

Based on your firm's status as a SwapClear Clearing Member at LCH and a Registered Financial Institution, you should scrutinize the following articles in Chapter 2 of the JSCC Interest Rate Swap (IRS) Clearing Business Rules, as they present requirements that are either specific to the Japanese regulatory environment or materially different from LCH's framework.

Summary of Key Articles to Scrutinize

The primary areas of focus will be JSCC's specific quantitative financial requirements, its unique "Parental Guarantee" framework, requirements for local representation in Japan, and its prescriptive risk management triggers. While your firm meets the high standards of LCH, JSCC's rules contain nuances that require careful review.

Here is a detailed breakdown of the articles in Chapter 2 that warrant your closest attention:

1. Financial Requirements and Capital Ratios (Article 9 & 28)

These articles outline the core financial stability requirements. While conceptually similar to LCH's criteria, the specifics are tied to Japanese standards and thresholds.

- **Article 9.1.(2).b - Financial Basis for a Registered Financial Institution:**
 - **Net Capital:** You must have a Net Capital of at least JPY 5 billion or USD 50 million, whichever is lower¹¹¹¹. This is comparable to LCH's requirement of USD 50 million for SwapClear members².
 - **Capital Adequacy Ratios:** This is a critical area. JSCC requires you to meet specific capital adequacy ratios based on either the "Uniform International Standard" (Basel III) or the "Japanese Standard"³³³³. For an institution under the Uniform International Standard, this includes:
 - Common Equity Tier 1 ratio of more than 4.5% (or 5.625% if JSCC deems necessary)⁴.
 - Tier 1 ratio of more than 6% (or 7.5% if JSCC deems necessary)⁵.
 - Total Capital ratio of more than 8% (or 10% if JSCC deems necessary)⁶.
 - **Reason to Scrutinize:** LCH's criteria are less prescriptive in the public procedures,

focusing on a minimum internal credit score and appropriate regulatory authorization⁷. You must verify that your firm's specific capital ratios, as calculated under these precise definitions, consistently meet JSCC's thresholds. These same ratios are referenced in

Article 28 as triggers for potential suspension or revocation of clearing qualification⁸⁸⁸⁸⁸⁸⁸⁸⁸.

- **Article 9.2 - Requirements for a Guaranteed Applicant:**
 - **Parental Guarantee Mechanism:** If your firm relies on a parental guarantee, JSCC has a highly detailed and specific framework. It includes requirements for the Parent Company's own Net Capital, which increases based on the number of entities it guarantees⁹⁹⁹⁹.
 - **Reason to Scrutinize:** This formalized "Parental Guarantee" definition and its associated capital calculations are unique to JSCC's rulebook. LCH does not have a comparably defined public framework; it assesses group support as part of its overall credit risk analysis¹⁰. If you plan to use a guarantee, this section requires thorough legal and financial review to ensure compliance.
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2. Jurisdictional and Operational Requirements (Articles 13 & 14)

These articles impose operational duties that may require establishing a specific presence or personnel in Japan.

- **Article 13.1 - Clearing Participant Representative:**
 - **Requirement:** A foreign Clearing Participant must designate its "representative in Japan" as its IRS Clearing Business representative and notify JSCC¹¹.
 - **Reason to Scrutinize:** This is a significant jurisdictional requirement. While LCH requires appropriate contacts, the explicit mandate for a "representative in Japan" could necessitate establishing a legal presence or formal agency relationship within Japan, which is a considerable operational, legal, and cost hurdle.
- **Article 14 - Person in Charge of Settlement Operation:**
 - **Requirement:** You must appoint a specific person, from among your officers and employees, to be in charge of supervising settlement operations and notify JSCC¹².
 - **Reason to Scrutinize:** While having a designated operations head is standard practice, you must ensure your designated individual meets any implicit or explicit

expectations from JSCC regarding their role, authority, and accessibility.

3. Risk Management and Ongoing Monitoring (Articles 29-2, 29-3, & 32)

JSCC's rules on risk management are highly prescriptive and include explicit triggers for intervention that differ from LCH's more discretionary approach.

- **Article 29-2 & 29-3 - Limiting Risk by Account:**
 - **Requirement:** These articles set hard limits on risk exposure relative to capital. For instance, JSCC may suspend clearing for an account if its Required Initial Margin exceeds 100% of the Clearing Participant's Net Capital¹³. It may also instruct risk management actions if the aggregate Required Initial Margin across all accounts exceeds 400% of Net Capital¹⁴.
 - **Reason to Scrutinize:** LCH retains the right to call for additional margin or take action if it deems capital insufficient for the level of risk, but its public procedures do not set out such explicit, formulaic triggers¹⁵. Your firm must model its expected positions to ensure they do not breach these specific, automatic thresholds under various market scenarios.
- **Article 32 - Increasing Required Initial Margin Due to its Creditworthiness:**
 - **Requirement:** JSCC can increase a participant's Required Initial Margin if its capital ratios fall below certain levels or its creditworthiness deteriorates¹⁶. This is directly linked back to the financial ratios specified in Article 9.
 - **Reason to Scrutinize:** This reinforces the need for continuous monitoring of the specific capital ratios defined by JSCC, as a decline could have immediate financial implications in the form of higher margin requirements.

In conclusion, while your experience as an LCH SwapClear member provides a strong foundation, you must pay special attention to JSCC's Japan-specific capital ratio requirements, its unique Parental Guarantee framework, the requirement for a representative in Japan, and its prescriptive risk-based triggers for intervention. These areas are materially different from the LCH framework and will require dedicated legal, compliance, and financial analysis.