

APAC Monthly Update

February 2012

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

Regulatory Activities

On February 9, ISDA attended the Singapore Foreign Exchange Market Committee (SFEMC) Synthetic Bond meeting.

On February 10, ISDA met with the Hong Kong Monetary Authority (HKMA) and Securities and Futures Commission (SFC) to update developments of the SCSA.

On February 13, ISDA met with MAS to update developments of the SCSA.

On February 21, ISDA met with MAS to discuss issues in Europe, the Volcker rule, the proposed MAS OTC regulations and the Greek CDS.

On February 29, ISDA met with MAS to discuss the OTC reform regulations and other global issues.

Committee/Working Group Activities

North Asia L&R

On February 28, ISDA held its monthly L&R meeting in Hong Kong. At the meeting, ISDA briefed members on the latest regulatory and documentation developments in this region. Topics discussed regarding North Asia include the regulatory regime for the OTC derivatives market in Hong Kong and the publication of the side letter applying the Additional Disruption Event Provisions for an Offshore Deliverable CNY Transaction and the Fallback Matrix published by ISDA to offshore deliverable CNY transactions. Latest regulatory developments in South Asia and other ISDA efforts and documentation projects were also discussed at the meeting.

South Asia L&R

On 23 Feb, ISDA held its monthly L&R meeting in Singapore. Topics covered included RBA's Governor Guy Debelle's speech on Europe's Effects on Australian Financial Markets, the Australian Corporations and Markets Advisory Committee's report on Derivatives, RBI's Executive Director G. Padmanabhan's speech on Governance Deficit and Financial Crisis. Other topics covered were RBI's notification on unhedged foreign currency exposures of corporates, the bilateral margining issues in India with respect to the Indian CDS market, Bank Negara Malaysia's notice on the liberalization measures to develop its domestic market, MAS's consultation paper on the regulatory framework for financial holding companies

and MAS's 2 consultation papers on the transfer of regulatory oversight of commodity derivatives from IE to MAS and the proposed regulation of OTC derivatives.

Market Infrastructure

On February 2, ISDA held a APAC Interest Rates Derivatives Operations Working Group meeting to address a number of floating rate options draft for KRW, INR, AUD, CNY, the replacement of a NZD rate page and the electronic confirmation format of onshore CNY swaps.

On February 16, ISDA held a APAC Equity Derivatives Operations Working Group meeting to discuss the counterparty on-boarding issue, the documentation of local taxes in China H-stock, MSCI swap and Pan-Asia interdealer swap.

On February 22, ISDA held a APAC Credit Derivatives Operations Working Group meeting to discuss the India CDS market and the treatment of a name change event.

On February 27, ISDA published Supplement number 30 to the 2006 ISDA Definitions. The supplement revised a number of floating rate options in KRW, INR, AUD and CNY

Regulatory Developments

Hong Kong:

HKMA consultation papers on capital and liquidity standards

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

On January 20, the Hong Kong Monetary Authority (HKMA) issued two consultation papers, Implementation of Basel III Capital Standards in Hong Kong and Implementation of Basel III Liquidity Standards in Hong Kong. These documents are the first in a series of consultation papers which the HKMA intends to issue for seeking the banking industry's feedback on its proposals to implement Basel III.

For Capital Standards: as a general principle, the HKMA proposes to adopt the Basel III requirements into the Banking (Capital) Rules (BCR) unless there are strong justifications in the local context for not doing so. In implementing the Basel III capital standards, the HKMA intends to follow the transitional timeline as set by the Basel Committee. The HKMA proposes to replace the existing categories of regulatory capital with the new Basel III classification and to follow closely the Basel III definitions for individual components within each of the two tiers of capital. However, where existing BCR regulations are more stringent than Basel III or not directly comparable to it, a policy decision will be made on whether to retain the current approach or to align the relevant regulation to Basel III. The new capital requirements will be phased in from January 1, 2013 to January 1, 2015. The Capital Conservation buffer of 2.5% will be phased in from January 1, 2016 and fully implemented by January 1, 2019. For the calculation of the Credit Valuation Charge (CVA) capital charge, HKMA proposes to make available both the advanced and standardized methodologies as stated by the Basel Committee. Deadline for submission is March 20, 2012.

Other aspects of the Basel III Capital Standards, such as the capital buffers, leverage ratio and disclosure requirements will be subject to future consultations.

For Liquidity Standards: HKMA is introducing the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). There will be a two-tiered approach to the application of the liquidity standards in Hong Kong. For the first tier, the LCR and NSFR will apply to a group of authorized institutions (AIs) (regardless of their place of incorporation) that are at the core of the Hong Kong banking system on the basis of their systemic importance and the nature of their operations (Category 1 AIs). The second tier, a modified version of the existing Liquidity Ratio (LR) in the Banking Ordinance (Modified Liquidity Ratio, MLR) will apply to other AIs with simpler operations and/or relatively less systemic implications for Hong Kong's banking system. A set of criteria will be developed to determine which AIs should be classified as Category 1 AIs. HKMA's rationale is that the LCR is fundamentally different from the LR and cannot be regarded as a complete substitute for the MLR in all circumstances.

HKMA is proposing that a Category 1 AI's LCR should be subject to a floor amount for their high quality liquid assets, which is equal to 25% of the AI's 1-month qualifying liabilities (net of deductions) as calculated under the MLR. The LR is essentially a broad-brush liquidity buffer requirement more directed towards providing for unexpected withdrawals or other day-to-day contingencies. For example: an AI would need to ensure there are liquefiable assets to meet withdrawals of up to 25% of such deposits without differentiating between the type and stability of deposits. The LCR, on the other hand, is subject to a narrow set of highly liquid asset types and other stringent qualifying criteria and is subject to stress parameters. HKMA is proposing changes to certain aspects of the LR, while preserving the simple structure of the ratio and its minimum level of 25%. The LCR will be implemented by January 1, 2015 and the NSFR by January 1, 2018. Deadline for submission is March 20, 2012.

Other aspects of the Basel III Liquidity Standards, such as the proposed approach to calibration of certain LCR items and definitional issues will be subject to future consultations.

HKMA finalizes TR operating model

Contact: Jeffrey Kan (jkan@isda.org)

On February 20, the Hong Kong Monetary Authority (HKMA) announced the finalized trade repository (TR) operating model for Hong Kong. The TR will align with international standards in terms of reporting approach (support both snapshot/lifecycle approach), accepting trade data from global TRs and applying global LEI. The industry-wide system testing schedule will be in place once the regulatory framework is set.

India:

RBI drafted guidelines on liquidity management and liquidity standards

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

On February 21, the Reserve Bank of India (RBI) released the draft guidelines on Liquidity Management and Basel III Framework on Liquidity Standards. RBI will introduce the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as prescribed by the Basel Committee, with effect from January 1, 2015 and January 1, 2018, respectively. Supervisory reporting of the LCR and NSFR will begin from end of second quarter. The LCR and NSFR will be applicable to Indian banks on a whole bank level, i.e., on a stand-alone basis including overseas operations through branches, and later on a consolidated level. For foreign banks operating in India, the LCR and NSFR will be applicable on a stand-alone basis.

The LCR should be more than or equal to 100% at all times. Banks will be required to meet this requirement at all times and to hold a stock of unencumbered, high-quality liquid assets against the onset of a severe liquidity stress. RBI has provided a list of stress scenarios to be used. Level 1 assets will include cash, government securities, statutory liquidity ratio (SLR) securities and marketable securities issued or guaranteed by foreign sovereigns (subject to certain conditions). Level 2 assets, such as

marketable securities by sovereigns, PSEs or multilateral development banks (subject to certain conditions) and corporate bonds, cannot exceed 40% of the overall stock of liquid assets, after haircuts are applied.

The NSFR aims to reduce the reliance on short-term wholesale funding for on- and off-balance sheet items. The NSFR will comprise of Available Stable funding (ASF) and Required Stable Funding (RSF).

RBI will monitor a bank's liquidity position by contractual maturity mismatch, concentration of funding, available unencumbered assets, LCR significant currency and market-related monitoring tools. Banks will need to report to RBI on a monthly basis their LCR, funding concentration, available unencumbered assets and other information on liquidity; and on a quarterly basis their NSFR and statement of available unencumbered assets. Deadline for comments is March 21.

Singapore:

MAS reviews derivatives regulations

Contact: Jacqueline Low (jlow@isda.org)

On February 13, the Monetary Authority of Singapore (MAS) released two consultation papers setting out MAS proposals to implement G20 commitments. The key proposal is to extend the ambit of the Securities and Futures Act (SFA) to OTC derivative contracts involving commodities, credit, equities, foreign exchange and interest rates. Also, both central clearing and trade reporting will be mandated. However, MAS does not propose mandating trading on exchanges or electronic trading platforms at this stage. There will be no domestic location requirement for CCPs and TRs but offshore CCPs and TRs will need to be authorized by MAS.

All financial institutions regulated by MAS (FIs) and non-FIs resident or having a presence in Singapore above a clearing threshold will be required to clear certain products if one leg of the contract is booked in Singapore and either: both parties are subject to the clearing mandate; or one party is subject to the clearing mandate and the other party would have been subject had it been resident or had a presence in Singapore. In the initial phase, the products will likely be SGD and USD IRS and Asian currency NDFs. FX forwards and swaps will be exempted. FIs with minimal exposures, central banks and governments, and supranationals will be exempted. Intra-group transactions (subject to appropriate collateralization or other requirements) will also be exempted.

All FIs and non-FIs resident or having a presence in Singapore above a reporting threshold will be required to report all transactions but only if booked or traded in Singapore. However, Singapore-incorporated banks must report on a group-wide basis. Reporting will be phased-in starting with interest rates, FX and oil derivatives. Central banks and governments, and supranationals will be exempted.

In line with the current SFA regime, non-bank intermediaries dealing in OTC derivative contracts will now be required to obtain a Capital Markets Services (CMS) license. However, brokers that meet certain conditions and end-users will be exempt. The deadline for submission for both consultation papers is March 26.

MAS proposes to regulate financial holding companies

Contact: Cindy Leiw (cleiw@isda.org)

On February 17, the Monetary Authority of Singapore (MAS) released a consultation paper with proposals to regulate Financial Holding Companies (FHCs) with at least one Singapore-incorporated bank or a Singapore-incorporated insurance company. The proposal does not apply to holding companies with

only securities companies or holding companies of exchanges or clearinghouses. Only FHCs designated by MAS will be subject to the proposed regulations. MAS will publish such a list.

The consultation paper proposes:

- The prohibition of affiliates of the FHC from acquiring or having cyclical shareholdings in the FHC;
- Key FHC personnel appointments, such as the chief executive officer, his deputy, chief financial officer and chief risk officer will require MAS' approval;
- The FHC may share the same name and logo/trademark with the regulated bank or insurance company. If the FHC includes the word "bank" or "insurance" or their derivatives in its name, it must indicate in its name that it is a "holding" company;
- The FHC will be required to obtain prior approval from MAS to acquire to hold, directly or indirectly, a major stake in any company;
- The FHC will need to have the minimum paid-up capital and capital funds equivalent to the highest minimum paid-up capital and capital funds requirement of its subsidiaries regulated by MAS;
- Banking groups structured under an FHC will be subject to the same group-wide concentration limits (large exposure limits, equity investment limit and property investment limit) that is currently applied to bank-held groups;
- Bank capital requirements will be applied to predominantly banking FHC groups at a group level uniformly on the consolidated accounts of the FHC group;
- All FHCs will be required to report to MAS their leverage ratios, at solo and group levels. Predominantly banking FHC groups will be subject to the Basel III leverage ratio requirements, in accordance with the Basel III timelines.

Deadline for submission for the consultation paper is March 19.

Upcoming committee and working group meetings/conferences

Meetings:

APAC IRD Operation Working Group Meeting	Mar 1
Mumbai Members Meeting	Mar 6
PRC Members Meeting	Mar 14
APAC Equity Operation Working Group Meeting	Mar 22
L&R North Asia Meeting	Mar 27
L&R South Asia Meeting	Mar 29

Conferences:

Fundamentals of OTC Derivatives Clearing, Repositories and Data Infrastructure – Singapore	Mar 1
Basel III Conference: The New Capital Accord – Proposals and Implications – Singapore	Mar 2
Basel III Conference The New Capital Accord – Proposals and Implications – Hong Kong	Mar 20
Legal Aspects of Clearing Conference – Seoul	Mar 29
Impact of US and European Regulatory Changes on Global and Asian Financial Markets – Seoul	Mar 30

ISDA APAC Monthly Update

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