

APAC Monthly Update

August 2014

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

Regulatory Activities

Korea:

On August 22 ISDA met with:

- the Financial Supervisory Service (FSS) to explain current issues on Basel III and discuss industry's responses to FSS rules and regulations revised in accordance with Basel III.
- the Bank of Korea (BOK) to update issues on Basel III and discuss BOK's current issues on OTC transactions with counterparties in US or EU, in particular, collateral management system.
- Hana Securities and Investment who have become a ISDA member recently to introduce member benefits.

On the same day, ISDA held its Korean Working Group Meeting and Korean Members Meeting in Seoul.

On August 31, ISDA made a presentation on netting and collateral legal infrastructure at an Asia Pacific Financial Forum event hosted by the Korean Ministry of Strategy and Finance.

Committee/Working Group Activities

North Asia L&R

On August 26, ISDA held its monthly Legal and Regulatory Committee Meeting in Hong Kong. ISDA updated members on the following North Asia developments: documentation of OTC equity derivatives transactions referencing Shanghai- Hong Kong Stock Connect Shares, ISDA's reply to the Hong Kong consultation paper on trading, reporting and record keeping rules, an update on ISDA's recent trip to Seoul, the FSC's comprehensive plan for Regulatory Consistency Assessment (RCAP) of BCBS and the announcement by MOSF on Measures to Stimulate Investment: Fostering Promising Service Industries.

ISDA updated the meeting on the following Australia-related issues: ISDA's submission to Treasury on its proposal paper on AUD-IRD central clearing mandate and ISDA's submission planned for August 29 to ASIC on its CP 221 OTC derivatives reform: proposed amendments to the ASIC Derivative Transaction Rules (Reporting) 2013. The meeting went on to discuss the following topics on India: the release of RBI's Annual Report on August 21, the No-Action Letter issued by CFTC for CCIL on August 19 and the announcement by RBI of changes to spot USD/INR. ISDA also updated the meeting on developments in Singapore including ISDA's submission on MAS Consultation Paper on Draft Regulations for Reporting of Foreign Exchange Derivatives Contracts, MAS's consultation paper on

liquidity coverage ratio released on August 6 and the amendments made by MAS to banks' leverage disclosure ratio requirements also released on August 6.

ISDA also briefed members on the following recent ISDA initiatives: the publication of the 2014 ISDA Credit Derivatives Definitions Protocol, efforts related to the issue of margin for non-cleared swaps, including ISDA's letter dated August 20 to the Asian regulatory members of WGMR, BCBS and certain members of IOSCO Asian Regional Committee and the response letter from SFC to ISDA, the publication of the ISDA Reporting Delegation Agreement and the bilateral form of Amendment Agreement and explanatory memorandum for certain silver transactions on August 8 and July 30 respectively, ISDA's responses to the ESMA discussion and consultation papers on MIFIDII/MIFIR.

ISDA had also conducted separate member calls on U.S. and E.U. sanctions in related to Russia and Ukraine. ISDA also updated the meeting on IOSCO's launch on August 5 of its public information repository for central clearing requirements.

South Asia L&R

On August 28, ISDA held its monthly Legal and Regulatory Committee Meeting in Singapore. The meeting started with a discussion on various topics raised by members, including netting analysis conducted at the head office and branch level, a discussion on the netting position in India and ISDA's submission made in 2012, the netting position in Singapore and whether members were keen to work together to obtain analysis on various jurisdictions with respect to data privacy and client masking.

ISDA updated the meeting on the following Australia-related issues: ISDA's submission to Treasury on its proposal paper on AUD-IRD central clearing mandate and ISDA's submission planned for August 29 to ASIC on its CP 221 OTC derivatives reform: proposed amendments to the ASIC Derivative Transaction Rules (Reporting) 2013.

The meeting went on to discuss the following topics on India: the release of RBI's Annual Report on August 21, the No-Action Letter issued by CFTC for CCIL on August 19 and the announcement by RBI of changes to spot USD/INR. ISDA also updated the meeting on developments in Singapore including ISDA's submission on MAS Consultation Paper on Draft Regulations for Reporting of Foreign Exchange Derivatives Contracts, MAS's consultation paper on liquidity coverage ratio released on August 6 and the amendments made by MAS to banks' leverage disclosure ratio requirements also released on August 6.

ISDA also updated the meeting on the following North Asia developments: a discussion on and the setting up of a working group on derivatives transactions referencing Shanghai- Hong Kong Stock Connect Shares, ISDA's reply to the Hong Kong consultation paper on trading, reporting and record keeping rules, an update on ISDA's recent trip to Seoul, the FSC's comprehensive plan for Regulatory Consistency Assessment (RCAP) of BCBS and the announcement by MOSF on Measures to Stimulate Investment: Fostering Promising Service Industries.

ISDA also updated the meeting on the following recent ISDA initiatives: the publication of the 2014 ISDA Credit Derivatives Definitions Protocol, efforts related to the issue of margining for non-cleared swaps, including ISDA's letter dated August 20 to the Asian regulatory members of WGMR, BCBS and certain members of IOSCO Asian Regional Committee and the response letter from SFC to ISDA, the publication of the ISDA Reporting Delegation Agreement and the bilateral form of Amendment Agreement and explanatory memorandum for certain silver transactions on August 8 and July 30 respectively, ISDA's responses to the ESMA discussion and consultation papers on MIFIDII/MIFIR.

ISDA had also conducted separate member calls on U.S. and E.U. sanctions in related to Russia and Ukraine. ISDA also updated the meeting on IOSCO's launch on August 5 of its public information repository for central clearing requirements.

Operations/Market Infrastructure

On August 4, 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 and changes in certain rate fixings.

On August 7 and 8, ISDA held its HK trade reporting working group meeting to discuss the consultation paper jointly released by HKMA/SFC on trade reporting and record keeping requirements.

On August 19, ISDA held its AEJ Data and Reporting Compliance – Asia identifiers & delegated reporting sub-group meeting to discuss the application of trade identifiers and delegated reporting in Australia, HK and Singapore together with the current technological limitations.

On August 25, 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 and Australia.

On August 28, ISDA held its AEJ Data and Reporting Compliance – reporting nexus sub-group meeting to discuss the reporting nexus relief requests and the technical challenges of implementation in the region.

Members' Activities

Seoul Members' Meeting:

On 22 August, ISDA held its members' meeting in Seoul, Korea. Members' topics discussed included updates on Basel III, Fundamental Review of the Trading Book, and BCBS-IOSCO WGMR versus European RTS proposal. Korean Topics discussed included the MOSF announcement on expansion of daily price movement limit on listed stocks, FSC's plan to improve license system for financial investment businesses, FSC's plan for financial regulatory reform, the start of mandatory clearing service through the KRX for OTC derivatives on June 30, CFTC's issuance of a time-limited no-action letter for KRX, and FSC's approval of the Implementation Rules for Korea-U.S. Tax Information Exchange of Agreement.

The meeting also considered various ISDA efforts and current documentation projects, including ISDA research note on revisiting cross-border fragmentation of global OTC derivatives: mid-year 2014 update, the publication of updated form of Paragraph 11 to the ISDA English Law Credit Support Annex for use with the ISDA/FOA European Client Clearing Addendum, the updating of 2014 ISDA Credit Derivatives Definitions, the updating of ISDA Cleared Opinions Working Group, the publication of summary of changes to financial benchmarks in Asia-Pacific, ISDA/SIFMA file comments relating to CFTC's continued consideration of position limits, the preparation of a letter to Asian regulators on European draft RTS on OTC margining (Response from IOSCO dated 15 July), the publication of 2014 Korean Law Credit Support Annex (Bilateral form - Loan & pledge) and user's guide (available in the ISDA bookstore), the updating of ISDA updates OTC Derivatives Compliance Calendar, the updating of Reporting Delegation Agreement (ISDA memo), conducting of market call on 2014 ISDA Credit Derivatives Definitions – Draft Protocol, Matrix and Confirmations, the publication of open letter on trade reporting requirements, the publication of amendment to the ISDA Master Agreement for use in relation to Section 2(a)(iii) and explanatory memorandum (available in the ISDA bookstore), the publication of new study on Central Clearing in the Equity Derivatives Market, translation efforts on Chinese version of the 1992 ISDA Master Agreement, the updating of Reporting Delegation Agreement,

the publication of annotated ISDA 2013 Account Control Agreement, the hosting of market education webcast on EU Bank Recovery and Resolution Directive (Recording available on Member Call Archive).

Regulatory Developments

India: Computation and dissemination of RBI reference rate

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The Reserve Bank of India (RBI) complies and publishes on a daily basis reference rates for spot USD/INR and spot EUR/INR. On August 7, the RBI announced the following changes in the existing methodology:

- The rate for spot US dollar against Indian rupee will be polled from the select list of contributing banks at a randomly chosen five minute window between 11.30 a.m. and 12.30 p.m. every week day (excluding Saturdays, Sundays and Bank Holidays in Mumbai).
- The other three rates, viz. EUR/INR, GBP/INR and JPY/INR would be computed by crossing the USD/INR reference rate with the ruling EUR/USD, GBP/USD and USD/JPY rates.
- The daily press release on RBI reference rate for US dollar will be issued every week-day (excluding Saturdays, Sundays and bank holidays in Mumbai) at around 1.30 p.m.

These changes shall be effective from September 1.

Under the existing methodology, the rates are arrived at by averaging the mean of the bid/offer rates polled from a few select banks at a randomly chosen five minute window between 11.45 am and 12.15 pm every week day (excluding Saturdays, Sundays and bank holidays in Mumbai). The contributing banks are randomly selected from a large panel of banks, identified on the basis of their standing, market-share in the domestic foreign exchange market and representative character.

By way of background, on June 28 2013, the RBI constituted a committee on Financial Benchmarks to consider various issues relating to financial benchmarks in India. Apart from other existing benchmarks, the committee also reviewed the process of computation and dissemination of Rupee reference rate published by the RBI and made some recommendations in this regard.

South Korea:

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MOSF announces expansion on daily price movement limit on listed stocks

On August 12, the Ministry of Strategy and Finance (MOSF) announced ‘Measures to Stimulate Investment: Fostering Promising Service Industries,’ at the 6th Trade Investment Promotion Meeting chaired by President Park.

To promote the listing of enterprises with strong growth potential, the government plans to double the daily price movement limit on stocks listed from between ± 15 percent to ± 30 percent. In responding to excessive price fluctuations, such transactions will be stopped for a certain period of time in order to maintain price stability.

FSS announces a plan for RCAP of BCBS

On August 18, the Financial Supervisory Service in Korea (FSS) set forth a comprehensive plan (Korean only) to prepare for the Regulatory Consistency Assessment Programme (RCAP) of the Basel Committee on Banking Supervision (BCBS). In this plan, the FSS stated that they would complete a self-assessment and preparation of relevant documents in English until the first half of 2015. Currently, the FSS has been running a task force team which consists of staff from relevant departments in FSS in order to get ready for RCAP.

FSC to introduce Basel III liquidity coverage ratio

On August 26, South Korea's Financial Services Commission (FSC) announced its plan to introduce the liquidity coverage ratio under Basel III to banks operating in the country. Key points include:

- Domestic banks are required to meet the minimum ratio of 100%, starting from January 2015.
- For domestic branches of foreign banks, the minimum ratio starts at 20% in 2015, and will gradually increase by 10 percentage points a year to reach 60% in 2019.
- For specialised banks or policy banks, the minimum ratio begins at 60% in 2015, and will rise by 10 percentage points a year to reach 100% in 2019.

Institutions have until October 6 to prepare for implementation of the revisions to the regulation on the supervision of banking business. Revisions to the regulation will take effect following approval by Korea's Regulatory Reform Committee and the FSC.

Singapore:

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MAS consults on liquidity coverage ratio rules

On August 6, the Monetary Authority of Singapore (MAS) released its response to feedback received from the consultation paper on Local Implementation of Basel III Liquidity Rules – Liquidity Coverage Ratio (LCR), issued on August 16, 2013. The revised framework for banks will be implemented in a new MAS notice, which have been appended in Annexes A and B of this paper.

In the draft MAS notice, MAS proposes to adopt a two-tiered liquidity requirement framework. Banks and related entities assessed by MAS to be systemically important to Singapore will be required to adopt the LCR framework. Smaller, niche institutions whose operations in Singapore are simpler than the larger banks will be given a choice to comply with either the LCR or a modified Minimum Liquid Assets (MLA) framework. MAS will not impose a separate US dollar liquidity requirement but will monitor how institutions manage prudently their liquidity risks by currency on a supervisory basis.

Submission deadline is September 5.

MAS amends banks' leverage ratio disclosure requirements

On August 6, the Monetary Authority of Singapore (MAS) issued its proposed amendments to Parts II, IV, XI and XII of MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore (the Notice) to implement the leverage ratio disclosure requirements for Singapore-incorporated banks that are consistent with the requirements issued by the Basel Committee on Banking Supervision (BCBS). The proposed amendments will take effect from Jan 1, 2015. The draft amendments to the Notice are appended in Annex 1.

Submission deadline is September 5.

Submission

In August, ISDA made the following submissions:

August 1: ISDA submission to The Treasury of Australia on AUD-IRD Central Clearing Mandate. This submission is not yet public.

August 15: ISDA submission to Monetary Authority of Singapore regards to the Consultation Paper on Draft for Reporting of Foreign Exchange Derivatives Contracts. This submission is not yet public.

August 19: ISDA submission to Hong Kong Monetary Authority and Securities and Futures Commission on the Consultation paper on the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping) Rules. This submission is not yet public.

August 26: ISDA submission to Australian Securities and Investments Commission regards to Consultation Paper 221 on OTC Derivatives Reform: Proposed Amendments to ASIC Derivative Transaction Rules (Reporting) 2013. This submission is not yet public.

August 29: ISDA submission to Financial System Inquiry regards to the Interim Report of the Financial System Inquiry. This submission is not yet public.

Upcoming committee and working group meetings/conferences

Meetings:

PRC Working Group Meeting – Beijing	Sep 12
APAC CCP Risk call	Sep 24
South Asia L&R Meeting	Sep 25
AEJ Data and Reporting Compliance Working Group Meeting	Sep 29
North Asia L&R Meeting	Sep 30

Conference:

U.S. and European Swap Regulations Who They Apply to and How They Are Addressed by ISDA Protocols and ISDA Amend by Markit – Beijing	Sep 11
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