

15 April 2021

## Closed Days Template Guidance - Equity Derivatives

### Japanese summer 2021 holiday changes

The International Swaps and Derivatives Association, Inc. (“ISDA”) announces the following guidance for parties to over-the-counter derivative transactions that are affected by the Japanese summer 2021 holiday changes described below.

*On 10<sup>th</sup> June 2020<sup>1</sup> the Japanese government announced (the “**Announcement**”) changes to the following holidays during the summer in preparation for the rescheduled 2020 Tokyo Summer Olympics and Paralympic Games.*

- 1. Marine Day – originally falling on the third Monday of July (19<sup>th</sup> July 2021), rescheduled to 22<sup>nd</sup> July 2021.*
- 2. Sports Day – originally falling on the second Monday of October (11<sup>th</sup> October 2021), rescheduled to 23<sup>rd</sup> July 2021.*
- 3. Mountain Day – originally falling on 11<sup>th</sup> August 2021, rescheduled to 8<sup>th</sup> August 2021 (Sunday) and observed on 9<sup>th</sup> August 2021.*

*Further details regarding the dates can be found [here](#), and details evidencing the enactment on 27<sup>th</sup> November 2020 and the promulgation on 4<sup>th</sup> December 2020 can be found [here](#) and [here](#) (Japanese only).*

*As a consequence, it is ISDA’s understanding that on 22<sup>nd</sup> July, 23<sup>rd</sup> July and 9<sup>th</sup> August 2021 the Tokyo Stock Exchange, the Osaka Securities Exchange,<sup>2</sup> the Japan Securities Depository Center, Inc,<sup>3</sup> the Bank of Japan<sup>4</sup> and Japanese commercial banks are expected to be closed (including for dealings in foreign exchange and foreign currency deposits).*

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 in 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. Where this guidance assumes the opening of markets as anticipated in the announcements detailed above, market participants should be aware that the guidance may change to the extent that the markets do not open as anticipated. **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

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<sup>1</sup> <https://www.qppstudio.net/public-holidays-news/2020/japan-announces-2021-olympics-public-holidays-012850.htm>

<sup>2</sup> <https://www.jpx.co.jp/english/corporate/about-jpx/calendar/>

<sup>3</sup> <http://www.jasdec.com/en/download/data/E01.pdf>

<sup>4</sup> <https://www.boj.or.jp/en/about/outline/holi.htm/>

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 to discuss the consequences for their transactions.

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## *Guidance*

### **1 2002 ISDA Equity Derivatives Definitions (the “2002 Equity Definitions”)<sup>5</sup>**

#### **1.1 *Exchange Business Days; Scheduled Trading Days***

##### **Original Holidays**

ISDA understands that the Tokyo Stock Exchange and the Osaka Securities Exchange (the “**Japanese Exchanges**”) will be open for trading on 19<sup>th</sup> July, 11<sup>th</sup> August and 11<sup>th</sup> October 2021 (the “**Original Holidays**”) and therefore such dates should be treated as Exchange Business Days for those exchanges.

This guidance has been produced on the basis that each Original Holiday is a Scheduled Trading Day when the Japanese Exchanges are the Exchange or the Related Exchange for a Transaction. This is consistent with the approach adopted in relation to previous guidance by ISDA where the relevant announcement of a change in trading schedule has been made in advance of the relevant date.

However, ISDA is aware that some market participants have interpreted ‘Scheduled Trading Day’ by reference to the schedule of an Exchange/Related Exchange as at the Trade Date of the relevant Transaction and may therefore consider an Original Holiday to be a non-Scheduled Trading Day. Where parties adopt this approach to a Scheduled Trading Day then, for the purposes of a Transaction with a Trade Date prior to the Announcement Date, each Original Holiday will not be a Scheduled Trading Day for the Japanese Exchanges and the guidance set out in this document should be adjusted accordingly.

##### **Rescheduled Holidays**

ISDA understands that the Japanese Exchanges will not be open for trading for their respective regular trading sessions on 22<sup>nd</sup> July, 23<sup>rd</sup> July and 9<sup>th</sup> August 2021 (the “**Rescheduled Holidays**”) and therefore such dates should not be treated as an Exchange Business Day for those exchanges.

The Announcement was made one year prior to the Rescheduled Holidays. This guidance has therefore been produced on the basis that the closures of the Japanese Exchanges are

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<sup>5</sup> This Section of the guidance covers Transactions documented under the 2002 Equity Definitions and also Transactions documented under the master confirmation agreements detailed below. It does not cover any additional supplements, master confirmations or standard terms used in conjunction with the 2002 Equity Definitions.

scheduled and that each Rescheduled Holiday is therefore not a Scheduled Trading Day when either the Exchange or Related Exchange is one of the Japanese Exchanges. This is consistent with the approach adopted in relation to previous guidance by ISDA where the relevant announcement of a change in trading schedule has been made in advance of the relevant date.

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 a Rescheduled Holiday to be a Scheduled Trading Day when either the Exchange or Related Exchange is one of the Japanese Exchanges. Where parties agree that a Rescheduled Holiday constitutes a non-scheduled closure, then such Rescheduled Holiday should not be treated as 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 in accordance with the consequences for Disrupted Days set out in the 2002 Equity Definitions and, if relevant, in the applicable Master Confirmation Agreement.

## **1.2 *Exercise/expiration of Option Transactions***

### **Original Holidays**

If a Commencement Date, Potential Exercise Date (Bermuda Option) or Expiration Date falls on an Original Holiday, such Commencement Date, Potential Exercise Date or Expiration Date will occur on such date. If an Original Holiday falls in the Exercise Period for an American Option and the Option Buyer purports to exercise the Option on such Original Holiday, exercise will occur on such date.

### **Rescheduled Holidays**

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

## **1.3 *Valuation of Options, Swaps and Forwards***

### ***Valuation Date***

#### **Original Holidays**

If a Valuation Date in respect of a Transaction falls on an Original Holiday, such Valuation Date should take place on such date.

#### **Rescheduled Holidays**

If a Valuation Date in respect of a Transaction falls on a Rescheduled Holiday, such Valuation Date should be moved to the next following Scheduled Trading Day (see table below).

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 Dates*

#### **Original Holidays**

If an Averaging Date in respect of a Transaction falls on an Original Holiday, such Averaging Date should take place on such date.

#### **Rescheduled Holidays**

If an Averaging Date in respect of a Transaction falls on a Rescheduled Holiday, such Averaging Date should be moved to the next following Scheduled Trading Day (see table below).

## **1.4 Payments**

#### **Original Holidays**

It is ISDA's understanding that commercial banks and share clearance and settlement systems will be open on the Original Holidays. Accordingly, each Original Holiday will be a Currency Business Day and a Clearance System Business Day in Tokyo. Any payment in respect of a Cash Settlement Payment Date, Premium Payment Date, Dividend Payment Date, Prepayment Date, Initial Exchange Date or Final Exchange Date falling on each Original Holiday should be made on that date. Any delivery in respect of a Settlement Date falling on an Original Holiday should also be made on that date.

#### **Rescheduled Holidays**

It is ISDA's understanding that commercial banks and share clearance and settlement systems will not be open on the Rescheduled Holidays. Accordingly, each Rescheduled Holiday 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. Payments falling due on an Initial Exchange Date, Final Exchange Date or Prepayment Date (where the Prepayment Payment 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 (see table below).

Deliveries due on a Settlement Date falling on a Rescheduled Holiday will be made on the next following Clearance System Business Day (see table below).

## **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 of the closures on the Rescheduled Holidays by the Japanese Exchanges (7 January 2021), Expected N will not include the Original Holidays but will include the Rescheduled Holidays if such dates fall in 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 on or after the announcement of the closures on the Rescheduled Holidays by the Japanese Exchanges (7 January 2021), Expected N will include the Original Holidays but will not include the Rescheduled Holidays if such dates fall in the period from, but excluding, the Observation Start Date to, and including, the Scheduled Valuation Date.

## 2.2 *Observation Days (other than the Valuation Date)*

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))] of the Equity Definitions shall not be applicable to any Observation Day other than the Observation End Date, in which case Pt ... 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 a Rescheduled Holiday (except for the Observation End Date) will not be an Observation Day. If a day during the Observation Period falls on an Original Holiday it will be an Observation Day.

## 2.3 *Valuation Date*

If the Observation End Date (i.e. the Valuation Date) falls on a Rescheduled Holiday, the Valuation Date will be adjusted to the next Scheduled Trading Day.

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<sup>6</sup> Applies to Index Variance Swaps only

If Futures Price Valuation is applicable and the Valuation Date falls on a Rescheduled Holiday and the Official Settlement Price is:

- (i) not published on such date, the Valuation Date will be postponed and will be the first succeeding Scheduled Trading Day on which the Official Settlement Price is published; or
- (ii) published on such date, the Valuation Date will be such Rescheduled Holiday.

**2.4** Table of expected following Scheduled Trading Day, Exchange Business Day, Currency Business Day, and Clearance System Business Day.

<b>Rescheduled Holiday</b>	<b>Expected following Scheduled Trading Day, Exchange Business Day, Currency Business Day, and Clearance System Business Day</b>
22 July 2021	26 July 2021
23 July 2021	26 July 2021
9 August 2021	10 August 2021

**3 2005 Japanese Interdealer Master Equity Derivatives Confirmation Agreement**

The guidance set out in paragraph 1 above should be equally applicable to Transaction documented under the 2005 Japanese Interdealer Master Equity Derivatives Confirmation Agreement (and the Annexes attached to it).

**4 2008 Japanese Master Equity Derivatives Confirmation Agreement**

The guidance set out in paragraph 1 above should be equally applicable to Transaction documented under the 2008 Japanese Master Equity Derivatives Confirmation Agreement (and the Annexes attached to it).

**5 Revised 2008 Japanese Dividend Swap Master Confirmation Agreement**

The guidance set out in paragraph 1 above should be equally applicable to Transaction documented under the Revised 2008 Japanese Dividend Swap Master Confirmation Agreement (and the Annex attached to it).

**6 Pan-Asia Interdealer Master Equity Derivatives Confirmation Agreement (the “Pan-Asia MCA”)**

**6.1** The guidance set out in paragraph 1 above should be equally applicable to Transaction documented under the 2009 Pan-Asia Interdealer Master Equity Derivatives Confirmation Agreement (and the Annexes attached to it).

**6.2** However, in addition, the following points should be noted for the Pan-Asia Interdealer Index Swap General Terms Confirmation (“**PAIIS**”)

### 6.2.1 *Scheduled Trading Day where Multiple Exchange applies*

For Index Transactions where Multiple Exchange applies, “Scheduled Trading Day” is defined as any day on which (a) the Index Sponsor is scheduled to publish the level of the Index, and (b) the Related Exchange is scheduled to be open for trading during its regular trading session.

As such, for Index Transactions where Multiple Exchange applies and assuming that a Japanese Exchange is a Related Exchange (i.e. an exchange where trading has a material effect on the overall market for futures or options contracts relating to the Index), if the Index Sponsor:

- (i) is scheduled to publish the level of the Index on an Original Holiday, such day should be treated as a Scheduled Trading Day; and
- (ii) is not scheduled to publish the level of the Index on a Rescheduled Holiday, such day should not be treated as a Scheduled Trading Day.

### 6.2.2 *Valuation*

If the Final Price election is ‘Close’ and the final Valuation Date falls on a Rescheduled Holiday (not being a Scheduled Trading Day), in accordance with Section 6.2, the Valuation Date would move to the next Scheduled Trading Day.

If the Final Price election is “Hedge Execution”, there will be no impact and the Final Execution Period will be extended out as necessary to allow the Hedging Party to terminate its Hedge Positions.

If a Termination Notice (pursuant to an Optional Early Termination) is delivered on a Rescheduled Holiday, as such day will not be an Exchange Business Day, the Termination Notice shall be deemed to have been given at the opening of business on the next Exchange Business Day.

### 6.2.3 *Component Security Scheduled Trading Day*

“Component Security Scheduled Trading Day” is defined as, in respect of a Component Security, any day on which the Exchange is scheduled to be open for trading for its regular trading session. As such,

- (i) each Original Holiday should be treated as a Component Security Scheduled Trading Day; and
- (ii) each Rescheduled Holiday should not be treated as a Component Security Scheduled Trading Day.

## **7 2011 ISDA Equity Definitions – Index Volatility Swaps**

The following guidance is for equity derivative 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 (“**Index Volatility Transactions**”).

### **7.1 *Scheduled Trading Day***

For such Index Volatility Transactions, a Scheduled Trading Day is a day that is both a scheduled Exchange Business Day (determined as of the Trade Date) and a day on which the Index Sponsor is scheduled to publish a value for the Index (determined as of the Trade Date). As such, where the relevant Exchange is a Japanese Exchange, if the Trade Date of the relevant Transaction is:

- (i) before the date on which that Japanese Exchange updated their trading calendar (7 January 2021), a Rescheduled Holiday should be a Scheduled Trading Day and an Original Holiday would not be a Scheduled Trading Day; and
- (ii) after the date on which that Japanese Exchange updated their trading calendar (7 January 2021), an Original Holiday would be a Scheduled Trading Day and a Rescheduled Holiday would not be a Scheduled Trading Day.