

# **Reform of the OTC derivatives market in Japan**

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# 1. Overview

Progress of OTC derivatives market reform in Japan

G20 commitment (Pittsburgh Summit September 2009)	Legislation (Amendment of FIEA)	Implementation
Mandated CCP clearing	May 2010	November 2012
Reporting to Trade Repositories	May 2010	November 2012 (full implementation from April 2013)
Trading on exchanges or electronic trading platforms Note) FIEA: Financial Instruments and Exchange Act	September 2012	Within three years

## CCP by Asset Class in Japan

Asset class	CCP	Status	Notional outstanding
Interest rate	JSCC (Yen only)	Expected :October 2012	N/A
Credit (CDS)	JSCC (iTraxx Japan)	Operating : July 2011 ~	\177bn (end-July 2012)

Note) JSCC: Japan Securities Clearing Corporation. <http://www.jsccl.co.jp/en/index.html>

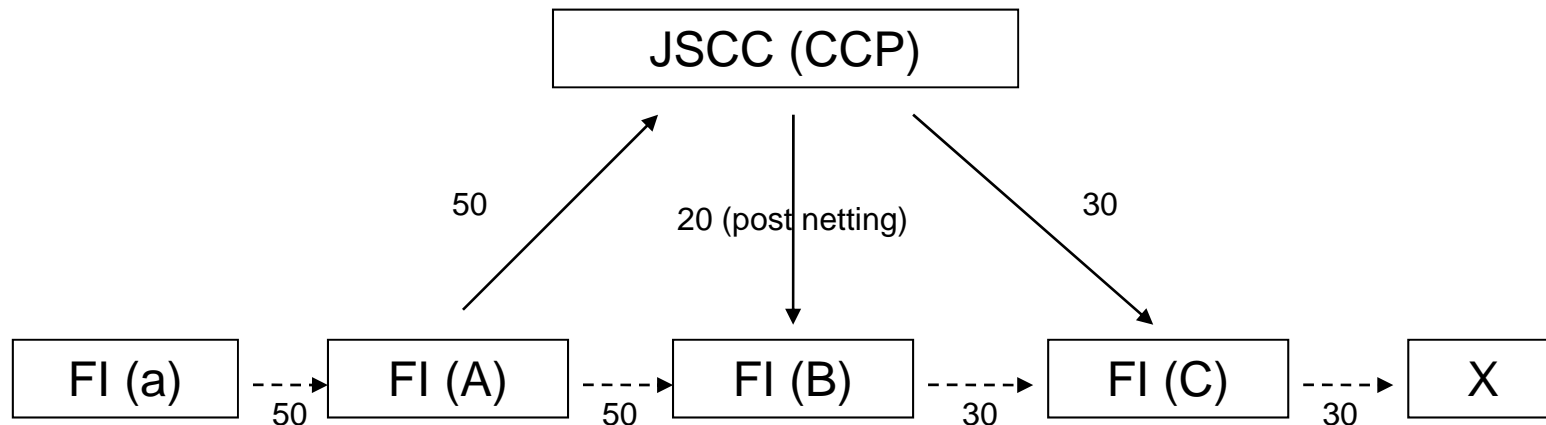
## 2. CCP clearing and trade reporting frameworks ①

	Scope	Eligible contracts	Other
CCP Clearing	Phase 1 (Nov.2012～) ・ FIBOs and registered Financial Institutions (hereafter jointly FI) who are eligible as direct participants to CCP Phase 2 (approx. Nov. 2014～) 'Add indirect participants to CCP with significant trade volume	'All standardised OTC derivatives.  ・ Initially, requirements will apply only to Yen IRS and CDS (iTraxx Japan index series)	・ CDS (iTraxx Japan index series) need to be cleared by domestic CCP ・ Transactions with governments and central banks, both domestic and foreign, and international organizations will be exempted
Trade reporting	・ CCP and FI .	・ All asset class	' JSCC will report to JFSA within three business days after the trade

Note) FIBOs, Financial Instruments Business Operators, are broker dealers under FIEA.

## 2. CCP clearing and trade reporting frameworks ②

(Basic scope of the mandatory CCP clearing)



' Mandatory CCP Transactions (for Japanese Yen-denominated plain vanilla Interest Rate Swap (IRS) and iTraxx Japan CDS) →

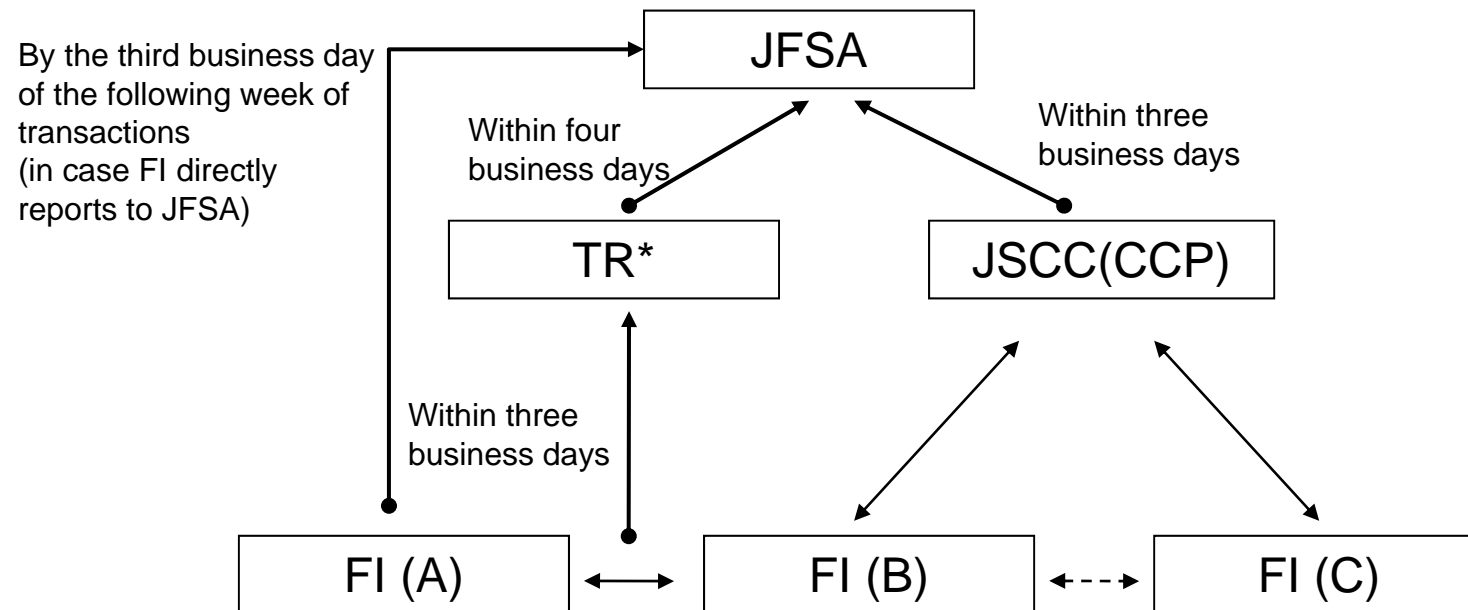
' Original trade ----->

• FI(a) is a subsidiary of FI (A) and transactions between the two entities are exempt from mandatory CCP clearing.

' Transaction with non FI such as X is exempt from mandatory CCP clearing.

## 2. CCP clearing and trade reporting frameworks ③

( Basic structure of the reporting requirement )



Trade reporting (Reporting deadline) ●————→

Trade <————>

Original trade <----->

\* Currently, there is no domestic Trade Repository in Japan.

### 3. Trading on exchanges or electronic trading platforms

	Legislation: [August 2012]	Implementation within three years
Scope	OTC derivatives dealers with significant trading volume of eligible trades	Cabinet Ordinance to determine the thresholds to be significant trading volume.
Eligible contracts	Products that are sufficiently standardized, maintain adequate liquidity and cleared through CCPs.	At the beginning, Yen-denominated plain vanilla IRS is to be deemed eligible for ETP trades.
Requirements	ETP operators will be required to register as Type I FIBO. To fulfill the regulatory objective, ETP operator will be required to record and disclose trade data to regulators and to the public, and to implement the rules to ensure fair trading.	A foreign operator may operate in Japan without registration as Type I FIBO if it is regulated by the home-country regulator and if a framework for cooperative oversight arrangements exists between home/host regulators.

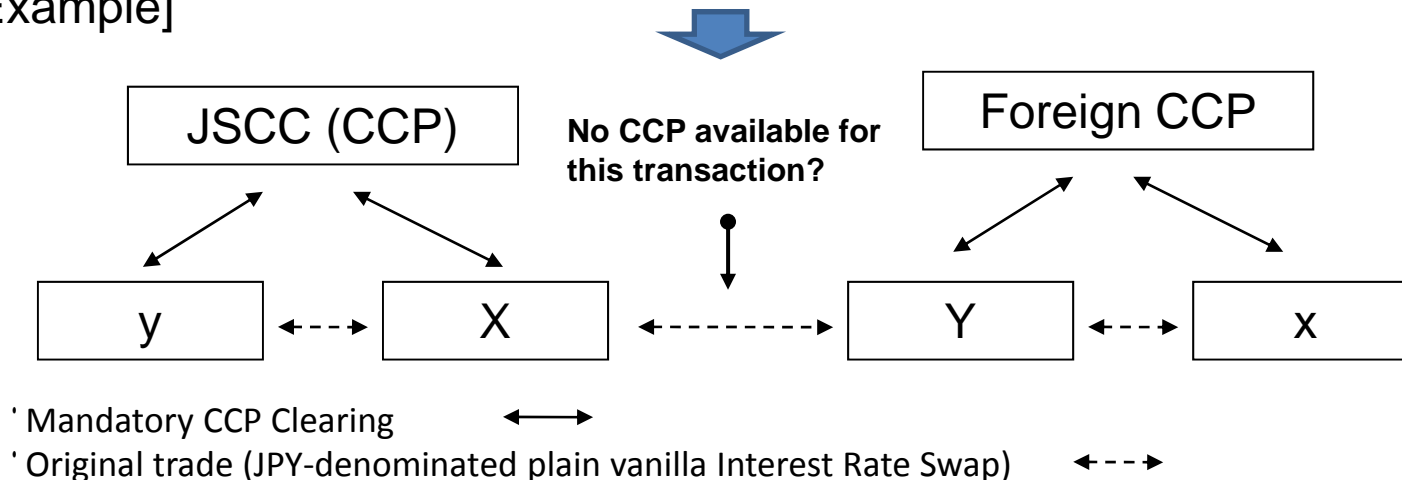
Note) FIBOs, Financial Instruments Business Operators, are broker dealers under FIEA.

## 4. Remaining issues ①

– Avoidance of overlapping or conflicting regulations

Japan	Foreign jurisdiction
Japanese bank X (HQ) " JSCC is available to X for the mandatory clearing of JPY IRS	Foreign bank Y(HQ) " Foreign CCP is available to Y for the mandatory clearing of JPY IRS
Foreign bank y (subsidiary)	Japanese bank x (subsidiary)

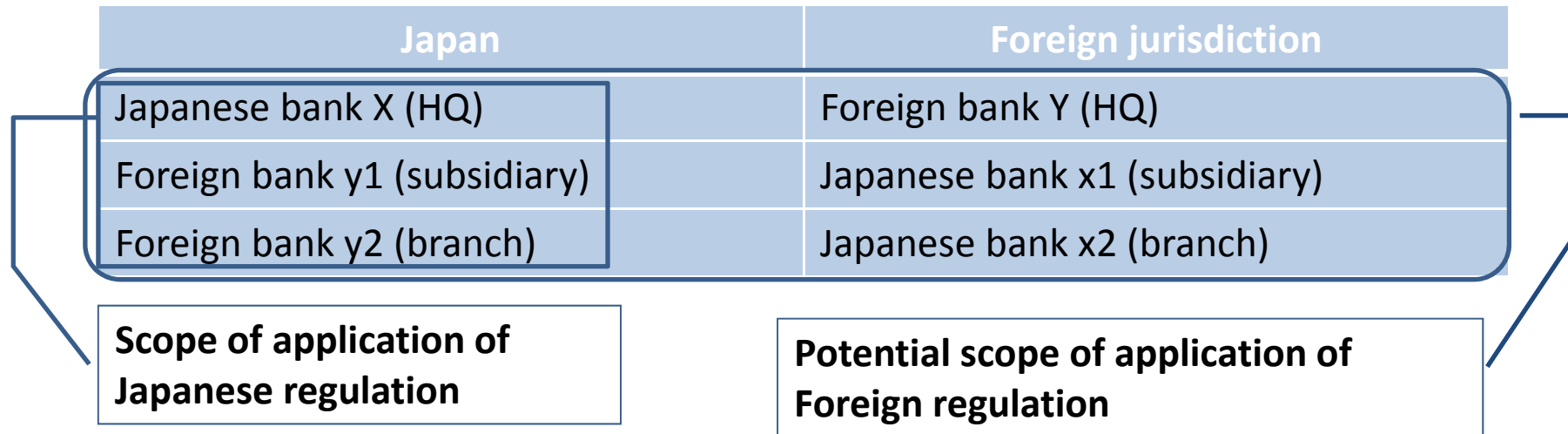
[Example]



**Need for international coordination not to deter cross-border transactions**

## 4. Remaining issues ②

– Impact of extraterritorial application



Need for mutual recognition of regulations

Issues:

1.Scope of application

“ Limited to certain entity-level and transaction-level requirements

1.Scope of recognition

“ Individual requirement basis or country-by-country basis



Thank you!

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