

APAC Monthly Update

April 2014

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

Regulatory Activities

On April 2, ISDA made a presentation on US regulatory developments to the FOW Derivatives World Asia 2014 conference. ISDA also moderated a panel of ISDA members discussing the evolution of SEFs and their impact on Asia Pacific markets.

On April 3, ISDA made a presentation to Hong Kong's SFC on 1) Asian CCPs' efforts to attain QCCP status and third country recognition, 2) developments in mandatory close-out stay periods, and 3) the impact of SEFs on Asia Pacific markets.

Committee/Working Group Activities

North Asia L&R

On April 29, ISDA held its Asia-Pacific Legal and Regulatory Committee Meeting in Hong Kong. On North Asia related matters, ISDA provided updates on the circular released by HKMA on the intent to implement final standard on capital requirements for bank exposures to central counterparties, the circular released by HKMA on the intent to implement final standards on the standardized approach for measuring counterparty risk exposures, ISDA's submission on the Hong Kong consultation paper on the FI resolution regime, the announcement in Hong Kong of its new phase of trade reporting, the passing of the Securities and Futures (Amendment) Bill 2013, the plan by the FSC in Korea to overhaul the net capital ratio (NCR) rules for securities companies and an update on the Korean law CSA, in particular the bridging clauses.

On Australia, ISDA updated the meeting on the ISDA submission on the proposal paper on G4 IRD Clearing Mandate, the Report released by RBA, APRA and ASIC on the Australian OTC Derivatives Market and the ISDA submission on the Final Terms of Reference for the Financial System Inquiry. On India, the meeting discussed CCIL's amendments to its bye-laws, forex forward regulations and rupee IRS and FRA regulations, the notification on Financial Benchmarks – Governance Framework for Benchmark Submitters released by RBI, the soft launch conducted by CCIL of its CCP clearing of Rupee denominated Interest Rate Swaps and Forward Rate Agreements, RBI's circulars on the exposure norms for stand-alone PDs and capital requirements for stand-alone PDs ' exposure to interest rate derivative contracts, repo/reverse repo transactions and central counterparties and RBI's circular on the implementation of Basel III Capital Regulations in India- Capital Planning.

ISDA also provided a quick update on various papers and research notes which released during the ISDA AGM in Munich, for example, the publication of the results of the ISDA 2014 Margin Survey, the

research note analyzing the impact of MAT regulation on market regulation, the study published by ISDA on the sizes and uses of the non-cleared derivatives market, the research paper published by ISDA on the value of OTC derivatives. ISDA also published the OTC Derivatives Compliance Calendar. On global developments, ISDA provided an update on the final framework released by BCBS on bank exposures to CCPs, the progress report published by BCBC on the implementation of the Basel regulatory framework and the final standards issued by BCBS on measuring and controlling large exposures. In addition, the meeting considered the approval by the European Parliament of MiFIR/MiFID2, the launch by the European Supervisory Authorities on the draft RTS on risk-mitigation techniques for non-cleared OTC derivatives, including the minimum standards on margin requirements for non-centrally cleared derivatives, the release of a consultation by the European Commission on FX financial instruments, the FSB's Seventh Progress Report and the report issued by the ODRG on cross-border implementation issues related to global reform.

South Asia L&R

On April 24, ISDA held its Asia-Pacific Legal and Regulatory Committee Meeting in Singapore. Members raised two topics for discussion, the first being a discussion on the 6-month SGD-SOR-VWAP as well as certain queries relating to trade reporting requirements in Singapore.

On Australia, ISDA updated the meeting on the ISDA submission on the proposal paper on G4 IRD Clearing Mandate, the Report released by RBA, APRA and ASIC on the Australian OTC Derivatives Market and the ISDA submission on the Final Terms of Reference for the Financial System Inquiry.

On India, the meeting discussed CCIL's amendments to its bye-laws, forex forward regulations and rupee IRS and FRA regulations, the notification on Financial Benchmarks – Governance Framework for Benchmark Submitters released by RBI, the soft launch conducted by CCIL of its CCP Clearing of Rupee denominated Interest Rate Swaps and Forward Rate Agreements, RBI's circulars on the exposure norms for stand-alone PDs and capital requirements for stand-alone PDs ' exposure to interest rate derivative contracts, repo/reverse repo transactions and central counterparties and RBI's circular on the implementation of Basel III Capital Regulations in India- Capital Planning.

The meeting also considered the possibility of holders of participatory notes of being taxed in India, the subsidiarization of large foreign banks in India and the liberalization of the booking for forward contracts with respect to resident investors. ISDA also updated the meeting on the termination of the Bilateral Investment Treaty entered into between Indonesia and the Netherlands and the No-Action Letter issued by the CFTC on March 28 to SGX-DC and its members.

On North Asia related matters, ISDA provided updates on the circular released by HKMA on the intent to implement final standard on capital requirements for bank exposures to central counterparties, the circular released by HKMA on the intent to implement final standards on the standardized approach for measuring counterparty risk exposures, ISDA's submission on the Hong Kong consultation paper on the FI resolution regime, the announcement in Hong Kong of its new phase of trade reporting, the passing of the Securities and Futures (Amendment) Bill 2013, the plan by the FSC in Korea to overhaul the net capital ratio (NCR) rules for securities companies and an update on the Korean law CSA, in particular the bridging clauses.

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ISDA updated its paper on the Standard Initial margin for Non-Cleared Derivatives with an appendix on risk factors and idiosyncratic risk. ISDA had also announced the outcome of its annual determinations committee and published the form of CFTC IM Segregation Right Notice.

On global developments, ISDA provided an update on the final framework released by BCBS on bank exposures to CCPs, the progress report published by BCBC on the implementation of the Basel regulatory framework and the final standards issued by BCBS on measuring and controlling large exposures.

In addition, the meeting considered the approval by the European Parliament of MiFIR/MiFID2, the launch by the European Supervisory Authorities on the draft RTS on risk-mitigation techniques for non-cleared OTC derivatives, including the minimum standards on margin requirements for non-centrally cleared derivatives, the release of a consultation by the European Commission on FX financial instruments, the FSB's Seventh Progress Report and the report issued by the ODRG on cross-border implementation issues related to global reform.

Operations/Market Infrastructure

On April 3, ISDA held its APAC Interest Rates Derivatives Operations Working Group meeting to brief members on the latest regional developments on rates. The group also discussed the addition/amendment of floating rate options/matrices, the confirmation practice, changes in certain rate fixings and the recent industry documentation practice for CNH transactions.

On April 24, ISDA held its APAC Equity Derivatives Operations Working Group meeting to discuss the progress of confirming accumulator/decumulator electronically, the practice of executing a confirmation, the electronic confirmation migration of a vendor and the addition of a parameter in confirming an option product electronically.

On April 1, 8 and 22, ISDA held its AEJ Data and Reporting Compliance – reporting nexus sub-group meetings to discuss the reporting nexus relief requests and the technical challenges of implementation in the region.

On April 3, 10 and 24, ISDA held its AEJ Data and Reporting Compliance – Asia identifiers & delegated reporting sub-group meetings to discuss the application of trade identifiers and delegated reporting in Australia, Hong Kong and Singapore together with the current technological limitations.

On April 28, ISDA held its AEJ Data and Reporting Compliance working group meeting to discuss the trade reporting progress in the region. The meeting also addressed the regulatory updates in Hong Kong, Singapore and Australia.

Regulatory Developments

Australia:

Central clearing proposal for Australian dollar IRS

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On April 3, the Reserve Bank of Australia, Australian Prudential Regulation Authority and Australian Securities Investments Commission (the Regulators) released a Report on the Australian OTC Derivatives Market – April 2014. The regulators recommend the government consider a central clearing mandate for trades between internationally active dealers for Australian dollar-denominated interest rate derivatives. The Regulators do not see a case for implementing a central clearing mandate for North American, European and Japanese referenced credit index derivatives at this time, and also do not believe it is

appropriate to mandate central clearing for non-dealers. There is no specific recommendation regarding a mandatory platform trading obligation at this time.

Agreement with US for tax compliance and FATCA implementation

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On April 28, the Treasurer on behalf of the Australian Government, signed an intergovernmental agreement with the United States to improve international tax compliance and implement FATCA. The Government has drafted legislation to give effect to Australia's obligations under this agreement. Effective from July 1, these amendments will require Australian financial institutions to collect information about their customers as necessary. Deadline for comments on the design of the amendments and the accompanying explanatory material is May 9.

Hong Kong:

HKMA to launch new phase of trade reporting

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On March 31, the Hong Kong Monetary Authority (HKMA) announced that the new phase of the OTC derivatives Trade Repository (HKTR) will be launched in September. In this new phase, 15 products in FX, rates and equity will be introduced and institutions can report on a voluntary basis. HKMA has also updated the Reference Manual for Reporting Service and the Administration and Interface Development Guide to accommodate these new products, together with some refinements to the existing procedures and technical specifications for reporting. Another batch of products will be added by the end of 2015 to complete the product coverage of the HKTR.

Legco passed Securities and Futures (Amendment) Bill

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At the Legislative Council (Legco) meeting on March 26, the Council passed the Securities and Futures (Amendment) Bill 2013 with amendments moved by Secretary for Financial Services and the Treasury at the Committee Stage. The Bill includes the introduction of mandatory reporting, clearing and trading obligations in line with G20 commitments. It provides for regulating and overseeing key players in the over-the-counter derivatives market, introducing two new regulated activities to cover activities of dealers, advisers and clearing agents. Asset management and automated trading services provisions will also be expanded to cover over-the-counter derivative portfolios and transactions.

The Bill also provides for the regulation of systemically important participants who are not licensed or registered with either HKMA or SFC, but whose positions or transactions in the OTC derivative market are so significant that they may nevertheless raise concerns of potential systemic risks. The amendments introduced at the Committee Stage include, among others, adding a record keeping obligation and some clarifying language which states that even if a transaction contravenes the mandatory reporting, clearing, trading or record keeping obligation, this should not of itself affect the validity and enforceability of the transaction.

In view of the passage of the Bill, it is anticipated that the additional consultation papers to introduce new sub-legislations, codes and/or guidelines will come through in Q2 of 2014.

HKMA issues final standard on CCP bank exposures capital requirements

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On April 16, HKMA released a circular on their intent to implement the final standard published by the Basel Committee on Banking Supervision (BCBS) on April 10, Capital requirements for bank exposures to central counterparties.

This will be implemented through the amendment of the banking (Capital) Rules in accordance with the BCBS timetable. The industry will be consulted on the implementation proposals in due course.
HKMA final standard on counterparty risk exposures measurement

HKMA final standard on counterparty risk exposures measurement

On April 10, HKMA released a circular on their intent to implement the final standard that was published by BCBS on March 31 on the standardized approach for measuring counterparty risk exposures. The new standardized approach (SA-CCR) will replace the existing non-modeled counterparty credit risk (CCR) measurement approaches (i.e., the Current Exposure Method (CEM) and the Standardized Method) in the Basel capital adequacy framework. HKMA's current intent is to implement the SA-CCR in accordance with the BCBS timetable. The industry will be consulted on the implementation proposals in due course.

India:

RBI's circular on primary dealer's clearing exposure

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On March 27, the Reserve Bank of India (RBI) issued a circular on the Exposure Norms for Standalone PDs. Effective April 1, as an interim measure, a standalone primary dealer's clearing exposure to a Qualifying Central Counterparty (QCCP) will be kept outside the exposure ceiling of 25% of its net owned funds applicable to a single borrower/counterparty.

CCIL amends its bye-laws and regulations

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On April 23, The Clearing Corporation of India Ltd. (CCIL) made certain amendments to its Bye-Laws and Regulations. A new Chapter XV was inserted in the Bye-Laws providing for, among others, that in the event of CCIL filing for voluntary winding-up or if any insolvency proceeding is admitted against CCIL before any court or tribunal, all outstanding trades with CCIL under all segments shall be terminated by way of close-out at a predetermined price as may be notified. A new Bye-Law 16 was also inserted to provide that in the event of any default or insolvency of CCIL, a non-defaulting member shall have the right of set-off of the net payables or net receivables across all segments of CCIL that have become due and payable resulting in a net pay-in or net pay-out position. The Forex Forward Regulations of CCIL were also amended to provide that on receipt of a notice seeking termination and close out, CCIL shall at its discretion, not later than two business days thereafter, by notifying all members of this segment to effect close-out of outstanding trades of such member or to close-out all outstanding trades in the segment.

South Korea:

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KOFIA amends rules to prevent serious financial incidents

On March 18, the Korea Financial Investment Association (KOFIA) amended Financial Investment Company Model Rules for Preventing Financial Accidents (Korean only) to prevent any future recurrence of disastrous financial incidents like the default of HanMag Securities.

This rule, among others, was implemented to limit daily order amounts of self-account transaction by financial investment companies to the ratio which they set up within 50% of their net working capital which is calculated based on #3-11 in the rulebook for Financial Investment Business of the Korea Financial Services Committee (FSC). Members of KOFIA must comply with this rule which will take immediate effect.

FSC plans to overhaul NCR Rules for securities companies

On April 8, the Financial Services Commission (FSC) announced its plan to amend the net capital ratio (NCR) rules for securities companies as part of its effort to revitalize the country's capital markets. Key changes include a modification to the NCR formula:

- Current NCR(%) = (net operating capital/gross risks)*100
- Revised NCR(%)=[(net operating capital -gross risks)/sum of equity capital required to maintain each business unit's license]*100

Until the end of 2015 securities firms can use either the current or revised NCR formula. From 2016 onwards, all securities should apply the revised NCR formula.

The FSC will also introduce consolidated computations of NCR for all securities firms with subsidiaries under the K-IFRS in 2016. Prior to the full implementation, the consolidated NCR rule will be applied to large securities companies in 2015 as a pilot scheme. In addition, securities companies' corporate loans will be reflected into credit risks, instead of being subtracted from net operating capital. This adjustment will be implemented as soon as relevant regulations are revised in the third quarter of 2014.

Cabinet approves Enforcement Decree of the Covered bond Act

On April 8, the Enforcement Decree of the Covered Bond Act was approved by the Korea cabinet and will come into force starting from April 15. Key contents include:

- Eligible Issuers: financial institutions are required to meet both institutional and eligibility requirements to issue covered bonds and institutions are designated by Enforcement Decree;
- Cover Pool: the minimum ratio of collateralization is 105%. Underlying assets in a cover pool need to be evaluated by market prices if there are credible market prices as a reference price. In the absence of market prices, the assets can be evaluated by book value or acquisition prices;
- Issuance Cap: covered bond issuance is limited to 4% of the issuer's total assets.

Upcoming committee and working group meetings/conferences

Meetings:

Members' Meeting – Shanghai	May 7
Members' Meeting – Sydney	May 20
AEJ data and reporting compliance working group monthly Meeting	May 26
North Asia L&R Meeting	May 27
South Asia L&R Meeting	May 29

Conference:

OTC Derivatives Clearing Conference – Shanghai	May 8
The New 2014 ISDA Credit Derivatives Definitions – Sydney	May 21
Swap Execution Facilities: The Evolution of OTC Trading – Sydney	May 22
Transaction Reporting Conference Asia Pacific Requirements – Sydney	May 23
Transaction Reporting Conference Asia Pacific Requirements – Hong Kong	May 29
The New 2014 ISDA Credit Derivatives Definitions – Hong Kong	May 30

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