

**Submitted Electronically:** <http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/>

22 March 2023

Financial Stability Surveillance Division  
Hong Kong Monetary Authority  
55/F, Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

Supervision of Markets Division  
Securities and Futures Commission  
54/F, One Island East  
18 Westlands Road  
Quarry Bay, Hong Kong

**Re: Joint consultation paper on proposed amendments to the Clearing Rules for over-the-counter derivative transactions pursuant to global interest rate benchmark reform**

Dear Sir or Madam,

Japan Securities Clearing Corporation (“**JSCC**”) would hereby respectfully submit its comments to the joint consultation paper of the Hong Kong Monetary Authority (“**HKMA**”) and Securities and Futures Commission (“**SFC**”) on proposed amendments to the Clearing Rules for over-the-counter derivative transactions pursuant to global interest rate benchmark reform (“**Joint Consultation Paper**”), which was publicized on the HKMA and SFC websites respectively on 10 March 2023<sup>1</sup>, particularly in relation to OTC interest rate swap (“**IRS**”) denominated in Japanese Yen (“**JPY**”).

**1. Background**

Established in 2002 by Japanese securities exchanges as a cross-market, central clearing organization for the Japanese securities market, JSCC is organized under the Companies Act of Japan as a *kabushiki kaisha* (i.e., a joint-stock corporation). In 2003, JSCC obtained a license from the Prime Minister of Japan as a Financial Instruments Clearing Organization under the Financial Instruments and Exchange Act and commenced its clearing business.

JSCC currently provides clearing services, including those for IRS denominated in JPY, as an ATS-CCP<sup>2</sup>, which is the qualification required for JSCC to provide OTC derivatives clearing services to Hong Kong clearing

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<sup>1</sup> Joint consultation paper on proposed amendments to the Clearing Rules for over-the-counter derivative transactions pursuant to global interest rate benchmark reform (March 2023):

Press Release: <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2023/03/20230310-3/>

Consultation Paper: <https://apps.sfc.hk/edistributionWeb/gateway/EN/consultation/market-infrastructure-and-trading/doc?refNo=23CP2>

<sup>2</sup> Notice of Authorization to Provide Automated Trading Services (31 August 2016):

[https://www.sfc.hk/-/media/EN/files/SOM/ATS/JSCC\\_notice-of-authorization-for-ATS.pdf?rev=016ba1e6d45a4f31872ccc73e833e0d0&hash=C3CB854E6EDC9D37923DE2804981FEBA](https://www.sfc.hk/-/media/EN/files/SOM/ATS/JSCC_notice-of-authorization-for-ATS.pdf?rev=016ba1e6d45a4f31872ccc73e833e0d0&hash=C3CB854E6EDC9D37923DE2804981FEBA)

members, and as a Designated CCP<sup>3</sup>, which makes JSCC available for trading parties to fulfil their mandatory central clearing requirements<sup>4</sup>.

## 2. JSCC's Response to the Joint Consultation Paper in respect of JPY-denominated IRS

***Q1. Do you have any comments regarding our proposed changes as set out in paragraphs 10 and 11 above? If so, please provide details and justifications for your comments, as well as suggestions on how best to address them.***

JSCC agrees with the HKMA and SFC's proposal to replace JPY LIBOR swaps with TONA OIS in its clearing requirement, which we believe exactly follows, not only the direction taken in the home jurisdiction of the JPY currency, but also the transition efforts in the JPY IRS market as a whole. Indeed, in early December 2021, JSCC converted all cleared IRS trades referencing JPY LIBOR to TONA OIS<sup>5</sup>. At the same time, other CCPs clearing JPY LIBOR IRS – CME, Eurex and LCH – did similar conversions to TONA OIS.

JSCC and other CCPs have already completed the transition from JPY LIBOR to TONA OIS, and therefore, it would be appropriate that the clearing requirement for JPY LIBOR IRS should also be replaced with TONA OIS as soon as practicable so that the purposes of the clearing requirements for OTC derivatives agreed at the G20 Pittsburgh summit in September 2009 would be maintained. Otherwise, it would create possibilities that some swap counterparties may prefer to trade uncleared TONA OIS, for whatever reasons, which may undermine the transparency of swap markets, as envisaged by the G20.

In relation to TONA OIS, it is now accepted for clearing at 3 designated CCPs<sup>6</sup> – JSCC, CME, and LCH Limited. Therefore, we believe that replacing JPY LIBOR IRS with TONA OIS would not create any additional costs for the industry.

<sup>3</sup> Notice of Designation (31 August 2016):

[https://www.sfc.hk/-/media/EN/files/SOM/OTC/JSCC\\_notice-of-designation.pdf?rev=364633b25c8d4084b3c63a53ae29b5f9&hash=F010ACF383EB259F7CAD67FE9B7D240D](https://www.sfc.hk/-/media/EN/files/SOM/OTC/JSCC_notice-of-designation.pdf?rev=364633b25c8d4084b3c63a53ae29b5f9&hash=F010ACF383EB259F7CAD67FE9B7D240D)

<sup>4</sup> Other than Japan, JSCC maintains a license as a clearing house in multiple jurisdictions. For details, please see JSCC's regulatory status at the following link: <https://www.jpjx.co.jp/jsc/en/company/regulatory-status.html>

<sup>5</sup> Please see the press release ("**JSCC Completes the Bulk Conversion of IRS Cleared Contracts referencing LIBOR to those referencing TONA (OIS)**") on 6 December 2021 available at the following link: [https://www.jpjx.co.jp/jsc/en/information/news/20211206\\_01.html](https://www.jpjx.co.jp/jsc/en/information/news/20211206_01.html)

<sup>6</sup> List of Designated Central Counterparties for the Purposes of Mandatory Clearing Under Part IIIA of the Securities and Futures Ordinance:

[https://www.sfc.hk/en/Regulatory-functions/Market/Approved-or-authorised-entities/List-of-Designated-Central-Counterparties/?\\_fsi=5TP57rmu](https://www.sfc.hk/en/Regulatory-functions/Market/Approved-or-authorised-entities/List-of-Designated-Central-Counterparties/?_fsi=5TP57rmu)

Should you have any questions or any other requests, please do not hesitate to contact

Yours sincerely,

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Japan Securities Clearing Corporation