology, can JSCC provide numerical examples?
- c. We seek clarification on how stress loss will be calculated. Specifically, will the calculation be based on exposures by individual contract, contract class, or overall account position?
- d. There appears to be a discrepancy between Point 4 and Point 5 regarding the calculation frequency of the stress add-on. Point 4 states a calculation at the end of each business day, while Point 5 suggests the possibility of intraday calculations. Please can JSCC clarify.

Item 2 - Revise Clearing Fund Allocation Method in Listed Financial Derivatives Clearing Service

We welcome the transition to DF contributions based on uncollateralized stress loss. To ensure a fair and effective allocation, a scheme that allocates at least 50% of contributions based on the SLOIM rate is preferred.

We welcome the opportunity to work with JSCC to address these comments. Please feel free to contact me or TzeMin Yeo, Head of Legal & Policy, Asia Pacific at tmyeo@fia.org should you wish to further discuss.

Yours

A handwritten signature in black ink, appearing to read 'Bill Herder', written in a cursive style.

Bill Herder
Head of Asia-Pacific