ISDA Safe, Efficient Markets

6 August 2026

To: Japan Securities Clearing Corporation

By email

Re: Partial Revision of Clearing Fund Consumption/Calculation/Deposit Segmentation in Listed Derivatives Clearing Service

Dear Sir/Madam,

The International Swaps and Derivatives Association ("ISDA")[1], on behalf of its members, welcomes the opportunity to comment on Japan Securities Clearing Corporation's ("JSCC") consultation paper proposing to consolidate the clearing fund consumption/calculation/deposit segmentation across the six Clearing Qualifications under the Financial Instruments and Exchange Act ("FIEA") (the "Proposal").

Our members have followed this initiative closely, including through JSCC's earlier bilateral engagements ahead of the formal publication of the Proposal, and we appreciate JSCC's continued dialogue with the industry on this important structural reform. We set out below our members' general observations followed by specific comments.

1. General Observations

ISDA members are broadly supportive of JSCC's objective of consolidating the clearing fund framework to achieve greater capital efficiency, diversification benefit, and operational simplicity. This direction is consistent with the default fund framework adopted by other major central counterparties globally, and members recognise that a larger, pooled default fund can also reduce the likelihood that JSCC will need to resort to assessment calls (Special Clearing Charges) on surviving Clearing Participants.

To better understand the proposed changes and their impact, members would like further clarity on the underlying participant base and risk profile, the mechanics of cross-product loss mutualisation, the robustness of the backtesting conducted on the clearing fund, the practical impact of the Proposal on Clearing Participants, JSCC's intentions regarding the reallocation of its resources exposed to losses in the default waterfall, i.e., its skin-in-the-game ("SITG"), and the considerations behind the proposed increase in MPOR for precious metal contracts.

[1] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 79 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org.

2. Participant overlap and risk structure

We wish to highlight that JSCC's overarching objective in consolidating the clearing fund should be to preserve the current transparent, risk-sensitive framework for the allocation of default losses, without creating material cross-product subsidisation between Clearing Qualifications with materially different risk profiles.

Members note that while the proposed framework results in a reduction in aggregate clearing fund requirements, the consultation material provides limited information on the driver behind this reduction. Members would like to understand the participant base and risk profile across the six Clearing Qualifications. To elaborate, members understand that Index Futures and JGB Futures (financial futures segment) currently account for more than 95% of the aggregate clearing fund pertaining to the combined Clearing Qualifications.[2] If participant overlap between this cluster and the commodity-related Clearing Qualifications (Precious Metal Futures, Rubber Futures, Agricultural Futures and Petroleum Futures) is not significant, Clearing Participants that are active only in Index Futures and/or JGB Futures[3] would become additionally liable for losses arising in the commodity-related segments under the consolidated framework and vice versa.

Hence, we propose for JSCC to conduct and share an analysis of participant concentration and overlap, i.e., how many Clearing Participants are active in each Clearing Qualification and the overlap between them. We would ask that this analysis weight the overlap assessment by trading volume and risk exposure. Should JSCC's conclusion from this analysis prove that participant overlap is limited with no huge overlap, we respectfully ask that JSCC consider splitting the consolidated fund into separate funds for commodity-related and financial futures Clearing Qualifications.

3. Cross-product loss mutualisation

We welcome JSCC's juniorisation mechanism, under which surviving Clearing Participants' clearing fund contributions for the Clearing Qualification in which the default occurs are applied first to absorb losses before contributions for other Clearing Qualifications are used. While this structure appropriately targets loss absorption by Clearing Participants who have exposure in the defaulting segment, it only partially mitigates the contagion risk across the six FIEA Clearing Qualifications. The juniorisation mechanism draws on surviving Clearing Participants' remaining FIEA Clearing Fund Requirement across all six FIEA Clearing Qualifications on a pro-rata basis, regardless of which Clearing Qualification each survivor is actually active in — i.e., Clearing Participants active only in the financial futures Clearing Qualifications could be required to mutualise losses arising from a default in the commodity-related Clearing Qualifications, and vice versa. This creates a transfer of risk between fundamentally different and unrelated product segments and undermines the principle that Clearing Participants should primarily bear risks associated with the markets in which they participate. Hence, we emphasise our recommendation that JSCC establish separate clearing funds for commodity-related and financial futures Clearing

[2] JSCC's Q1 2026 Public Quantitative Disclosure (PQD), page 15.
[3] Members understand from bilateral conversation with JSCC, as well as JSCC's List of Clearing Participants website that some clearing participants are only active in commodities-related segments with no activity in the financial futures segment and vice versa.

Qualifications, which would reduce the spillover risk while still achieving a simpler and more operationally efficient framework than the present structure.

Members further note that, under the proposed clearing fund calculation methodology, JSCC calculates stress losses independently at the Clearing Qualification level for each Clearing Participant and then aggregates these to identify the Clearing Participants with the largest and second-largest overall stress loss for Cover-2 sizing purposes. We understand that exposure under the Index Futures Clearing Qualification currently accounts for a substantial majority of aggregate stress loss, meaning the overall clearing fund size is driven predominantly by that Qualification's risk. In this regard, we suggest that JSCC ensure that its margin methodology remains sufficiently robust to appropriately capture the risk profile of each Clearing Qualification.

Additionally, to address volatility in default fund requirements[4], JSCC could consider using anti-procyclicality tools.

4. Robustness of backtesting of clearing fund

Members understand, through bilateral engagements with JSCC, that JSCC's backtesting indicates an average reduction of aggregate clearing fund requirement under the proposed framework, with reductions also observed at each Clearing Qualification level. While we welcome this outcome, members would like to highlight concerns on suitability of the backtesting period and whether the lower clearing fund requirement is sustainable during periods of volatility, especially for the commodity derivatives segment. We would appreciate JSCC's clarification regarding the following:

- The full scope and detail of the backtesting exercise undertaken, including the specific historical window(s) tested, the key assumptions used, the extent to which the sample is considered representative of stressed conditions, and the results of any sensitivity testing performed;

- Whether the backtesting period is considered representative of a full market cycle, including periods of elevated commodity price volatility, and whether the recent occurrence of significant volatility related to energy-led inflation and geopolitical stress was included in this backtesting period;

- Whether JSCC has separately tested the model against alternative historical windows to confirm the reduction in clearing fund requirement is sustainable and the underlying Cover-2 sizing remains robust;

- Whether JSCC can share a side-by-side comparison of stress test results under the existing segregated funds and the proposed consolidated fund, and to clarify the specific factors that drive Cover-2 sizing under the consolidated framework; and

- The frequency with which JSCC intends to review the clearing fund calculation methodology to confirm it remains appropriate, particularly during periods of greater

[4] JSCC's Q1 2026 PQD shows that the default fund requirements for Precious Metals increased by more than 3 times at the end of Q3 2025 compared to the end of Q2 2025.

volatility, and the advance notice that would be given to members should any change be required.

5. Clarifications on the impact of the Proposal

In addition to the above, members would find it helpful if JSCC could provide the following supporting information and illustrative materials for members to better understand the mechanics and evaluate the impact of the Proposal on their clearing arrangements:

- An evaluation of the mechanics of a single consolidated fund as against the existing segregated funds, including default-management incentives, and clearing participants actual exposure to the segment in which a default occurs;

- An illustrative worked example of the determination of the Total Clearing Fund and its allocation between individual Clearing Participants under the proposed methodology, including the resulting impact on liquidity calls, margin, funding costs, capital and risk assessment at a Clearing Participant level;

- The estimated change in the quantum of the aggregate clearing fund under the proposed framework as compared with the existing level (reported at approximately JPY 467 billion as of Q1 2026[5]);

- A worked example of the loss allocation waterfall and juniorisation mechanics under a stress scenario, showing how losses would be allocated in practice;

- How the clearing fund computation for a combined Futures segment would address current differences in initial margin model parameters across segments, including model type (Expected Shortfall versus Value-at-Risk) and look-back period; and

- Confirmation that the proposed consolidation does not entail any change to the assessment call (Special Clearing Charge) mechanics applicable under the FIEA Clearing Qualifications.

6. Skin-in-the-game (SITG)

We would like to understand how JSCC intends to reallocate skin-in-the-game under the consolidated framework. We would see it as a sign of confidence in JSCC's margin model if the total SITG were at least the sum of the SITG currently attributed to the Clearing Qualifications being consolidated.

We understand that some SITG is already shared across overlapping segment groupings under the existing structure. For example, approximately JPY 3.87 billion of SITG is presently common between the commodity segments traded on the Osaka Exchange (Precious Metal Futures, Rubber, Agricultural and Petroleum products) and those traded on Osaka Dojima (Energy, Sugar, Agricultural and Precious Metal products), and separately that approximately JPY 20 billion is

[5] JSCC's Q1 2026 PQD Consolidated Spreadsheet, Disclosure Reference 4.1.4

common between Cash Securities and JGB/Index Futures[6]. We would welcome JSCC's proposed methodology for reallocating these amounts under the consolidated framework, together with the resulting absolute SITG figure.

7. Margin period of risk (MPOR) for precious metal contracts

We welcome the proposed increase in the MPOR for precious metal contracts. Within a consolidated default fund that recognises netting benefits across contracts, default management should be conducted on a combined basis for all relevant contracts, which means that MPOR should be aligned accordingly.

Members note from JSCC's Q1 2026 PQD that the initial margin backtesting coverage for both Index Futures and Precious Metal Futures fell below the stated 99% coverage target during February 2026[7]. The disclosure further stated that while the coverage ratio for Index Futures recovered to above 99% in April, the margin methodology for Precious Metals Futures was undergoing review. To better understand the rationale behind the proposed increase in MPOR for Precious Metals Futures and the impact of this, members would welcome further information regarding:

- The analysis supporting the increase in MPOR for Precious Metal Futures, including the extent to which the change reflects remediation of the margin coverage shortfall referenced above, physical delivery considerations specific to precious metal contracts, or other liquidation and stress-period factors;

- The extent to which the proposed MPOR enhancement is separately intended to address the additional cross-product mutualisation risk arising from the Proposal, distinct from remediating the pre-existing coverage shortfall referenced above;

- Whether JSCC has assessed whether the revised margin methodology will continue to achieve its stated coverage objectives across all affected product groups over a full economic cycle; and

- JSCC's intended implementation approach and timeline for the MPOR uplift.

Separately, we propose that JSCC consider whether the MPOR for the other commodity-related contracts within the FIEA Clearing Qualifications, namely Rubber Futures, Agricultural Futures and Petroleum Futures, should similarly be increased to two days, or alternatively provide further explanation for maintaining different MPOR assumptions across commodity product groups, and how these different MPOR would be aligned with the default management process for these products. Such clarification would help participants assess whether the margin framework appropriately reflects default management and liquidation risks on a consistent basis within the consolidated clearing framework.

[6] JSCC's Q1 2026 PQD Consolidated Spreadsheet, Disclosure Reference 4.1.1
[7] JSCC's Q1 2026 PQD, page 8.

Conclusion

ISDA would welcome the opportunity to discuss the points raised in this letter further, either in writing or through a follow-up meeting, and look forward to continuing constructive dialogue with JSCC as the Proposal progresses toward implementation.

Please do not hesitate to contact Ulrich Karl (UKarl@isda.org), Tomoko Morita (TMorita@isda.org), or Shule Peh (SPeh@isda.org) at ISDA should you have any questions regarding the above.

Yours faithfully,

For the International Swaps and Derivatives Association, Inc