

## **APAC Monthly Update**

### **December 2011**

*APAC Monthly Update summarizes important regulatory developments, meetings, committee activities and conferences in the region.*

#### **Regulatory Activities**

On December 1, ISDA moderated a panel on global regulatory changes at a global CRO conference hosted by Singapore Exchange Ltd (SGX). Monetary Authority of Singapore (MAS) Deputy MD Teo Swee Lian participated in the panel.

On December 6, ISDA met with the People's Bank of China (PBOC) in Beijing and discussed various issues relating to regulation of OTC derivatives, reforms in the US and EU, central clearing and trade reporting and offshore deliverable RMB transactions.

On December 8, ISDA attended a meeting chaired by the Hong Kong Monetary Authority (HKMA). The meeting highlighted the latest progress on trade repository (TR) system implementation.

On December 12, ISDA and ASIFMA met with the US Treasury to update them on Asian progress toward meeting G20 Commitments, market fragmentation issues and progress on adoption of LEI standards.

On December 15, ISDA met with RBI's FX department.

#### **Committee/Working Group Activities**

On December 6, ISDA held its Advisory Group meeting. Topics discussed included the HKMA/SFC consultation paper on the Proposed Regulatory Regime for the OTC Derivatives Market in HK and ISDA's submission, the KRX proposal for a CCP, an update on the outstanding issues of the Indian CDS market and latest developments, an update on ISDA's KL visit and ISDA's second submission to the SC on the CMSA, ISDA's submission on the Australian Financial Market Infrastructure Regulation, the discussion paper released by the Australian Treasury on the handling and Use of Client Money in relation to the Over-the-Counter derivatives Transactions, the impact of ECM 4, the impact of FATCA and the industry's effort to standardize the Credit Support Annex.

## **Market Infrastructure**

On December 1, ISDA held a APAC Interest Rates Derivatives Operations Working Group meeting to address a number of floating rate options draft for KRW, INR, AUD, CNY , the replacement of a NZD rate page, holiday monitoring and also the electronic confirmation format of onshore CNY swaps.

On December 15, ISDA held a APAC Equity Derivatives Operations Working Group meeting to address the counterparty on-boarding issue, the documentation of local taxes in China H-stock, MSCI swap and Pan-Asia interdealer swap.

On Dec 14, ISDA attended a meeting hosted by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) to discuss the application of Additional Disruption Event Provisions for an Offshore Deliverable CNY Transaction in the SWIFT messages.

## **Regulatory Developments**

### **Hong Kong: Banking (Amendment) Bill 2011**

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The Banking (Amendment) Bill 2011 was gazetted on December 9. The main purpose of the Bill is to amend the Banking Ordinance to provide for the implementation of Basel III in Hong Kong. The Bill will be introduced into the Legislative Council on December 21. The Bill proposes that the capital and liquidity requirements applicable to authorized institutions incorporated or operating in Hong Kong be set out in the rules prescribed by the Hong Kong Monetary Authority (HKMA) under the Ordinance. These rules will be developed by reference to the requirements in Basel III and will be subsidiary legislation subject to negative vetting by the Legislative Council.

The Bill also makes provisions for the HKMA to issue, or approve codes of practice for the purpose of providing guidance in respect of the rules; and the present Capital Adequacy Review Tribunal to assume a wider review remit to reflect the broader scope of the Basel III requirements. Going forward, the HKMA will draft and consult the industry on the required capital and liquidity rules in phases, according to the Basel Committee's implementation timeline. The first phase of capital requirements will come into effect from the beginning of 2013.

### **India: CDS market is launched**

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On December 1, the Reserve Bank of India (RBI) launched the introduction of single-name CDS for corporate bonds in India. RBI issued the guidelines this past May with an effective date of October, however the launch was postponed until now. In the new guidelines, a market-maker needs to report their CDS trades for both users and other market-makers within 30 minutes to the Clearing Corporation of India Limited (CCIL) trade repository, the CCIL Online Reporting Engine (CORE). Users are entities permitted to buy CDS only to hedge their underlying credit risk on corporate bonds, such as insurance companies or foreign institutional investors (FIIs). Market-makers are entities permitted to buy and/or sell CDS, such as Primary Dealers (PDs) and non-banking financial companies. Banks are allowed to be both market-makers and users in the CDS market.

The counterparty exposure for CDS traded in the OTC market will be calculated on the Current Exposure Method. No netting of positive or negative mark-to-market values of the contracts with the same counterparty, including hedged positions, will be allowed for calculating capital charges for counterparty credit risk. Exposure for all CDS contracts will be aggregated and combined with other on-balance sheet and off-balance sheet exposures against the reference entity for the purpose of complying with the exposure norms. Banks will need to report “total exposures” against borrowers in excess of the normal single/group exposure limits due to the credit protections obtained by them through CDS, guarantees or any other instruments of credit risk transfer to RBI. Additionally, all CDS trades should be margined weekly on a net basis and mark-to-market on a daily basis. ISDA, together with FIMMDA, have developed a set of documents to facilitate the CDS market.

### **RBI circular on foreign exchange derivatives contracts**

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Reserve Bank of India (RBI) released a circular on December 15, amending the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000. These new measures will be implemented immediately. Under contracted exposures, forward contracts which have one leg in Indian rupee and are used to hedge current account transactions, can no longer be rebooked if they are canceled.

Under probable exposures based on past performance, firms were allowed to hedge currency risk based on the exposure of the firm’s past 3 years’ financial performance of actual import/export turnover or the previous year’s actual import/export turnover, whichever is higher. Contracts booked in excess of 75% of the eligible limit were to be on a deliverable basis and could not be canceled. The new regulations have reduced this limit for importers to 25% of the average of the previous 3 years’ financial performance or the previous year’s actual import/export turnover, whichever is higher. If importers have exceeded this revised limit, no further trades will be allowed. All forward contracts by both exporters and importers will be on a fully deliverable basis. If there are any cancellations, any exchange gain will not be passed onto the client. All cash/tom/spot transactions by an Authorized Dealer (AD) on behalf of clients will be undertaken for actual remittances or delivery only and cannot be canceled or cash settled.

Foreign Institutional Investors (FIIs) are currently allowed to hedge their currency risk on the market value of their entire investment in equity and/or debt in India as of a particular date. If the trade is canceled, it cannot be rebooked except to the extent of 10% of the market value of the portfolio at the beginning of the financial year. However, forward contracts may be rolled over before maturity. Going forward, the new regulations do not allow forward contracts to be rebooked once they are canceled. However, forward contracts may still be rolled over on/before maturity.

### **Korea: Draft consultation on CCP**

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The Korea Exchange (KRX) has issued a draft consultation paper for establishing a CCP for OTC derivatives under forthcoming legislation awaiting passage in the National Assembly. Korean Won IRS will be the first product targeted for clearing. The paper sets out in detail proposed membership criteria, risk waterfall, margin and settlement methodology. KRX plans to meet with onshore Korean financial institutions before year-end to discuss the draft consultation paper. At the request of a consortium of banks in Korea, ISDA has reviewed the draft and provided comments for use in the meeting.

## **Submission**

On December 6, ISDA made a submission to HKMA on the Report on consultation on logistical and technical arrangements for reporting to the Hong Kong trade repository.

## **Upcoming committee and working group meetings/conferences**

### **Meetings:**

APAC IRD Operation Working Group Meeting	Jan 5
APAC Equity Operation Working Group Meeting	Jan 19
L&R South Asia Meeting	Jan 26
L&R North Asia Meeting	Jan 31

### **ISDA APAC Monthly Update**

Please direct comments and questions about APAC Monthly Update to Donna Chan, [dchan@isda.org](mailto:dchan@isda.org)  
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