

FMI Disclosure

Foreign Exchange Yen Clearing System

Responding institution	Japanese Bankers Association
Jurisdiction in which the FMI operates	Japan
Authority regulating, supervising, or overseeing the FMI	The Bank of Japan
The date of this disclosure is	31 July, 2017 ¹
This disclosure can also be found at	None
For further information, please contact	Foreign Exchange Yen Clearing System Administration Office Operations & Clearing System Administration Department. Japanese Bankers Association e-mail : fxycs@zenginkyo.or.jp

I. Executive Summary

General Background of the FMI

The clearing of foreign exchange transactions normally takes place in an interbank system within the financial centers of nations whose currencies are employed as clearing currencies. For Japanese Yen, the Foreign Exchange Yen Clearing System (FXYCS), which was set up and is managed by the Japanese Bankers Association (JBA), handles the clearing of foreign exchange transactions, with operations entrusted to the Bank of Japan (BOJ), and conducted via the Bank of Japan Financial Network System (BOJ-NET).

The JBA manages the FXYCS as one of the JBA's systems to achieve its goals: to contribute to the economic growth of Japan as well as the prosperity of the general population through various activities such as research regarding the monetary economy and bank management, research and planning concerning the improvement of banking businesses, and the promotion of protection for bank users, as well as the increased convenience when using banks, with the aim to develop a sound and healthy banking system of Japan.

¹ This document is the English version of "FMI Disclosure on Foreign Exchange Yen Clearing System" which was published on 31 July, 2017 in Japanese.

The FXYCS handles the exchanging and clearing of yen transactions related to foreign exchange, including large-value transactions, which encompasses dealings in foreign exchange markets, transfers to yen accounts of correspondents, and yen-denominated fund transfers. The FXYCS consigned the operations of foreign exchange yen clearing to the BOJ and the operations are conducted in the BOJ-NET, the settlement infrastructure which was built for the efficient and safe settlement of funds and Japanese government bonds (JGBs), between financial institutions and the BOJ.

All of the FXYCS transactions are conducted through real-time gross settlement (RTGS) using central bank money.

Participants

As of the end of June 2017, the FXYCS has a total of 200 financial institution participants: 26 direct participants that directly participate in the BOJ-NET, 173 indirect participants, and the CLS Bank.

【Participants】 (as of the end of June 2017)

	Participants	Indirect Participants	
		Direct Participants	Indirect Participants
City Banks	5	4	1
Regional Banks	64	0	64
Trust Banks	7	3	4
Regional Banks II	37	1	36
Foreign Banks	53	12	41
<i>Shinkin</i> Banks	23	2	21
Others (Note 1)	10	4	6
TOTAL	200 (Note 2)	26	173

(Note 1) Others are Sony Bank, SBI Sumishin Net Bank, Daiwa Next Bank, Shinhan Bank Japan, ShinGinko Tokyo, Shinsei Bank, Aozora Bank, The Shoko Chukin Bank, The Shinkumi Federation Bank and The Norinchukin Bank.

(Note 2) CLS Bank is included in the number of total participants.

Legal and Regulatory Framework

The JBA, which manages the FXYCS, is “the general incorporated association” based upon the “Act on General Incorporated Associations and General Incorporated Foundations” (the Act).

The management of the FXYCS is stipulated as one of the tasks in the Articles of Incorporation of the Association of the JBA which was decided in a general meeting of the JBA.

No specific laws or regulations to rule the FXYCS exist, but the FXYCS is managed and regulated by the “Rules Governing the Foreign Exchange Yen Clearing System” (FXYCS Rules) and the “Detailed Enforcement Regulations for the Operations of the Foreign Exchange Yen Clearing System” (FXYCS Detailed Regulations), which were stipulated upon the basis of business law schemes. The FXYCS Rules stipulate organization and business relating to the FXYCS, and the FXYCS Detailed Regulations stipulate necessary matters concerning the conduct of the FXYCS Rules.

The FXYCS is subject to the oversight of the BOJ.

Main Risks

The FXYCS maintains the reliability of the legal basis. Also, the FXYCS uses the RTGS system using central bank money, and credit risks and liquidity risks resulting from the JBA, the management body of the FXYCS, are not taken into consideration. Consequently, the main envisioned risk is operational risk.

Risk Management

Businesses and operations at the JBA are conducted in accordance with the internal rules and regulations which stipulate the authorization power and procedures. At the same time, internal auditors set within the JBA perform business audits as well as accounting audits. Financial audits are conducted by external auditors.

As for business continuity measures for any system failures or damages at the JBA, the BOJ, or participating banks, the FXYCS stipulates the procedures to cope with these in the FXYCS Rules, etc.², and the FXYCS conducts annual BCP drills to ensure the effectiveness of these measures.

II. Summary of Major Changes since the Last Update of the Disclosure

This is the second disclosure for the FXYCS and the following are major changes from the first disclosure.

- Stipulated procedures of FXYCS based on the New BOJ-NET fully launched in October 2015.

² FXYCS stipulates “Management Procedures Concerning Clearing Procedures in Cases Where a State of Emergency Occurs” (FXYCS Management Procedures), which will be used as a practical guideline, pursuant to rules and detailed regulations in case a state of emergency occurs.

- In “IV. Principle-By-Principle Summary Narrative Disclosure,” stipulated more details mainly in “Principle 2: Governance,” “Principle 15: Business Risk,” “Principle 17: Operational Risk” and “Principle 19: Tiered Participation Arrangements.”

III. General Background of the FMI

<History of the FXYCS>

The clearing of yen transactions related to foreign exchange formerly took place in the following manner: the bank which received a fund transfer request from an overseas bank drew up a BOJ check and delivered it along with the payment instructions to the receiving bank, and the receiving bank then took the check to the BOJ to obtain its funds. However, the internationalization of the Japanese economy increased the use of yen as a clearing currency in international transactions. Thus the FXYCS was introduced by the former Tokyo Bankers Association³ (at present the JBA) in October 1980, to facilitate the ease and safety of such clearings.

Initially, paper-based payment instructions from participating banks were exchanged at the Tokyo Bankers Association, credit and debit amounts were offset, and the net balance was settled by transferring funds from the BOJ’s current accounts which were held by the participating banks. Beginning in March 1989, the Tokyo Bankers Association (at present the JBA) consigned the operations of foreign exchange yen clearing to the BOJ, which was then processed online using the BOJ-NET.

In 1998, the new FXYCS was started by having the Tokyo Bankers Association act as a central counterparty, and introduced new settlement risk management measures which corresponded to international standards: the RTGS system, in which each payment instruction is settled immediately together with the designated-time net settlement (DNS). In May 2002, CLS Bank joined the FXYCS and started the payment versus payment (PVP) settlement among multiple currencies. In October 2008, the FXYCS shifted all of the FXYCS transactions from DNS to RTGS (with liquidity-saving features) using current account settlement of the BOJ. At the same time, the FXYCS abolished the DNS as well as collateral scheme and liquidity-provision scheme, as well as stopped having the Tokyo Bankers Association act as a central counterparty.

³ The former form of JBA. On April 1, 2011, the Tokyo Bankers Association was transited as “the general incorporated association” and the new JBA was formed by changing its name of Tokyo Bankers Association after handing over and amassing all of JBA’s businesses to the Tokyo Bankers Association.

Recent changes were extending exchange hours for Ordinary Settlement Payment Instructions of the FXYCS to from 8:30 am to 7:00 pm due to the full launch of the New BOJ-NET⁴ in October 2015, which was further expanded to 9:00 pm in February 2016.

October 1980	The FXYCS is established (manual, paper-based)
March 1989	The FXYCS goes online via the BOJ-NET
December 1992	Temporary suspension is introduced due to the BCCI incident
December 1994	Resolution is made to enable market participants to use the FXYCS for financial exchange dealings among Japan-residing parties (available for dealings after spot trades: shift from the bill and check clearing system and nationwide expansion of the FXYCS: increased participants from regional financial institutions)
December 1998	Transition to the new FXYCS (Tokyo Bankers Association acts as a central counterparty)
May 2002	CLS Bank joins the FXYCS (live operation starts in September 2002)
October 2008	Fully shifts to RTGS (Next-Generation RTGS in the BOJ-NET begins)
October 2015	Extension of operation hours associated with full launch of the New BOJ-NET
February 2016	Expansion of operating hours under the New BOJ-NET

<General Information on the Performance and Statistics of the FXYCS>

The transaction volume of the FXYCS during the FY2016 (from April 2016 to March 2017) is about 7.0 million transactions and 3.9 quadrillion yen (28.4 thousand transactions and 16.1 trillion yen per day).

⁴ The New BOJ-NET was structured based on the basic concepts of a) Use the latest information technology, b) Have high flexibility to adapt to changes and c) Enhance accessibility, and was launched in two stages including extension of operating hours (first stage in October 2015 and second stage in February 2016).

Foreign Exchange Yen Clearing System (FXYCS)
Transaction Volume/Value for Fiscal Year 2016
(From April 1, 2016 to March 31, 2017)

(Cases, 100 million yen)

FY	In Total		(Note 1)		Simultaneous Settlement		Ordinary settlement	
			Volume	Value	Volume	Value	Volume	Value
	2015	6,758,568 (27,586)	38,674,684 (157,856)	2.3	17.8	6,730,913 (27,473)	36,290,391 (148,124)	27,655 (113)
2016	6,962,921 (28,420)	39,472,845 (161,114)	3.0	2.1	6,935,197 (28,307)	36,950,553 (150,819)	27,724 (113)	2,522,292 (10,295)

Month, Year	In Total		(Note 2)		Simultaneous Settlement		Ordinary settlement	
			Volume	Value	Volume	Value	Volume	Value
	Apr. 2016	542,287 (27,114)	3,381,077 (169,054)	Δ3.8	7.4	539,949 (26,997)	3,135,599 (156,780)	2,338 (117)
May. 2016	554,942 (29,207)	3,117,157 (164,061)	5.6	12.0	552,945 (29,102)	2,947,335 (155,123)	1,997 (105)	169,822 (8,938)
Jun. 2016	619,048 (28,139)	3,637,592 (165,345)	Δ1.1	Δ1.6	616,582 (28,026)	3,439,417 (156,337)	2,466 (112)	198,175 (9,008)
Jul. 2016	567,189 (28,359)	2,999,221 (149,961)	Δ3.7	Δ15.7	564,917 (28,246)	2,821,020 (141,051)	2,272 (114)	178,201 (8,910)
Aug. 2016	575,529 (26,160)	3,170,119 (144,096)	6.5	0.0	573,096 (26,050)	2,953,853 (134,266)	2,433 (111)	216,266 (9,830)
Sep. 2016	581,085 (29,054)	3,396,894 (169,845)	4.5	2.6	578,821 (28,941)	3,177,316 (158,866)	2,264 (113)	219,578 (10,979)
Oct. 2016	546,969 (27,348)	3,113,127 (155,656)	Δ0.2	Δ3.5	544,666 (27,233)	2,906,798 (145,340)	2,303 (115)	206,329 (10,316)
Nov. 2016	593,371 (29,669)	3,076,216 (153,811)	14.1	12.3	591,141 (29,557)	2,868,596 (143,430)	2,230 (112)	207,620 (10,381)
Dec. 2016	633,487 (30,166)	3,654,795 (174,038)	8.3	12.4	631,101 (30,052)	3,422,631 (162,982)	2,386 (114)	232,164 (11,055)
Jan. 2017	544,881 (28,678)	3,192,736 (168,039)	3.3	1.1	542,745 (28,566)	2,977,882 (156,731)	2,136 (112)	214,854 (11,308)
Feb. 2017	538,133 (26,907)	3,006,137 (150,307)	Δ1.9	Δ3.4	535,771 (26,789)	2,825,499 (141,275)	2,362 (118)	180,639 (9,032)
Mar. 2017	666,000 (30,273)	3,727,774 (169,444)	5.8	5.9	663,463 (30,157)	3,474,608 (157,937)	2,537 (115)	253,166 (11,508)

(Note 1) % in increase/decrease of volume and value compared to the previous fiscal year.

(Note 2) The figures in bracket are daily average.

General Organization of the FXYCS

The JBA which manages the FXYCS is a general incorporated association under the Act, and as of the end of June 2017, it has 190 member banks including 51 foreign banks, 3 bank holding companies, and 58 regional bankers associations.

The Board of Directors of JBA is set based on the Act and the Articles of Incorporation of the Association of JBA, and as of the end of June 2017, consists of 17 directors and three auditors. Directors and auditors are mainly selected from bank presidents, and one of the auditors selected is a scholar who is an expert in Civil Law, Commercial Law and the management of legal entities.

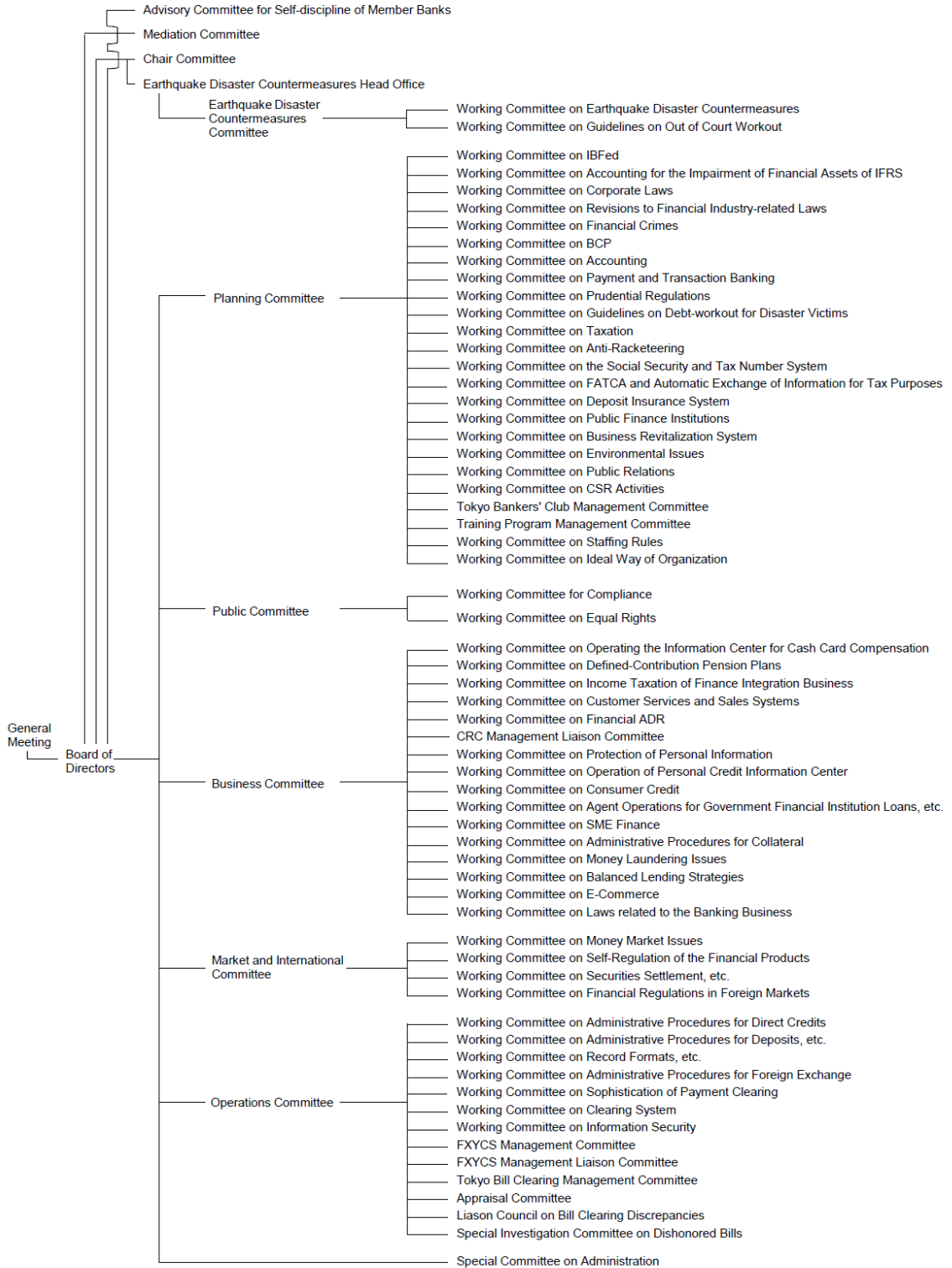
Under the Board of Directors of the JBA, various committees have been set up and one of these committees is the Operations Committee. Because dealing with issues relating to the settlement and clearing systems is one of its tasks, the FXYCS is under the jurisdiction of the Operations Committee. The members of the Operations Committee consist of executives from banks and there are 11 members as of the end of June 2017.

Furthermore, the FXYCS Management Committee is established under the Operation Committee, and handles issues relating to the management and operations of the FXYCS and delegated issues from the Operations Committee for the smooth management and operations of foreign exchange yen clearing. As of the end of June 2017, the members are comprised of 14 bankers of the division manager level.

Moreover, the FXYCS Management Liaison Committee to explain the management and operations of the FXYCS, to gather opinions and to discuss matters among the participating banks has been established, and as of the end of June 2017, 16 bankers who are of the general manager level participate in the committee.

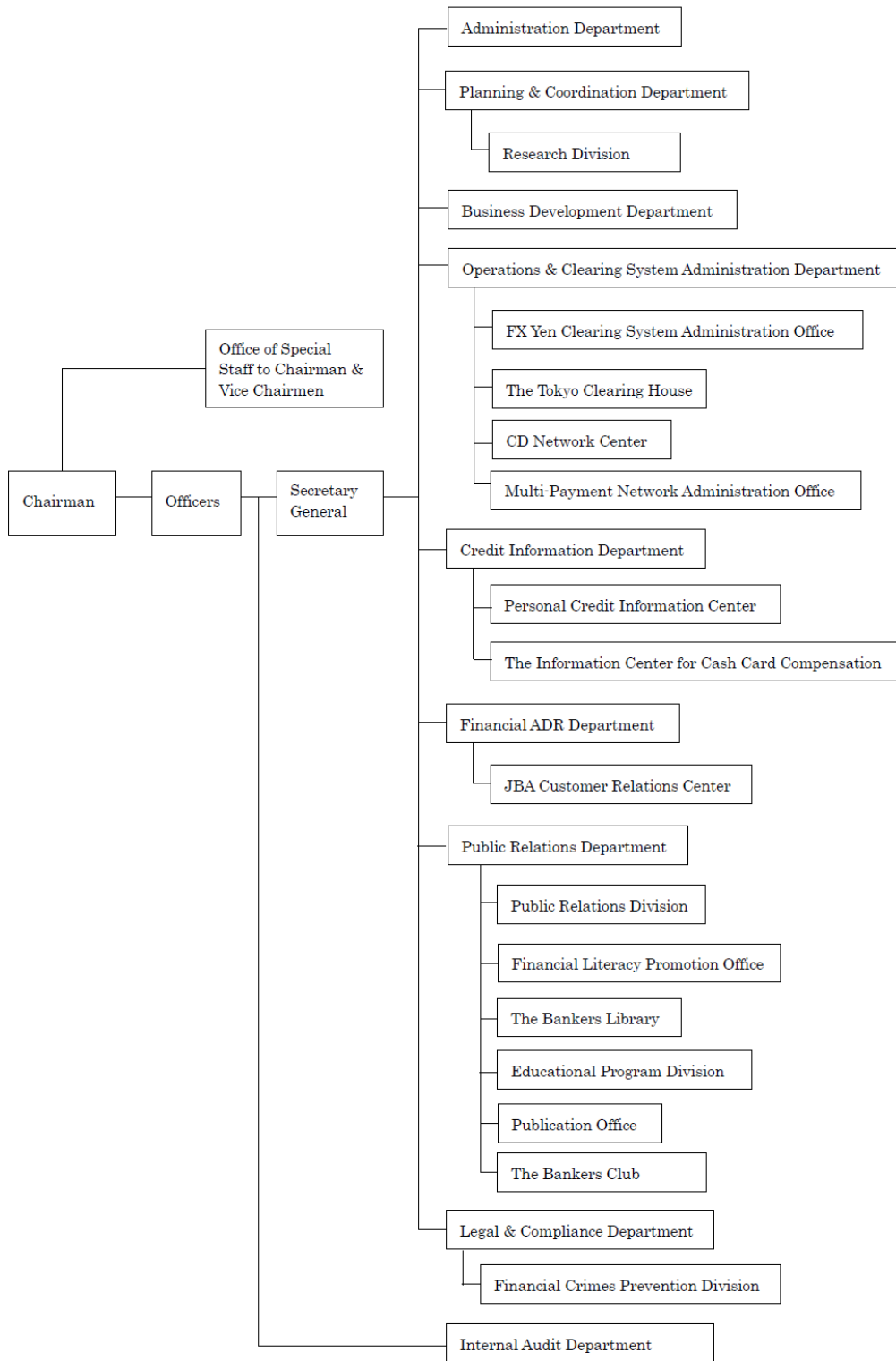
Committees

(as of April 1, 2017)



The secretariat of the JBA serves to manage various committees and meetings, and its organization is as follows;

Secretariat (as of November 1st,2016)



Legal and Regulatory Framework

<Legal Structure>

No specific laws or regulations to operate the FXYCS exist, but the FXYCS is managed and regulated by the FXYCS Rules, the FXYCS Detailed Regulations, etc. which were stipulated upon the basis of business law schemes.

<Ownership Structure>

The JBA is the management body of the FXYCS, and it entrusts the process of foreign exchange yen clearing operations to the BOJ.

<Legal Basis for the FXYCS>

The legal jurisdiction of the FXYCS is within Japan only, and the legal basis of the FXYCS is the FXYCS Rules, the FXYCS Detailed Regulations, etc. which was stipulated upon the basis of business law schemes. Because the FXYCS requires the RTGS settlement to direct participants of the FXYCS by the FXYCS Rules, etc., it has a high reliability in settlement finality which is the utmost important aspect of the FXYCS operations.

When revising the FXYCS Rules, etc., the JBA conducts the consultation process with participating banks, as well as through discussions in the FXYCS Management Committee, while also going through a thorough examination by an internal legal department concerning consistency with other laws and regulations in Japan, thus maintaining the reliability of the legal basis. Also, the JBA consults with the BOJ and goes through the resolution process in the Operations Committee or at the Board of Directors for the revision.

<Regulatory, Supervisory, Oversight Body of the FXYCS>

The FXYCS is subject to the oversight of the BOJ.

System Design and Operations

<Management of the FXYCS>

The JBA, the management body of the FXYCS, conducts foreign exchange yen clearing and other related business, as well as the collection and distribution of materials in relation to foreign exchange yen clearing.

<Entrustment to the BOJ>

The JBA entrusts the BOJ with the conduct of the following: the transmission of electronic

payment instructions and other incidental matters, and the preparation and distribution of statistics in relation to foreign exchange yen clearing. The operation by the BOJ is conducted using the BOJ-NET, which aims at effectively and safely processing the settlement of funds or JGBs, between financial institutions and the BOJ, through online procedures.

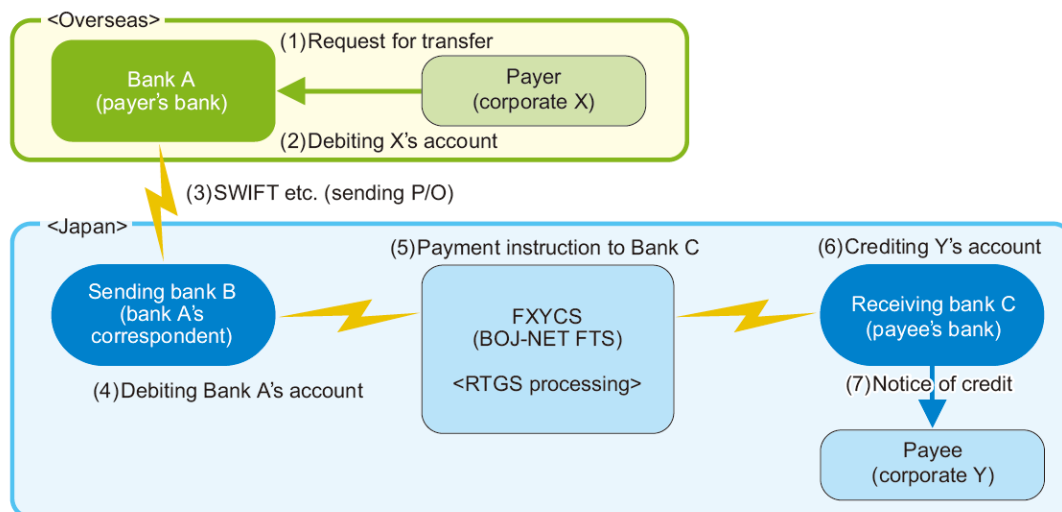
<Operating Hours of the FXYCS>

The exchange of payment instructions are conducted on banking business days. For Simultaneous Settlement⁵ Payment Instructions, the operating hours are from 8:30 am to 3:00 pm (Japan Standard Time), and for Ordinary Settlement Payment⁶ Instructions, from 8:30 am to 9:00 pm (Japan Standard Time).

In the “FXYCS Detailed Regulations” which stipulate exchange and clearing procedures and other matters, a core time of 9:00 am to 3:00 pm is set as exchange hours for payment instructions. The handling of settlements through Ordinary Settlement Payment Instructions that are exchanged with CLS Bank is stipulated separately.

<Settlement of the FXYCS>

The flow of the FXYCS is as displayed below:



⁵ The Simultaneous Settlement uses RTGS with liquidity-saving features, which has functions such as “queuing facility” and “bilateral or multilateral offsetting facility.”

⁶ The Ordinary Settlement uses RTGS without liquidity-saving features. It is stipulated in the Management Procedures of the Foreign Exchange Yen Clearing System” (FXYCS Management Procedures) in principle, that the Ordinary Settlement Payment Instructions shall not be used other than payment instructions relating to CLS settlement. The exception is that when an urgent instructions comes in from customer and a receiving bank agrees to this instruction upon pre-notice from a sending bank.

- 1) The payer X in a foreign country instructs the payer's bank A to make a yen payment to the payee Y in Japan.
- 2) The payer's bank A debits an equivalent amount of remittance from the payer X's account, and also requests a fund transfer credit into the payee Y's account, in the account with bank C (the receiving bank in the FXYCS), mainly through SWIFT, to its correspondent bank B (the sending bank in the FXYCS), in Japan.
- 3) The sending bank B debits the amount of remittance specified in the payment instruction from the correspondent account and sends a payment instruction via FXYCS.
- 4) Upon receiving the instruction, the amount specified in the electronic payment instruction is debited from bank B's current account and credited to bank C's current account at the BOJ, through the RTGS settlement in the FXYCS (using BOJ-NET) and it is delivered to bank C.
- 5) The receiving bank C then credits the account of the payee Y, and also informs the payee Y of the notice of credit.

<Types of Payment Instructions>

There are two types of payment instructions: one is the Simultaneous Settlement Payment Instruction, the other the Ordinary Settlement Payment Instruction. For each of these two types of payment instructions, Customer Transfer and Bank Transfer exist.

The types of transactions handled at the FXYCS include the following:

- Transfer of the correspondent's yen account
- Yen proceeds accruing from a dealing in the foreign exchange market
- Proceeds arising from import and export transactions
- Remittance
- Securities-related foreign exchange transactions
- Cover transactions for remittance

IV. Principle-By-Principle Summary Narrative Disclosure

The FXYCS is categorized as a “Payment System” under the FMI Principles, and the following Principles apply: Principle 1 through 5, 7 to 9, 13, 15 through 19, and 21 to 23.

On the other hand, the FXYCS is not a central counterparty (CCP), central securities depository (CSD), securities settlement system (SSS) or a trade repository (TR) under the FMI Principles, thus Principle 6, 10, 11, 14, 20, 24 do not apply.

Also, the FXYCS is not an exchange-of-value settlement system, thus Principle 12 do not apply.

The following is a summary on the current status of the FXYCS for each applied Principle.

Principle-By-Principle Summary Narrative Disclosure	
Principle 1: Legal Basis	
An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.	
Summary narrative	<p>The legal jurisdiction of the FXYCS is within Japan only, and the legal basis of the FXYCS is the FXYCS Rules, the FXYCS Detailed Regulations, etc. which were stipulated upon the basis of business law schemes. Because the FXYCS requires the RTGS settlement to direct participants of the FXYCS by the FXYCS Rules, etc., it has a high reliability in settlement finality which is the utmost important aspect of the FXYCS operations.</p> <p>When revising the FXYCS Rules, etc., the JBA conducts the consultation process with participating banks, as well as through discussions in the FXYCS Management Committee, while also going through a thorough examination by an internal legal department concerning consistency with other laws and regulations in Japan, thus maintaining the reliability of the legal basis. Also, the JBA constantly consults with the BOJ and goes through the resolution process in the Operations Committee or at the Board of Directors for the revision.</p> <p>In the past, no cases exist where the business or agreement relating to the FXYCS has been voided or reversed.</p> <p>Furthermore, the FXYCS Rules and Detailed Regulations are posted on JBA’s website. Other rules are also posted on the FXYCS website, which is accessible by all of the FXYCS participating banks. The details and the reasons for revisions are announced and explicitly shown to both the BOJ</p>

	and participating banks.
<p>Principle 2: Governance</p> <p>An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.</p>	
Summary narrative	<p>One of the objectives of JBA, the managing body of the FXYCS, as stipulated in the Articles of Incorporation of the Association is “to contribute to the economic growth of Japan as well as the prosperity of the general population through various activities such as research regarding the monetary economy and bank management, research and planning concerning the improvement of banking businesses, and the promotion of protection for bank users, as well as the increased convenience when using banks, with the aim to develop a sound and healthy banking system of Japan.” and explicitly support public interest considerations. As such, the activities within JBA regarding the FXYCS are conducted by placing a high priority on the safety and efficiency, while also to achieve the smooth management of the FXYCS.</p> <p>In order to achieve these objectives, the Act and the JBA’s Articles of Incorporation of the Association serve as an agreement regarding the governance of the Board of Directors and executives of the JBA. The Act is public and the JBA’s Articles of Incorporation of the Association can be accessed through a disclosure request which must be submitted to the Department of Justice, and it is also posted on the JBA’s website which any member of the JBA can access.</p> <p>The roles, responsibilities and liabilities of the Board of Directors of general incorporated associations are clearly stipulated in the Act and those of the JBA’s are clearly stipulated in the JBA’s Articles of Incorporation of the Association. The Board of Directors shall decide on the administration of business operations of a juridical person and supervise the duties of directors, and has the authority to elect or dismiss the representative director or executive directors. In addition, the resolutions at the Board of Directors require attendance of a majority of directors excluding those with special interest, and the approval of the majority of attendees.</p> <p>Furthermore, the JBA elects auditors based on the Act and the JBA’s</p>

Articles of Incorporation of the Association, and sets Board of Auditors consisting of all auditors in order to secure the JBA's proper business operations, property management, etc. The Board of Auditors audits the duties of the JBA's directors, business reports, financial statements, etc. and reports the concerned audit results to the Chairman. As of the end of June 2017, there are 17 Directors of which 14 are external directors, and 3 external auditors.

The directors are elected from people of high ranking positions in banks as representatives of the banking industry: for example, presidents. Moreover, one of the auditors selected is a scholar who is an expert in Civil Law, Commercial Law and the management of legal entities. All members on the Board of Directors have the appropriate capabilities, experience, and knowledge.

The JBA has representative directors who directly manage the JBA, as well as executive directors. The roles, responsibilities and liabilities of representative directors and executive directors of general incorporated associations are clearly stipulated in the Act and those of the JBA's are clearly stipulated in the JBA's Articles of Incorporation of the Association. Through a cross-election among the Board of Directors, the following directors, who all have sufficient capabilities, experience, and knowledge are elected: representative directors (one is the Chairman of the JBA who is a president of a major bank and the other is the Vice Chairman/Senior Executive Director of the JBA from the directors of secretariat of the JBA) and executive directors from the directors of secretariat of the JBA. Their achievements in activity execution are regularly reported to the Board of Directors.

Furthermore, the JBA annually goes through the approval of a general meeting of all members regarding activity plans, the budget and financial statements, and makes business reports from the perspective of securing transparency within the JBA.

As for the decision-making body of the FXYCS, as illustrated in "General Organization of the FMI" under item III of this document, the Board of Directors holds primary authority for making decisions concerning the administration of business operations, but the Operations Committee which tasks include the FXYCS is established below the Board of Directors and the

	<p>authority partially is delegated to the Committee. In addition, the FXYCS Management Committee and the FXYCS Management Liaison Committee, which are comprised of representatives of the FXYCS participants, etc., are established under the Operations Committee, so the structure is established to be able to broadly consult with various stakeholders.</p> <p>The FXYCS Administration Office of the Operations & Clearing System Administration Department within the JBA manages the risk of the FXYCS. To illustrate more specifically, the FXYCS Administration Office deals with the business continuity measures in case of disasters or system failures in accordance with the FXYCS Rules etc., enacted at the Board of Directors. Moreover, resolutions of the Board of the Directors are required for critical measures concerning issues in cases where a state of emergency is expected to continue for an extended period of time.</p>
<p>Principle 3: Framework for the Comprehensive Management of Risks An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.</p>	
<p>Summary narrative</p>	<p>The FXYCS Administration Office of the Operations & Clearing System Administration Department within the JBA manages the risk of the FXYCS, comprehensively. The FXYCS uses the RTGS settlement using central bank money for the fund transfers and settlement between banks, without using the JBA. Thus, credit risks and liquidity risks resulting from the JBA, the management body of the FXYCS, are not taken into consideration. Consequently the main envisioned risk is operational risk.</p> <p>Business and operations of the JBA are conducted in accordance with the internal rules and regulations which stipulate the authorization power and procedures. At the same time, internal auditors set within the JBA perform business audits as well as accounting audits. Financial audits are conducted by external auditors.</p> <p>As for business continuity measures for any system failures or damages at the JBA, the BOJ, or participating banks, the FXYCS stipulates the procedures to cope with these in the FXYCS Rules, etc., and the FXYCS conducts annual BCP drills to ensure the effectiveness of these measures.</p>
<p>Principle 4: Credit Risk An FMI should effectively measure, monitor, and manage its credit exposure to</p>	

<p>participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.</p>	
Summary narrative	<p>The FXYCS has adopted the RTGS settlement using central bank money for fund transfers and settlement between banks, without using the JBA. Thus, no credit risks occur because no credit exposures arise during fund transfers, clearing, or settlement.</p>
<p>Principle 5: Collateral</p> <p>An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.</p>	
Summary narrative	<p>The FXYCS has adopted the RTGS settlement using central bank money for fund transfers and settlement between banks. Thus, the FXYCS does not need to receive collateral from the participants.</p>
<p>Principle 7: Liquidity Risk</p> <p>An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.</p>	
Summary narrative	<p>FXYCS has adopted the RTGS settlement using central bank money for fund transfers and settlement between banks. As such, the JBA does not have any obligation to pay for the settlement of participating banks, thus the JBA itself does not have any liquidity risk.</p>

	<p>The direct participants can settle the amount indicated on the payment instruction on a real-time basis, only when the bank has a sufficient amount of funds to cover the payment amount indicated on a payment instruction in the current account of the BOJ. The direct participants adequately manage the liquidity risk by maintaining fund liquidity, utilizing various services provided by the BOJ, such as the overdraft or liquidity-saving features by the BOJ-NET.</p> <p>As for the FXYCS, it has set up a gentlemen’s agreement about the sending of the FXYCS payment instructions as stipulated in the FXYCS Management Procedures. This gentlemen’s agreement stipulates that 65% of the sending volume and 55% of the sending amount of the Simultaneous Settlement Payment Instructions (including those waiting in queue) should be sent by 11:00 am on the day. The JBA monitors the status using statistics provided by the BOJ, and requests the banks who do not comply to this gentlemen’s agreement for their compliance. Through this procedure, FXYCS avoids a “gridlock” (i.e. a direct participant cannot provide funds because it could not receive funds from other direct participants) of transactions and settlement within the sending period for the Simultaneous Settlement Payment Instructions (from 8:30 am to 3:00 pm).</p>
<p>Principle 8: Settlement Finality</p> <p>An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.</p>	
<p>Summary narrative</p>	<p>The FXYCS has adopted the RTGS settlement using central bank money for fund transfers and settlement between banks, and stipulates in the FXYCS Rules that a payment instruction shall not be cancelled once it has been delivered to the receiving bank. How to handle the payment instruction notice when the final settlement is in the process of being executed is described in the FXYCS Operations within the BOJ-NET Usage Rules of the BOJ, which is accessible on the BOJ website.</p> <p>The FXYCS Rules also stipulate that a payment instruction can be cancelled when the payment instruction is waiting in queue, or in the case of an error and the receiving bank agrees to the cancellation by transmitting a payment instruction to the sending bank with the same amount as the</p>

	<p>cancelled payment instruction. The FXYCS Rules also set changes in operating hours for payment instructions when needed which can be conducted after the consultation with the BOJ.</p> <p>The FXYCS executes the final settlement on the value date in accordance with payment instructions. Also, since the FXYCS Rules etc., are made in accordance with the business legal framework of Japan, and also because the FXYCS has adopted RTGS settlement using central bank money, high legal reliability exists in the FXYCS. No case exists where the final settlement was postponed to the day after the value date.</p> <p>The FXYCS does not have any link to other FMIs.</p>
<p>Principle 9: Money Settlements</p> <p>An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money.</p>	
<p>Summary narrative</p>	<p>The FXYCS has adopted the RTGS settlement using central bank money for fund transfers and settlement between banks, only transfers yen-denominated transactions, and makes settlements through the current account of the BOJ.</p>
<p>Principle 13: Participant-Default Rules and Procedures</p> <p>An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.</p>	
<p>Summary narrative</p>	<p>The FXYCS has adopted the RTGS settlement using central bank money for fund transfers and settlement between banks. The direct participants can settle the amount indicated on the payment instruction on a real-time basis only when the bank has a sufficient amount of funds to cover the payment amount in the current account of the BOJ. The direct participants adequately manage the liquidity risk by maintaining fund liquidity, utilizing various services provided by the BOJ, such as the overdraft or the liquidity-saving features by the BOJ-NET.</p> <p>Because the JBA does not have any obligation to pay the direct participants as the FXYCS stipulates, it is not expected to have any obligations to the BOJ or the participating banks, if one of the participating</p>

	<p>banks goes into bankruptcy. Thus, the JBA does not have internal plans for the procedures of handling the bankruptcy of a participating bank of the FXYCS. However, the FXYCS Rules stipulate that a participating bank shall forfeit its qualification if it receives an order of commencement of bankruptcy proceedings, and shall be expelled if there are circumstances which indicate that its business is in a critical condition.</p> <p>The FXYCS uses the contact list of the BOJ and the participating banks for any correspondence regarding information collecting on current status of the participating banks and its' disqualification from FXYCS membership, not limiting to bankruptcy.</p>
<p>Principle 15: General Business Risk</p> <p>An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.</p>	
<p>Summary narrative</p>	<p>While the JBA does manage the FXYCS, it is not involved in the settlement itself. The JBA does not have a settlement system of its own, either. Based upon these two reasons, unless an incident is caused by the conduct of the JBA, no liability in principal shall be borne by the JBA towards the BOJ or the participating banks.</p> <p>As for the business risk related to the FXYCS, three cases of a) case which cannot be handled by the initial budget (run short of funds) as unexpectedly large amount of costs incurred due to law suits or such against the FXYCS for some reasons, b) case which losses or damages caused by the conduct of the JBA occurred, such as clerical mistakes in its management or operation of the FXYCS as the management body and c) case which a participating bank pay no expenses, can be considered, although their possibilities are extremely low.</p> <p>The FXYCS Rules, etc. stipulate methods for assuming liability for losses or damages as displayed below;</p> <ul style="list-style-type: none"> - Any losses or damages caused by the conduct of a participant bank in breach of the FXYCS Rules etc., or due to a failure or malfunction in its own system, or any other reasons that can be attributed to a

	<p>participant bank, shall be borne by such a participating bank.</p> <ul style="list-style-type: none"> - Any losses or damages incurred by the JBA in relation to the FXYCS due to a failure or malfunction in the BOJ-NET, trouble in the operations of the FXYCS, or any other reasons that cannot be attributed to the JBA, shall be jointly borne by the participating banks. <p>Furthermore, even if damage is done to the FXYCS due to the conduct of the JBA, the asset of JBA can be utilized. As for the damage done in relation to the operations of the FXYCS, the structure is established to allow extraordinary expenses to be collected from participating banks according to the resolution of a general meeting of the JBA, which is stipulated in the FXYCS Rules, etc., although such extraordinary expenses have never been collected in the past.</p> <p>Moreover, the business is being executed within the range of budget while securing stable income for budget to be used in execution of the business by collecting allocated fees for the business budget of each fiscal year from the FXYCS participants at the beginning of the concerned fiscal year.</p>
<p>Principle 16: Custody and Investment Risks</p> <p>An FMI should safeguard its own and its participants' assets and minimize the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.</p>	
<p>Summary narrative</p>	<p>The FXYCS does not utilize custodian banks.</p> <p>Also, the asset of FXYCS (equivalent to expenses in the FXYCS) is only the funds collected as fees at the beginning of each year from the participating banks, which are deposited into banks, and are not put into investments.</p> <p>The payment of annual fees to the JBA is stipulated in the FXYCS Rules, etc., and the nonfulfillment of this financial obligation is unexpected. The FXYCS Rules stipulate the failing to pay the fee as one of the reasons for expulsion.</p>
<p>Principle 17: Operational Risk</p> <p>An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business</p>	

<p>continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.</p>	
<p>Summary narrative</p>	<p>In the JBA, which manages the FXYCS, the FXYCS Administration Office is supporting management of the FXYCS participants, registration of individual information, collection of materials and considerations and executions on revisions of rules, etc. as main operations related to foreign exchange yen clearing of the FXYCS, from the viewpoint of the management body of the FXYCS. In addition, the FXYCS Administration Office is monitoring compliance status of daily exchanges.</p> <p>Meanwhile, the JBA entrusts the BOJ with the conduct of the following: the transmission of electronic payment instructions using the BOJ-NET and other incidental matters, and the preparation and distribution of statistics in relation to foreign exchange yen clearing.</p> <p>BOJ sets detailed operational procedures for participants and itself based on the detailed analysis of FXYCS's operations and on the operational flows established to control such risks. The BOJ-NET is developed by identifying and curbing the operational risks in the design phase of system development. For business continuity planning, important IT systems are duplicated, data at BOJ's main center are reflected at its backup center near real time, and the switchover to the backup center can be executed to resume operations within two hours.</p> <p>The FXYCS stipulates the FXYCS Management Procedures so that emergency measures can be taken in case of a BOJ-NET failure or a direct participant's failure. In the case of system failure, it is ruled that concerned banks must immediately inform the JBA of this fact. Then the JBA must verify the condition through communicating with the concerned bank and consult the BOJ or any other parties concerned for the necessity of a change in operating hours for payment instructions of the BOJ-NET.</p> <p>The JBA documented in a manual the detailed communication procedures, the items to be checked and how to handle the situation based on the FXYCS Management Procedures, and stipulated counter-actions by specifying the cause of failure. In addition, the contact list of the participating banks is continually updated at the FXYCS in order to be able to make immediate contact with any of the participating banks. Furthermore, the JBA conducts</p>

	<p>BCP drills for the FXYCS with the BOJ and the participating banks annually to develop the skills required for emergency action.</p> <p>As for the system of the direct participants, it is monitored by the BOJ, and the direct participants themselves conduct risk management.</p>
<p>Principle 18: Access and Participation Requirements</p> <p>An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.</p>	
Summary narrative	<p>There are two types of membership qualifications for the FXYCS - direct participants and indirect participants - and both types must be financial institutions established under particular laws. Moreover, there are certain criteria to fulfill in expectation when becoming a direct participant regarding the sending and receiving volume or amount of money (direct participants are not suspended only because they no longer do not fulfill the criteria for a direct participant).</p> <p>The above criteria are stipulated in the FXYCS Rules and FXYCS Detailed Regulations which are accessible via the JBA's website.</p> <p>The new entrance or the change in the status of direct participants is an issue to be consulted with the BOJ.</p>
<p>Principle 19: Tiered Participation Arrangements</p> <p>An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.</p>	
Summary narrative	<p>There are two forms of FXYCS participation – “direct participants” that operate foreign exchange yen clearing by directly participating in the BOJ-NET (so-called “affiliate banks”) and “indirect participants” that participate indirectly by entrusting the operation to the direct participants (so-called “entrusting banks”). Then some of “direct participants” entrusted with the operation from the indirect participants are also stipulated and called as “entrusted banks.”</p> <p>As of the end of June 2017, there are 173 indirect participants against 8 entrusted banks. The FXYCS Rules stipulate that an indirect participant shall enter into an agreement with its entrusted bank, concerning the entrustment of operations pertaining to the processing of a payment instruction, the receipt, and the payment of the funds, specified in such processed payment instruction. Entrusted banks shall meet the standards</p>

	<p>required for an entrusted bank stipulated in the FXYCS Rules, etc., and execute payment instructions and receipt and payment of funds from indirect participants based on arrangements stipulated in the entrustment agreement. Even in cases such as if a certain entrusted bank has been damaged, indirect participants who is entrusting operation can execute payment instructions through directly transferring funds from the current account at the BOJ by themselves, in addition to other measures. In addition, the FXYCS Rules, etc. stipulate that in case the concerned damages take the long term to recover, indirect participants are able to switch entrusted banks. Therefore, the JBA sees no systematic risk caused by the tiered participation.</p> <p>In regards to indirect participants of the FXYCS, the JBA maintains and updates its contact list and conducts a survey of their transaction volume (conduct survey at the beginning of each fiscal year on sending volume a) entrusted bank's name and b) volume and value of receipt/payment during every March) as a way to collect information regularly and thus gain knowledge on transaction volume by indirect participants. Through those procedures, the JBA is enabled to specify entrusted banks of the FXYCS which deal with a number of entrusting banks, and entrusting banks of the FXYCS which have huge volume or amount of money in their respective transactions.</p>
<p>Principle 21: Efficiency and Effectiveness</p> <p>An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.</p>	
<p>Summary narrative</p>	<p>The JBA constantly consults with the participating banks of the FXYCS or through various committees, etc., of their needs. Any requests and/or inquiries for the BOJ-NET are conveyed to the BOJ and discussed as needed.</p> <p>The aim of the FXYCS is to smoothly operate the system, and the following measures are taken to achieve this goal: monitoring the operation status (check daily and report monthly to the participating banks), the system failure status (assess as soon as the FXYCS receives information either from the participating banks or the BOJ), and the compliance status of the gentlemen's agreement about the sending of the FXYCS payment instructions.</p> <p>The gentlemen's agreement about the sending of the FXYCS payment</p>

	<p>instructions stipulates in the FXYCS Management Procedures that 65% of the sending volume and 55% of the sending amount of the Simultaneous Settlement Payment Instructions (including those waiting in queue) should be sent by 11:00 am on the day. The JBA monitors the status. More specifically, the JBA assesses semiannually the compliance status of direct participants of the FXYCS, and requests the banks who do not comply to this gentlemen’s agreement for their compliance in accordance with the resolution made by the FXYCS Management Committee. Through this procedure FXYCS avoids a “gridlock” (i.e. a direct participant cannot provide funds because it could not receive funds from other direct participants) of transactions and settlement within the sending period for the Simultaneous Settlement Payment Instructions (from 8:30 am to 3:00 pm).</p>
<p>Principle 22: Communication Procedures and Standards</p> <p>An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording</p>	
<p>Summary narrative</p>	<p>Because the communication procedures and any other related operations of the FXYCS are consigned to the BOJ, the communication procedures used in the FXYCS is that of BOJ-NET. As communication procedures, the Transmission Control Protocol and the Internet Protocol (TCP/IP) is used, which is the standard internationally. Since the New BOJ-NET was fully launched in October 2015, the XML format (partly ISO20022 compliant messages) is used.</p>
<p>Principle 23: Disclosure of Rules, Key Procedures, and Market Data</p> <p>An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.</p>	
<p>Summary narrative</p>	<p>The FXYCS Rules and the FXYCS Detailed Regulations are posted on the JBA’s website. Other rules are posted on the FXYCS website, which is accessible by all of the FXYCS participating banks. The details and the reasons for revisions are announced and explicitly shown to both the BOJ and participating banks. Furthermore, the JBA gives explanation, etc. about the contents of these rules individually to new entrants or any other</p>

	<p>participating banks that seem to be unfamiliar with the rules, as necessary.</p> <p>When revising the FXYCS Rules, etc., the JBA conducts the consultation process with participating banks, as well as through discussions in the FXYCS Management Committee, while also going through a thorough examination by an internal legal department concerning consistency with other laws and regulations in Japan. Also, the JBA consults with the BOJ and goes through the resolution process in the Operations Committee or at the Board of Directors for the revision.</p> <p>The system structures as well as the system operations are stipulated in the BOJ-NET Usage Rules, which is accessible on the BOJ's website.</p> <p>As to the fundamental information and statistics on performance, the transaction volume/value per day as informed by the BOJ, are provided monthly by FXYCS to participating banks, and the annual statistics (shown by the transaction volume per month) is publicly available via the JBA's website.</p> <p>The cost to manage the FXYCS (the amount of expenses in the fiscal 2016 is about 25 million yen) is collected from the participating banks, as an annual fee, at the beginning of each fiscal year, based upon the basis for calculation stipulated in the FXYCS Detailed Regulations. Of these expenses, the main costs include personnel expenses and asset and other management expenses. When collecting the annual fee, the JBA explains and discloses the budget, as well as the calculation method for the individual fee.</p>
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V. List of Publicly Available Resources

Please refer to the following links for JBA's activities

<http://www.zenginkyo.or.jp/en/outline/> (English)

<http://www.zenginkyo.or.jp/abstract/> (Japanese)

The aforementioned websites include contents such as;

- Organization
- Committees
- Secretariat

Also, the aforementioned website (Japanese) describes the following items regarding the FXYCS;

- Activities of JBA (only in Japanese)
 - Planning Concerning the Operation of Payment Systems
 - Foreign Exchange Yen Clearing System
 - Rules Governing the Foreign Exchange Yen Clearing System
 - Detailed Enforcement Regulations for the Operations of the Foreign Exchange Yen Clearing System
- Statistics (only in Japanese)
 - Annual statistics of settlement (each fiscal year)
 - FXYCS Transaction Volume/Value