

APAC Monthly Update

June 2011

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

Committee/Working Group Activities

North Asia

On June 9, ISDA held the quarterly PRC Working Group Meeting in Shanghai and Beijing. At the meeting, members discussed the recent regulatory changes in China, including the CSRC guidelines on stock index futures trading by QFIIs, CBRC credit derivatives regulations and CBRC opinion regarding the implementation of Basel III in China. ISDA also updated members on the US regulatory reform and ISDA activities and initiatives in other regions.

On June 28, ISDA held the Asia-Pacific Legal and Regulatory (“L&R”) Committee Meeting (North Asia) in Hong Kong. At the meeting, members discussed recent regulatory changes in the PRC and Hong Kong, including the circular regarding cross-border RMB business issued by PBOC in June and the FAQs on investment-linked assurance schemes and on Code of Unit Trusts and Mutual Funds updated by SFC recently. ISDA briefed members on the trade repository proposal put forward by Taiwan regulators. ISDA’s current documentation projects and research papers were also discussed at the meeting.

South Asia

On June 30, ISDA held the Asia-Pacific Legal and Regulatory (“L&R”) Committee Meeting (South Asia) in Singapore. At the meeting, a member raised the issue of the netting regimes in Thailand and Korea and asked the membership for its opinion in these 2 countries. Members were also updated on RBA’s discussion paper on Central Clearing of OTC Derivatives in Australia. Also discussed were the polling methodology changes in spot USD-INR and EUR-INR in India and the New Indonesian Currency Law in Indonesia.

Regulatory Developments

Australia: Contact: Keith Noyes (knoyes@isda.org) / Cindy Leiw (cleiw@isda.org)

The Australian Prudential Regulation Authority (APRA) has released the Interim Arrangements for Additional Tier 1 Capital Instruments. It confirms that, until end-2012, eligible Tier 1 instruments must satisfy all relevant criteria contained in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111). On an interim basis, APRA is prepared to accept newly issued capital instruments for transitional treatment as Additional Tier 1 capital if they meet current APS 111 eligibility requirements and:

- do not include step-ups or incentives to redeem and are not stapled securities;
- cannot be called within 5 years after date of issue unless for a tax or regulatory event;
- are recognized as liabilities under Australian Accounting Standards and include a provision to convert to ordinary shares of issuer if the Level 2 group's Common Equity Tier 1 ratio falls below 5.125%;
- utilize application of criteria governing conversion of eligible Additional Tier 1 capital into ordinary shares;
- are not issued through a special purpose vehicle.

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The Reserve Bank of Australia (RBA), on behalf of the Council of Financial Regulators (comprising the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Treasury and RBA) released a discussion paper on Central Clearing of OTC Derivatives in Australia. The paper discusses the global landscape for OTC derivatives, the Australian market for OTC derivatives, central clearing and the range of considerations if central clearing were to be established in Australia. The Council is seeking feedback on the views and propositions set out in the paper, such as what products should be cleared, who should be required to clear, client clearing and regulatory and jurisdictional considerations. Deadline for submissions and requests for meetings is August 5.

China: Contact: Jing Gu (jgu@isda.org) / Keith Noyes (knoyes@isda.org)

On June 9, ISDA visited Shanghai Clearing House to get an update on their progress toward meeting end-2012 G20 clearing commitments. Shanghai Clearing House expressed confidence that they would have the required infrastructure in place in time to meet the deadline. ISDA briefed Shanghai Clearing House on CCP developments elsewhere in Asia and globally.

On June 10, ISDA visited CBRC's Shanghai Office. CBRC shared with ISDA their views on the offshore CNY market in Hong Kong. ISDA expressed support for the Commission's efforts to develop standardized documentation and definitions for China's CDS market.

On June 13, ISDA participated in a meeting hosted by the China Banking Regulatory Commission (CBRC) on the draft Chinese credit derivatives definitions. CBRC is contemplating issuing a set of definitions for the nascent onshore credit derivatives market which was launched in November 2010. At the meeting, ISDA commented on the draft definitions and sent in a written submission after the meeting. The current draft of the Chinese definitions is largely based on the 2003 ISDA Credit Derivatives Definitions (without the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement).

Hong Kong: Contact Jeffrey Kan (jkan@isda.org)

The Hong Kong Monetary Authority (HKMA) requested ISDA to solicit feedback from its members on the draft specifications of the proposed trade repository and to provide comments to HKMA by early July. The proposed trade repository will initially cover interest rate derivatives and non-deliverable forward products and is scheduled to go live before the end of 2012.

Singapore: Contact: Keith Noyes (knoyes@isda.org) / Jacqueline Low (jlow@isda.org)

SGX will start clearing non-deliverable Asian Foreign Exchange Forwards by September. The currencies cleared will be Chinese Yuan, Indonesian Rupiah, Indian Rupee, Korean Won, Malaysian Ringgit, Philippine Peso and Taiwanese Dollar. The 11 SGX Clearing members eligible to clear FX Forwards are Barclays Bank, Citibank, Credit Suisse, DBS Bank, Deutsche Bank, Hong Kong and Shanghai Banking Corporation, Overseas-Chinese Banking Corporation, Standard Chartered Bank, Royal Bank of Scotland, UBS AG and United Overseas Bank. SGX expects the membership to grow in the coming months from banks active in these products.

Contact Keith Noyes (knoyes@isda.org) / Cindy Leiw (cleiw@isda.org)

Banks incorporated in Singapore will be required to meet the Basel 3 minimum standards by January 1, 2013 ahead of Basel's January 2015 timeline. The Monetary Authority of Singapore (MAS) will increase the minimum levels of common equity Tier 1 for locally-incorporated banks to 6.5%. Tier 1 capital will be increased from 6% to 8%, but the total capital requirement will remain unchanged at 10%.

Additionally, there will be a capital conservation buffer of 2.5% to be comprised of common equity Tier 1. This buffer will be phased in from January 1, 2016 to January 1, 2019. The new eligibility criteria for regulatory capital will also be phased in from January 1, 2014 to January 1, 2018. These requirements will apply to both the bank-group and bank-solo levels.

Taiwan: Contact Jeffrey Kan (jkan@isda.org)

Taiwan is planning to set up a trade repository to be operated by GreTai Securities Market. GreTai Securities Market recently circulated the draft specifications which require detailed reporting, in excess of global trade repository requirements, across all derivative product asset classes. On 29 June, ISDA was invited to participate in a meeting hosted by the Bankers Association of the Republic of China to present members' views on the proposed trade repository.

Submission

Korea: Contact: Keith Noyes (knoyes@isda.org) / Jing Gu (jgu@isda.org)

On June 6, ISDA submitted a comment to the Ministry of Strategy and Finance (MOSF) in Korea regarding the Foreign Exchange Prudential-Stability Levy. Korea passed legislation earlier this year to introduce a new tax on non-deposit foreign currency liabilities held by domestic and foreign banks in Korea. Differentiated levy rates will be applied based on the maturity of non-deposit foreign currency liabilities. According to the materials published by the Korean government, the purposes for introducing the levy are to reduce volatility in capital movement and to curb massive capital inflows into Korea. The levy will be implemented starting in August. In the submission, ISDA urges MOSF to exempt foreign currency cash collateral used in derivatives transactions from the levy.

Upcoming committee and working group meetings/conferences

Meetings:

Members Meeting – Kuala Lumpur	July 7
APAC IRD Ops Working Group Meeting – Hong Kong	July 7
Members' Talk on Issues and Impacts Surrounding Netting in Malaysia– Kuala Lumpur	July 8

APAC Equity Ops Working Group Meeting – Hong Kong	July 14
ISDA 2011 Regulatory Workshop – Hong Kong	July 21
L&R North Asia Meeting	July 26
L&R South Asia Meeting	July 28

Conferences:

Kuala Lumpur	
ISDA/IIFM Islamic Master Agreement conference	July 6
Understanding the ISDA Master Agreement and Credit Support Document Conference	July 7
Documenting and Confirming Rate and FX and Currency Option Transactions Conference	July 8

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