

ISDA® JAPAN MONTHLY UPDATE

July 2015

COMMITTEE ACTIVITIES

REGULATORY: Contact: Tomoko Morita (tmorita@isda.org) / Kaori Horaguchi (khoraguchi@isda.org)

On July 17, ISDA CEO Scott O'Malia together with ISDA staff and Japanese Board members met with Deputy Commissioner for International Affairs, Japan FSA, Shunsuke Shirakawa to discuss OTC derivatives regulatory issues including margin requirements for uncleared derivatives, cross-border harmonization, data and reporting, CCP recovery and resolutions and etc.

ISDA delegates also met with Deputy Governor Hiroshi Nakaso, the Bank of Japan to exchange views on recent market issues, such as benchmarks, negative interest rates and regulatory impact, i.e. accumulative effect on financial stability after various regulations are to be implemented.

Electronic Trading Platforms (ETPs)

On July 3, ISDA circulated the list of entities that plan to operate electronic trading platforms from September 1, 2015 to the members of OTC Derivatives Regulations Working Group.

On July 13, the Japan FSA published a notice ([kokuji](#)) (Japanese only) that specifies the types of interest rate derivatives (IRDs) that will be required to trade on electronic trading platforms (ETPs). It also published [responses to a public consultation](#) held between May 29 and June 29. The trades covered in the notice have to satisfy the following:

- Trades clearable through the Japan Securities Clearing Corporation (JSCC);
- Not a packaged trade;
- Six-month yen LIBOR floating rate;
- Fixed notional throughout the maturity, as agreed by counterparties;
- Effective date of T+2 from the trade date;
- Swap tenor of five, seven or 10 years;
- With respect to interest rate payment and roll date, the 'business day' is specified as Tokyo and London;
- The business-day convention is specified as 'modified following';
- For the fixed leg, the payment frequency is six months, and the day-count fraction is Actual/365 (Fixed);
- For the floating leg, the payment frequency is six months, and the day-count convention is Actual/360.

The notice will come into effect from September 1.

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IM Segregation Working Group

On July 9, the IM Segregation Working Group meeting was held to discuss the following topics:

- 1) Members shared operational framework and structures of custodians and trust banks for IM segregations, such as instructions for segregation, reporting, corporate actions, treatment of cash collateral, custodian/trust fees, operational flows at the event of default, etc.

- 2) Members discussed status of current draft documentations to comply with the upcoming margin requirements.
 - a) Draft trust agreements and the summary paper, which will be drafted later on, will be shared with broader members when they are ready. English translation of the summary paper will be also prepared.
 - b) The second draft of Japanese Law VM CSA was circulated for comments.
 - c) Legal sub working group members review the New York Law IM CSA and English Law IM CSD.

Withholding Tax on Negative Interest

With respect to the treatment of a negative interest rate for cash collateral in case it is observed in the concerned market in the future, around the end of June, ISDA finally received an endorsement from the National Tax Agency through EY Law Co. to confirm that the above-mentioned interests based on the fact specified in the letter of inquiry shall apply neither to the Article 161 “Domestic Source Income” under (vi); Interest on a loan provided for a person who performs operations in Japan (including moneys equivalent thereto), which pertains to the said operations (excluding interest specified by a Cabinet Order), nor to the Article 212 “Withholding Liability” under (1) , both of Income Tax Act enacted in Japan.

On July 3, ISDA circulated that information to the members.

UPCOMING COMMITTEE AND WORKING GROUP MEETINGS / CONFERENCES

IM Segregation Working Group
(Japanese language meeting)

August 6

Trust Banks’ Fund Account Sub-Working Group
(Japanese language meeting)

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