

ISDA® JAPAN MONTHLY UPDATE

April 2013

COMMITTEE ACTIVITIES

REGULATORY: Contact: Tomoko Morita (tmorita@isda.org)

Margin requirements for non-centrally-cleared derivatives:

On April 17, ISDA met with Japan FSA to exchange views on the state of play in margin requirements for non-centrally-cleared derivatives. ISDA explained some of members concerns such as 1) impact on dispute resolution procedures which are under discussions in the industry, 2) development of internal models for initial margins and the approval process by the regulators, 3) legal enforceability of segregating initial margins as well as ability to rehypothecate, 4) impact on CSAs in place and the new CSAs, 5) margin system development, 6) haircut for different types of collaterals and currencies, and 7) definition of SINFE (systemically important non-Financial Entities). ISDA also requested Japan FSA for a clarification of some of the terms and definitions in the second consultative document by BCBS/IOSCO.

Trust Bank's Fund Account Sub-Working Group:

The members of the Sub-Working Group met on April 10 to discuss US regulations and practical issues relating to the swap transactions with Japanese trust accounts including:

1. Applicability of External Business Conduct (EBC) and Swap Trading Relationship Documentation (STRD) rules of the Dodd Frank Act and the necessity of delivery of the August 2012 and March 2013 DF Protocols Questionnaire – i.e. in which cases the EBC and STRD rules become applicable and therefore the delivery of Questionnaires are necessary to continue trading swaps after May 1.
2. Treatment of counterparties with which ISDA Master Agreement is not in place – i.e. whether it is possible to consider complying with EBC and STRD rules by adhering to August 2012 DF Protocol/entering into DF Terms Supplement and March 2013 DF Protocol/applying March 2013 DF Protocol Master Agreement instead of entering into ISDA Master Agreement.
3. CICI for trust funds accounts in Japan – i.e. whether CICI should be obtained per trust bank, not per each trust fund. (e.g. one CICI for all funds for which The Master Trust Bank of Japan, Ltd. is a trustee)
4. Issues relating to bunched swap orders allocated to a U.S. Person/non-U.S. Person

Members tentatively agreed on the above items, and also agreed to revisit the issues when any clarifications are made by regulators.

TRR Working Group: Contact: Kaori Horaguchi (khoraguchi@isda.org)

Japan Financial Instruments Business Operators (FIBOs) have started submitting the trade data officially to JFSA (either directly or via DTCC) with effective April 1, 2013.

At the request of JFSA, a WG meeting has been scheduled for May 15 to be attended by JFSA, DTCC, and Industry Reps who are all DTCC users. The aim to hold a meeting is mainly to share the general updates of

reporting process on post compliance date (April 1) provided from the perspectives of JFSA, DTCC and Industry.

EQUITY DERIVATIVES: Contact Kaori Horaguchi (khoraguchi@isda.org)

ISDA has continuously worked on documenting and implementing the Equity Matrix covering the following products based on 2011 ISDA Equity Derivatives Definitions and some of the Japanese members have been involved in the relevant discussions:

Variance Swap: With regard to the IndxVarSwp-2 ED Transaction Type containing trading disruption language which is different from IndxVarSwp-1 ED Transaction Type in terms of Continuous Bid-up Offer-down Trading Disruption language, ISDA has announced the publication of version 2.1 of the Appendix to the 2011 ISDA Equity Derivatives Definitions on April 10 and it is expected to be implemented in the Q4 of this year and the further discussions on the related issues will be convened in due course.

Accumulators/Decumulators: On April 18, the discussion within members has kicked off based on the first draft of the 2011 Definitions Appendix including ED Transaction Types for Accumulators/Decumulators together with the members' comments to the questionnaires.

UPCOMING COMMITTEE AND WORKING GROUP MEETINGS / CONFERENCES

Japan Regulatory Committee (Japanese and English language meeting)	May 9
TRR Sub Working Group (Japanese language meeting)	May 15
Japan Pre-strategic Meeting (Japanese and English language meeting)	May 21
Netting and Offsetting Seminar: Reporting Derivatives under Japanese GAAP, U.S. GAAP and IFRS Bilateral and Cleared Space (Japanese language symposium)	May 30