

Closed Days Template Guidance - Equity Derivatives
2019 Japanese Golden Week

This version amends and supersedes the previously issued guidance dated 15 April 2019

The International Swaps and Derivatives Association, Inc. ("ISDA") announces the following guidance for parties to over-the-counter derivative transactions that are affected by forthcoming holiday period described below.

The Japanese government has approved a special national holiday corresponding with the accession of Crown Prince Naruhito as emperor. Under Japanese law, this will result in six consecutive weekday holidays in the spring of 2019 (for a ten day total stretch of non-business days from and including Monday April 29, 2019 to and including Monday May 6, 2019). Further detail regarding the dates can be found here, and detail evidencing the November 13, 2018 Cabinet approval of the related bill can be found here.

As a consequence, it is ISDA's understanding that the Tokyo Stock Exchange, the Osaka Securities Exchange, the Japan Securities Depository Center, Inc., the Bank of Japan and Japanese commercial banks are expected to be closed (including for dealings in foreign exchange and foreign currency deposits) during such period.

ISDA is issuing this guidance in the interest of mitigating market risk and the promotion of orderly and efficient valuation and settlement of positions by market participants. This guidance illustrates the consequences of the market closure event based on the default provisions described the main definitional booklets and specified Master Confirmation Agreements. This guidance does not provide views on conventions or consequences, which parties may have bilaterally agreed, that deviate from such defaults. This guidance is not legal advice and market participants should consult their legal advisors as appropriate. Market participants should not rely on this guidance for any purpose but should review the contractual terms of each affected transaction in order to understand the effects of the events described above. ISDA does not assume any responsibility for this guidance and it is not intended to set a precedent. Parties are not obliged to follow this guidance and may choose alternate means of addressing the aforementioned event. In addition, firms should consider contacting their counterparties in advance of Friday April 26, 2019 to discuss the consequences for their transactions.

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1 Three additional spring 2019 holidays were announced (April 30, May 1 and May 2), the other holidays were already in the calendar
2 https://www.jpx.co.jp/english/news/1030/20181221-01.html
3 http://www.jasdec.com/en/download/news/20181221_release_en.pdf
4 https://www.boj.or.jp/en/about/outline/holi.htm/
5 https://www.zenginkyo.or.jp/topic/era/ and https://www.zenginkyo.or.jp/fileadmin/res/topic/era/era.pdf

Guidance

1 2002 ISDA Equity Derivatives Definitions⁶

ISDA understands that Exchanges and Related Exchanges in Tokyo will not be open for trading on the dates in the period from and including April 29, 2019 to and including May 6, 2019 (the “**Relevant Dates**”)⁷ and therefore the Relevant Dates should not be treated as an Exchange Business Day.

This guidance has been produced on the basis that the Relevant Dates are not Scheduled Trading Days. This is consistent with the approach adopted in relation to previous guidance ISDA has issued in relation to market closure events. However, ISDA is aware that some market participants have interpreted ‘Scheduled Trading Day’ by reference to the schedule as at the Trade Date of the relevant Transaction and may therefore consider the Relevant Dates to be Scheduled Trading Days. Where parties agree that the additional holidays (April 30, May 1 and May 2) constitute a non-scheduled closure, then such additional holidays should not be treated an Exchange Business Day but should be treated as a Scheduled Trading Day that is a Disrupted Day and the guidance set out in this document should be adjusted accordingly.

1.1 *Exercise/expiration of Option Transactions*

Exercise

If a Commencement Date, Potential Exercise Date (Bermuda Option) or Expiration Date (European, Bermuda or American Options) falls on the Relevant Date, such Commencement Date, Potential Exercise Date or Expiration Date should be moved to the next following Scheduled Trading Day. If the Relevant Date falls in the Exercise Period for an American Option and the Option Buyer purports to exercise the Option on the Relevant Date, exercise will be deemed to take place on the next following Scheduled Trading Day.

1.2 *Valuation of Options, Swaps and Forwards*

Valuation Date

If a Valuation Date in respect of a Transaction falls on the Relevant Date and Futures Price Valuation does not apply, such Valuation Date should be moved to the next following Scheduled Trading Day (which is expected to be May 7, 2019).

⁶ This guidance covers Transactions documented under the 2002 ISDA Equity Derivatives Definitions and also Transactions documented under the Japanese Variance Swap MCAs. It does not cover any additional supplements, master confirmations or standard terms used in conjunction with the 2002 ISDA Equity Derivatives Definitions, as evidenced in the relevant Section of this document.

⁷ <https://www.jpx.co.jp/english/news/1030/20181221-01.html>

If Futures Price Valuation applies to an Index Transaction, and the Official Settlement Price is published on the Valuation Date, such day should be treated as the Valuation Date irrespective of whether such day is a Scheduled Trading Day.

Averaging

If an Averaging Date in respect of a Transaction falls on the Relevant Date, such Averaging Date should be moved to the next following Scheduled Trading Day (which is expected to be May 7, 2019).

1.3 Payments

It is ISDA's understanding that commercial banks and the Japan Securities Depository Center, Inc. will not be open on the Relevant Dates⁸. Accordingly, the Relevant Dates will not be a Currency Business Day or a Clearance System Business Day in Tokyo.

Each Cash Settlement Payment Date, Premium Payment Date, Dividend Payment Date or Prepayment Date that is specified in the Confirmation will be moved to the next following Currency Business Day for the relevant currency, expected to be May 7, 2019. Payments falling due on an Initial Exchange Date, Final Exchange Date or Prepayment Date (where the Prepayment Date is not otherwise specified in the Confirmation) should move to the next following Currency Business Day for the relevant currency that is also an Exchange Business Day, which is expected to be May 7, 2019.

Deliveries due on a Settlement Date falling on a Relevant Date will be made on the next following Clearance System Business Day, expected to be May 7, 2019.

2 2006 Japan Interdealer Master Variance Swap Confirmation Agreement and 2006 Japan Master Variance Swap Confirmation Agreement (together, the "Japanese Variance Swap MCAs").

The following guidance is for Index Variance Swap Transactions and Share Variance Swap Transactions confirmed under a Japanese Variance Swap MCA.

2.1 Expected N

"Expected N" is defined in the Japanese Variance Swap MCAs as "*The number specified as such in the relevant Transaction Supplement or, if not so specified, the number of days that, as of the Trade Date, are expected to be Scheduled Trading Days for the period from, but excluding, the Observation Start Date to, and including, the Scheduled Valuation Date.*".

Unless otherwise specified, if the Trade Date of such a Variance Swap Transaction is before the announcement by the Tokyo Stock Exchange and the Osaka Securities Exchange⁹, Expected N will

⁸ http://www.jasdec.com/en/download/news/20181221_release_en.pdf

⁹ <https://www.jpx.co.jp/english/news/1030/20181221-01.html>

include the additional holidays (April 30, May 1 and May 2) that fall in the period from, but excluding, the Observation Start Date to, and including, the Scheduled Valuation Date.

2.2 Observation Days

Observation Days are defined in the Japanese Variance Swap MCAs as “*each Scheduled Trading Day that is not a Disrupted Day during the Observation Period. Section 6.6 [(or, if “Futures Price Valuation” has been specified as applicable in the relevant Transaction Supplement, Sections 6.8(a) and 6.8(e))]*¹⁰ of the Equity Definitions shall not be applicable to any Observation Day other than the Observation End Date, in which case P_t ... in respect of the Observation End Date shall be determined in accordance with the applicable section of the Equity Definitions.”; Observation Period is defined as “*the period from, but excluding, the Observation Start Date to, and including, the Observation End Date*”; the Observation Start Date is the Trade Date (unless otherwise specified); and the Observation End Date is the Valuation Date.

Any day during the Observation Period that falls on Relevant Date (except for the Observation End Date) will not be an Observation Day. If the Observation End Date (i.e. the Valuation Date) falls on a Relevant Date, such date will be adjusted either (i) in accordance with Section 6.6 of the 2002 ISDA Equity Derivatives Definitions (see paragraph 1.2 above) if such date is interpreted to be a Scheduled Trading Day; or (ii) in accordance with Section 6.2 of the 2002 ISDA Equity Derivatives Definitions if such date is interpreted not to be a Scheduled Trading Day, and P_t in respect of such Observation End Date will be determined accordingly.

If Futures Price Valuation is applicable and the Valuation Date falls on a Relevant Date and the Official Settlement Price is not published on such date, the Observation End Date (i.e. the Valuation Date) will be postponed and will be the first succeeding Scheduled Trading Day on which the Official Settlement Price is published (which is expected to be May 7, 2019).

3 2011 ISDA Equity Definitions

The following guidance is for equity derivative transactions (“ED Transactions”) confirmed under the Equity Matrix for Index Volatility Swaps (General Terms Confirmation, Definitions, and Terms Supplement) where the terms defined in such Equity Matrix are sourced from the 2011 ISDA Equity Derivatives Definitions.

3.1 Scheduled Trading Day

For such ED Transactions, whether or not a day is a Scheduled Trading Day is determined as of the Trade Date. As such, if the Trade Date of the relevant transaction is before the announcement by the Tokyo Stock Exchange and the Osaka Securities Exchange¹¹, each of the additional holidays (April 30, May 1 and May 2) should therefore still be a Scheduled Trading Day.

¹⁰ Applies to Index Variance Swaps only

¹¹ <https://www.jpx.co.jp/english/news/1030/20181221-01.html>