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6 August 2026

To: Japan Securities Clearing Corporation

Dear Sirs/Madams

JSCC - Partial Revision of Clearing Fund Consumption/Calculation/Deposit Segmentation in Listed Derivatives Clearing Service

FIA[1] appreciates the opportunity to provide comments to JSCC's consultation paper on "Partial Revision of Clearing Fund Consumption/Calculation/Deposit Segmentation in Listed Derivatives Clearing Service".

We recognise that the proposed consolidation has the potential to reduce the aggregate clearing fund requirement, simplify operations and enable more efficient funding management. At the same time, these benefits should be balanced against the implications of combining clearing qualifications with materially different participant and risk profiles. These implications should be carefully assessed and appropriately reflected in the calibration and loss-allocation framework. The revised framework should preserve transparent and risk-sensitive loss allocation and avoid material cross-product subsidisation between clearing qualifications.

Against this background, we set out below observations and requests for clarification regarding the structure, calibration and operation of the proposed framework.

KEY OBSERVATIONS ON THE PROPOSALS

1. Clearing Fund Structure, Calculation and Deposit Requirements

1.1. Overall Supporting Analysis and Review

At an overarching level, we request further information on the risk and stress analysis supporting the proposed methodology. This should include details of the scope and results of the backtesting undertaken, including the relevant testing windows, assumptions, representativeness and sensitivity testing. The analysis should also demonstrate that the

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[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.

proposed Cover 2 framework remains robust and that the resulting reduction in clearing fund requirements remains appropriate under alternative historical stress periods, including periods reflecting energy-price shocks and geopolitical developments[2]. We also request an assessment of the procyclicality of the current and proposed methodologies.

Given that stress losses will continue to be calculated at clearing-qualification level, we also request analysis demonstrating the extent to which any reduction in the aggregate clearing fund requirement is supported by diversification in the underlying participant base and risk profile, rather than arising primarily from the wider mutualisation of resources. This should include participant-overlap analysis (discussed further in Section 1.2), concentration metrics and the distribution of stress losses across clearing qualifications and scenarios.

To help participants understand the practical impact of the proposals, we suggest that JSCC provide an impact analysis and illustrative examples showing how the calculation and allocation methodologies would operate in practice. It would also be helpful for the analysis to address the impact on client clearing, including potential changes in costs and risk profiles, so that participants can explain the implications to their clients.

We would also welcome further information on how frequently JSCC expects to review whether the methodology remains appropriate, how it would be adjusted during periods of heightened volatility and how much advance notice participants would receive of any resulting changes.

1.2. Financial and Commodity Clearing Fund Segmentation

We request that JSCC assess whether financial and commodity derivatives should be supported by the same consolidated clearing fund or by separate or partially separated arrangements. This assessment should consider whether the risks being mutualised are sufficiently compatible and whether the consolidated requirement would be appropriately allocated among clearing qualifications.

The analysis should consider participant overlap across the listed derivatives segments, weighted where appropriate by volumes and risk. It should also consider differences in liquidity and volatility profiles, settlement mechanics and clearing fund call characteristics. We would welcome JSCC's conclusions, including whether any single product group would

[2] We understand that the supporting backtesting covers the period from 27 May 2025 to 27 February 2026 and may therefore not fully capture subsequent periods of elevated commodity-market volatility.

drive the size and risk profile of the consolidated clearing fund. This information would help participants assess whether the proposed degree of mutualisation is appropriate.

For example, the largest participant's clearing fund requirement may be driven solely by positions in Index and JGB Futures, while it has no positions in other qualifications like Rubber Futures. If part of the clearing fund is allocated to other clearing qualifications, there is a concern that this could result in under-allocation to Index and JGB Futures.

Similarly, another participant may have the largest positions in Rubber Futures but may not clear other product groups. If those positions do not drive the clearing fund amount attributed to Rubber Futures, there could be a corresponding under-allocation to that clearing qualification. These risks could become more material if commodity volumes increase.

Depending on the outcome of that analysis, JSCC could consider maintaining separate or partially separate clearing funds for financial and commodity derivatives. We understand that participant overlap across Index, JGB and Commodity Futures may be limited, with certain clearing participants active exclusively in commodity products. If confirmed, this would further support consideration of separate arrangements. Combining all commodity products within a separate commodity clearing fund could also help smooth fluctuations in clearing fund requirements across the commodity qualifications.

Alternatively, JSCC could revisit the structure once the aggregate requirement attributable to commodity products represents between 10% and 20% of the overall FIEA Clearing Fund requirement.

1.3. Clearing Fund Calculation Method

a. Calculation of the Total Requirement

Liquidity and Concentration Add-Ons

We recommend that liquidity and concentration margin add-ons be excluded from the clearing fund calculation. Specifically, these add-ons should not be deducted when calculating SLOIM.

Liquidity and concentration add-ons address risks arising from illiquid or concentrated positions. The stress scenarios used for clearing fund sizing are generally not designed to capture idiosyncratic stress that may arise from such

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positions. Excluding these add-ons from the SLOIM deduction would support the clearing fund's calibration to Cover 2 while preserving the additional cushion within the defaulter's margin resources.

This approach is consistent with practices at certain European CCPs such as Eurex, where liquidity and concentration risks are addressed through dedicated margin add-ons rather than through the clearing fund.

<u>Additional Calibration Safeguards</u>

We recommend introducing an appropriately calibrated buffer above the calculated clearing fund requirement and a volatility floor limiting the extent to which the requirement may decrease from one month to the next.

These safeguards would help mitigate the risk of under-coverage across common stress scenarios and multiple product groups, while reducing cliff effects and procyclicality. Their calibration should be supported by historical stress analysis, sensitivity testing and an assessment of the impact on participants.

b. Allocation among Clearing Qualifications

We seek clarity on the proposed methodology under point 1(2)(ii) for allocating the total clearing fund requirement among clearing qualifications. Our understanding is that JSCC would first determine, for each of the preceding 20 business days, the stress scenario under which the Base PML is largest. JSCC would then average the qualification-level Base PML amounts over that period and allocate the total clearing fund requirement on a pro rata basis according to the average Base PML for each clearing qualification.

We request (i) confirmation that this understanding is correct and (ii) further clarity on why this methodology is proposed instead of a direct pro rata Cover 2 methodology aligned with the calibration of the total clearing fund requirement.

c. Allocation among Clearing Participants

We suggest that the clearing fund requirement be allocated among clearing participants entirely on the basis of SLOIM, rather than the current weighting of 90% initial margin and 10% SLOIM for financial products and 50% initial margin and 50% SLOIM for commodity products.

As the clearing fund is intended to mutualise tail risk not covered by initial margin, each participant's contribution should be proportionate to its share of that risk. Under the current structure, participants with high initial margin driven by directional but liquid exposures could bear a disproportionate share of the clearing fund despite relatively low stress losses above initial margin. Conversely, participants with wrong-way or gap/jump risks could generate relatively high SLOIM without a commensurate increase in initial margin. This could result in their clearing fund contributions being lower than their share of the uncovered risk.

d. Minimum Cash Deposit

We would welcome further explanation of the proposed minimum cash-deposit requirement and its interaction with the broader range of eligible collateral. As the range of eligible collateral is broad and includes equities and corporate bonds, the proposed approach may permit a considerable proportion of clearing fund requirements to be met using less liquid assets.

We therefore request JSCC's rationale for the proposed approach and clarification of whether it would consider a simpler minimum cash requirement expressed as a percentage of each participant's total clearing fund requirement (e.g. 20% or 30%).

2. Loss Allocation, Juniorisation and JSCC Resources

2.1. Loss Sharing and Juniorisation

We seek clarity on how losses would be allocated in practice and request clear worked examples showing how the default waterfall and Clearing Qualification Juniorisation would operate under stressed scenarios.

We recognise that JSCC's proposal already prioritises resources attributed to the affected clearing qualification. We nevertheless ask JSCC to consider whether the default waterfall could provide for stronger qualification-specific sequencing before losses are mutualised across the wider clearing fund. This could include making greater use of resources available from participants active in the affected qualification before relying on participants with no activity in that qualification. Stronger qualification-specific sequencing could help reduce cross-product subsidisation, limit the spill-over of losses and reinforce incentives for product-specific risk management.

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We also seek confirmation that the consolidation would not otherwise change how the existing assessment mechanics within the listed derivatives clearing service operate in practice.

2.2. JSCC Skin in the Game

We would welcome further information on how JSCC's skin in the game would be aggregated and calibrated under the consolidated structure, including the methodology used and the resulting absolute amount.
The proposed waterfall also does not appear to include a second layer of JSCC resources after the initial JSCC contribution has been exhausted. As this approach does not appear to align with practices in other jurisdictions (such as those of European CCPs or with the relevant requirements under EMIR), we would welcome further explanation of JSCC's rationale.

2.3. Assessment Exposure

While consolidation may reduce the overall clearing fund requirement, it could materially increase assessment exposure for participants in smaller clearing qualifications.

Although the First Special Clearing Charge would remain capped at three times the clearing fund requirement, combining clearing qualifications of materially different sizes such as the smaller JGB and commodity qualifications with the larger Index Futures qualification could substantially dilute the practical effect of the existing qualification-specific caps.

Based on some estimates comparing the current clearing fund requirement for each qualification with the pro forma consolidated requirement shared by JSCC, the maximum First Special Clearing Charge exposure could be equivalent to approximately 30 times the current JGB Futures clearing fund requirement and 75 times the current commodity clearing fund requirements on a qualification-level comparison.

To help participants assess the impact of the proposed approach, we request:

i. confirmation of the estimates above and clarification of the requirement against which the three-times cap would be calculated; and
ii. a participant-level impact assessment comparing current and proposed clearing fund contributions, assessment exposure, and ranking clearing fund profile. Where feasible, the assessment should also include worked examples showing how the

three-times cap would apply to participants active in one, several or all clearing qualifications.

3. Margin Coverage and Precious Metals MPOR

We request further explanation of the rationale and supporting evidence for increasing the MPOR for the precious-metals clearing qualifications. This should include relevant analysis of market concentration, market depth, liquidity and bid-offer dynamics, as well as whether the longer MPOR reflects physical-delivery considerations, close-out assumptions or other factors.

We understand that JSCC's Quantitative Disclosure indicates that initial margin coverage for both Index Futures and Precious Metal Futures fell below the stated 99% target during February 2026. To the extent margin adequacy was one factor informing the proposed increase, it would be helpful to understand why the MPOR change is limited to precious metals when the reported coverage for Index Futures also fell below the target.

We also request clarification of whether and how the MPOR change is intended to address risks associated with the clearing fund consolidation, as distinct from broader margin-adequacy considerations. JSCC could also consider whether a consistent MPOR approach would be appropriate across commodity products or explain the different risk characteristics supporting the use of different MPOR assumptions.

Finally, we request details of the intended implementation approach and timeline, together with a participant-level impact assessment showing how the proposed change would affect margin requirements for participants clearing the relevant precious-metals products.

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

Yours Sincerely

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