

## APAC Monthly Update

**November 2014**

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

### **Regulatory Activities**

#### **Hong Kong:**

On November 13, ISDA met with the HKMA to explain the Resolution Stay Protocol and answer questions.

### **Committee/Working Group Activities**

#### **North Asia L&R**

On 25 November 2014, ISDA held its monthly Legal and Regulatory Committee meeting in Hong Kong. ISDA updated members on the recent regulatory developments in North Asia including the launch of the Shanghai-Hong Kong Stock Connect program, the circular issued by the Chinese regulators regarding tax policy for the Stock Connect investors, the Inland Revenue Department's FAQs relating to the Stock Connect, the intergovernmental agreement between Hong Kong and the US regarding FATCA compliance, the second phase of implementation of the Basel III requirements in Hong Kong, ISDA's letter to the Korean Financial Services Commission with regard to amendments of Article 399 of the Financial Investment Services and Capital Markets Act, KRX's amended rules for clearing and settlement, and new rules issued by the Financial Supervisory Commission in Taiwan to implement the liquidity coverage ratio and liquidity risk monitoring.

For Australia, ISDA briefed the members on its submission to ASX's consultation on CCP recovery. ISDA also updated members on its position paper published on 25 November relating to CCP recovery in general.

With respect to India, ISDA highlighted FIMMDA's proposal to amend the Overnight MIBOR and MIBID rates and urged members to provide comments to FIMMDA by 28 November 2014, SEBI's alignment of derivatives rules for overseas derivatives instruments (ODIs) and ICCL becoming the first entity to be assigned an LEI by CCIL.

For Malaysia, ISDA updated members on the timing of the Netting Bill which should be enacted by the end of December. The Malaysian netting opinion should accordingly be published thereafter. For Singapore, ISDA updated members on the recent publications by MAS on the Securities and Futures (Reporting of Derivatives Contract) (Amendment) (No. 2) Regulations 2014 and MAS' response to feedbacks received for the previous consultation paper on the same.

ISDA also discussed ISDA's Efforts on the Resolution Stay Protocol, ISDA's memo on the recent G20 Summit held in Brisbane, ISDA's comparison note on equivalency of benchmarks between EU and third country regimes (Australia, Japan, India and Singapore). On Global Efforts, ISDA highlighted that the EU intends to recognize India, New Zealand, Canada and Mexico as having equivalent rules to oversee clearing houses.

### **South Asia L&R**

On 27 November 2014, ISDA held its monthly Legal and Regulatory Committee meeting at ING Bank N.V. in Singapore. There were no members topics this month.

For Australia, ISDA briefed the members on its submission to ASX's consultation on CCP recovery. ISDA also updated members on its position paper published on 25 November relating to CCP recovery in general. The meeting also touched on the macroeconomic development between Australia and China signing a Free Trade Agreement to facilitate greater cooperation between the two countries. With respect to India, ISDA highlighted FIMMDA's proposal to amend the Overnight MIBOR and MIBID rates and urged members to provide comments to FIMMDA by 28 November 2014. Shan from JursiCorp dialed in and provided more context. ISDA will separately circulate amendments to its relevant ISDA rate in the 2006 Definitions. Other topics of interest in India included SEBI's alignment of derivatives rules for overseas derivatives instruments (ODIs) and ICCL becoming the first entity to be assigned an LEI by CCIL. ISDA also updated members on the upcoming trip to Mumbai and meeting with RBI and CCIL. ISDA also highlighted another rate change – the PHIREF with respect to the Philippines. Bloomberg has taken over as calculator of the PHIREF from BAP and ISDA has sought comments from members on its draft amendment to its PHIREF rate in the 2006 Definitions. There was discussion on (i) whether a weighted average rate should be referred to instead of the current mid-market rate and (ii) obtaining T-28 hours USD Rate vs a T-2 business day rate.

ISDA updated members on its recent trip to Jakarta, and in particular DNC's presentation to members on the recent regulatory developments in Indonesia. This included the recent Bank Indonesia Regulation on Prudential Principles in the Management of Offshore Borrowing for Non-Bank Institutions (BI regulation 16) to impose restrictions on new offshore financing arrangements entered into by non-banking institutions in Indonesia.

For Malaysia, ISDA updated members on the timing of the Netting Bill which should be enacted by the end of December. The Malaysian netting opinion should accordingly be published thereafter. For Singapore, ISDA updated members on the recent publications by MAS on the Securities and Futures (Reporting of Derivatives Contract) (Amendment) (No. 2) Regulations 2014 and MAS' response to feedbacks received for the previous consultation paper on the same. Member discussed whether private banking transactions needed to be reported.

ISDA also flagged to members Bank of Thailand's issued guidelines for financial institutions submitting information for determination of the BIBOR.

ISDA also discussed ISDA's Efforts on the Resolution Stay Protocol, ISDA's memo on the recent G20 Summit held in Brisbane, ISDA's comparison note on equivalency of benchmarks between EU and third country regimes (Australia, Japan, India and Singapore). On Global Efforts, ISDA highlighted that the EU intends to recognize India, New Zealand, Canada and Mexico as having equivalent rules to oversee clearing houses.

### **Operations/Market Infrastructure**

On November 6, 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, changes in certain rate fixings and confirmation practice in Taiwan.

On November 10 & 24, ISDA held its Asia identifiers and delegated reporting working group meeting to discuss UTI implementation in the region.

On November 14, ISDA held its APAC Equity Derivatives Operations Working Group meeting to discuss the electronic confirmation migration of a vendor, the addition of a parameter in confirming an option product electronically, the documentation of the Related Exchange and the implementation of 2011 Equity Definitions.

On November 24, 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 HK, Singapore, Australia and South Korea.

## **Members' / Other Activities**

### **Indonesia Members' Meeting**

On November 24, ISDA held its Indonesia members meeting in Jakarta. DNC provided an overview on certain key initiatives and regulations introduced and promulgated by Bank Indonesia to members. Members then discussed the impact and ambit of such regulations. ISDA also provided a brief overview of global developments to members.

### **Other Activities:**

On November 4, ISDA presented at the Euroclear conference on clearing in Asia

On November 6, ISDA led two roundtable discussions at the ASIFMA Asia Annual Conference one on derivatives market fragmentation and the other on derivatives trade reporting.

## **Regulatory Developments**

### **Australia: China–Australia Free Trade Agreement finalised**

*Contact: Keith Noyes (knoyes@isda.org) / Davina Chew (dchew@isda.org)*

On 17 November, the Australian Government Department of Foreign Affairs and Trade announced the conclusion of negotiations with China over the China-Australia Free Trade Agreement (ChAFTA), laying a foundation for the next phase of Australia's economic relationship with China. Both governments have signed a declaration of intent to work towards signing the ChAFTA.

ChAFTA is expected to be finalised in two months, after which the agreement will be subject to ratification by parliament. There will also be a process to be followed on the Chinese side. Once ratified, the key changes include:

- Removal and reduction of tariff barriers;
- Relaxation of Australian regulatory barriers to Chinese investment; and
- Facilitation of Australian investment into China.

### **China: Shanghai-Hong Kong Stock Connect Stock to launch in November**

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

On November 10, the Hong Kong Securities and Futures Commission (SFC) and the China Securities Regulatory Commission (CSRC) announced they had approved the launch of the Shanghai-Hong Kong Stock Connect pilot scheme following finalisation of all the necessary regulatory approvals and relevant regulatory operational arrangements required for its commencement. Under the joint announcement issued by the SFC and the CSRC, trading through the Shanghai-Hong Kong Stock Connect will commence on November 17. Stock Connect is a pilot programme for establishing mutual stock market access between Hong Kong and mainland China. ISDA published the Additional Provisions for Stock Connect on October 14, which is intended to be used for cash-settled over-the-counter derivatives transactions referencing certain 'A' shares listed on the Shanghai Stock Exchange traded through Stock Connect.

**South Korea:**

*Contact: Keith Noyes (knoyes@isda.org) / Claire Kim (ckim@isda.org)*

**KRX announces bank capital requirements calculation standards**

On November 11, the Korea Exchange (KRX) announced (Korean only) standards for the calculation and distribution of data required to compute bank capital requirements for central counterparty (CCP) default-fund contributions. These were issued as subsidiary rules of the Enforcement Rules of OTC Derivatives Clearing and Settlement Business Regulation. KRX aims to incorporate this key requirement for a CCP to be considered a qualifying CCP following the amendment of Detailed Regulations on Supervision of Banking Business, which the Financial Supervisory Service (FSS) announced on September 30, 2014.

Key points include:

- Based on the last business day of every month, the CCP should calculate capital-requirements factors, such as the hypothetical capital requirement of the CCP, the aggregate capital requirement for all clearing members and the c-factor. These factors should be provided to clearing members through OTC derivatives clearing terminals within seven business days from the base date;
- The CCP should examine the adequacy of capital-requirements factors, recalculate them depending on the results of its analysis, and inform clearing members of them every month;
- The CCP should report details of the calculation/recalculation to the FSS. The regulators of a foreign clearing member may also request this information.

The standards will become effective from November 12.

**KRX announces amended rules for clearing and settlement**

On November 13, the Korea Exchange (KRX) announced (Korean only) an amendment of the enforcement rules of the OTC Derivatives Clearing and Settlement Business Regulation. Key issues include:

- KRX will prevent deposit of the cash and foreign-currency contribution to the OTC derivatives joint compensation fund and members' margin in a particular financial institution;
- KRX will let independent and qualified external institutions examine the adequacy of its calculation methods and the management systems of members' margin if necessary. As such, it intends to be accordance with international standards, such as the Principles for Financial Market Infrastructures and relevant rules in EU and US;
- KRX will conduct crisis response training and the Risk Management Committee will be notified of the results.

The amendment will be effective from November 17.

### **KRX announces derivatives business regulation amendments**

On November 13, the Korea Exchange (KRX) announced (Korean only) an amendment of the Enforcement Rules of Derivatives Market Business Regulation. Key issues include:

- KRX will let independent and qualified external institutions examine the adequacy of its calculation methods and the management systems of members' margin if necessary. As such, it intends to be in accordance with international standards, such as the Principles for Financial Market Infrastructures (Principle 6: Margin) and relevant rules in the EU and US;
- KRX will prevent deposit of the cash and foreign-currency contribution to members' margin in a particular bank or securities finance company;
- KRX will conduct crisis response training to ensure immediate and appropriate actions, such as suspension of trading and suspension of delivery, are performed if a settlement failure occurs. The risk management committee will be notified of the results.

### **KRX announces membership regulation amendments**

On November 14, KRX announced (Korean only) an amendment of the Enforcement Rules of Membership Regulation. Key issues include:

- KRX will conduct stress testing of its management system for calculating and monitoring the amount of the CCP's contributed capital and the joint compensation fund for the listed derivatives market required to make up for losses caused by settlement failure. The risk management committee will be notified of the results.
- KRX will prevent deposit of cash to the joint compensation fund in a particular bank or securities finance company.

The amendment will come into effect from November 14.

### **Singapore:**

#### **Singapore and China strengthen financial cooperation**

Contact: Keith Noyes ([knoyes@isda.org](mailto:knoyes@isda.org))/ Davina Chew ([dchew@isda.org](mailto:dchew@isda.org))

MAS announced on October 27 that Singapore and China have reached an agreement on financial cooperation in the offshore RMB market, capital markets and insurance.

In particular, two initiatives were agreed:

- Direct currency trading between the Chinese yuan and Singapore dollar will commence on October 28. This will lower foreign-exchange transaction costs and encourage the greater use of the two currencies in cross-border trade and investment; and
- China-incorporated financial institutions can issue RMB-denominated debt instruments directly in Singapore. This will help to diversify long-term funding for Chinese financial institutions by allowing them to tap into the international institutional investor base in Singapore.

MAS indicated further that the two countries will explore measures to strengthen cooperation in the areas of derivatives and catastrophe risk insurance.

#### **MAS publishes amendments on derivatives reporting**

Contact: Keith Noyes ([knoyes@isda.org](mailto:knoyes@isda.org))/ Cindy Leiw ([cleiw@isda.org](mailto:cleiw@isda.org))

On October 31, the Monetary Authority of Singapore (MAS) released the Securities and Futures (Reporting of Derivatives Contracts) (amendment) (No.2) Regulations and its response to the feedback received on the consultation paper for the Securities and Futures (Reporting of Derivatives Contracts) Regulations (Amendment) 2014 (SF(RDC)R).

Key changes include:

- the regulations exclude certain categories of FX contracts from the reporting requirements;
- the refined definition of ‘traded in Singapore’ to include contracts executed by traders located in Singapore that have been executing or have been authorised to execute contracts for at least the past 30 days prior to the date of the contract;
- the reporting commencement date for credit, interest rate and FX derivatives contracts traded in Singapore will commence on November 1, 2015;
- the reporting commencement date for FX derivatives contracts booked in Singapore will commence on May 1, 2015;
- the requirement to report the additional data fields will commence from November 1, 2015; and
- the masking relief has been extended to November 1, 2015.

**Taiwan: FSC publishes new rules on liquidity coverage ratio**

Contact: Keith Noyes ([knoyes@isda.org](mailto:knoyes@isda.org)) / Cindy Leiw ([cleiw@isda.org](mailto:cleiw@isda.org))

On November 4, the Financial Supervisory Commission (FSC) issued new rules (in Chinese only) to implement the liquidity coverage ratio (LCR) and liquidity risk monitoring. From January 1, 2015, domestic Taiwanese banks will be required to submit monthly reports on their LCR to the FSC and the central bank. Additionally, a phase-in period will be implemented whereby Taiwanese domestic banks will be required to maintain a minimum LCR of at least 60% from January 1, 2015. The LCR percentage will be raised by 10 percentage points per annum until it reaches a 100% by January 1, 2019.

**Upcoming committee and working group meetings/conferences**

**Meetings:**

Mumbai Members’ Meeting	Dec 4
Legal & Regulatory Advisory Group Meeting	Dec 9

**Conference:**

Understanding the ISDA Master Agreements and Credit Support Documents Conference – Mumbai	Dec 2
---	-------

Current Issues in the Derivatives Landscape: Margin, Collateral, CCPs, SEFs and Global Swap Regulations – Mumbai	Dec 3
--	-------

**APACC Monthly Update**

Please direct comments and questions about APAC Monthly Update to Donna Chan, [dchan@isda.org](mailto:dchan@isda.org)  
 ISDA® is a registered trademark of the International Swaps and Derivatives Association, Inc.  
 ©Copyright 2011-2014 International Swaps and Derivatives Association.