

CSDs: Bank of Japan (Japan)

Date: 05 Jul 2010

SMI Markets: Japan

CMIRR Markets: Japan

Roadmap to Reduce Settlement Risks for JGS Trades

The Financial Service Agency (FSA), the Japan Government Bond Clearing Corporation (JGBCC) and the Japan Securities Dealing Association (JSDA) have issued a roadmap to reduce settlement risk for the Japan Government Securities (JGS) trades. The roadmap includes the following:

- The settlement cycle of JGS is to be shortened from T+3 to T+2 by the first half of 2012. Further shortening of the settlement cycle to T+1 will be considered.
- The use of a central counterparty (i.e. JGBCC) for the settlement of JGS trades is to be expanded. JGBCC plans to improve its corporate governance and its liquidity funding by the end of September 2010 and March 2011, respectively. The completion of the JGBCC's system enhancements is expected by May 2011.

The roadmap also mentions the implementation of a fail charge applicable to all JGS trades, effective 1 November 2010. For more details, please refer to our previous newsflash on this matter.

CSD Risk Impact

Bank of Japan (Japan)

CSD Rating: AA-

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = AA

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = AA

Flash Impact = Positive

The shortening of the settlement cycle from T+3 to T+2 and eventually to T+1 should help to reduce counterparty risk exposure although it is not clear that this will apply to cross-border trades. This change should be accompanied with technical adjustments to increase the level of automation of the settlement process. In addition, the greater use of JGBCC for the settlement of JGSs will further help mitigate counterparty risk exposure in the market. Overall it will have a positive impact on Counterparty risk while the impact of introducing the fails charge on Liquidity risk is also 'Positive'.

Market Information Impact

Japan

This information affects the data contained in the Settlement sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

Japan

Market Rating: A+

Market Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = AA-

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = A+

Flash Impact = Positive

The shortening of the settlement cycle from T+3 to T+2 and eventually to T+1 should help to reduce counterparty risk exposure although it is not clear that this will apply to cross-border trades. This change should be accompanied with technical adjustments to increase the level of automation of the settlement process. In addition, the greater use of JGBCC for the settlement of JGSs will further help mitigate counterparty risk exposure in the market. Overall it will have a positive impact on Counterparty risk while the impact of introducing the fails charge on Liquidity risk is also 'Positive'.

Related Flash: [JSDA Amends Guidelines on Real-Time Gross Settlement of JGSs - Update, 16/06/2010 \(click to view\)](#)

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