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September 14, 2015

Comments on *"Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants —Cross-Border Application of the Margin Requirements; Proposed Rule"* issued by the Commodity Futures Trading Commission

Japanese Bankers Association

1. Preamble

(1) We, the Japanese Bankers Association ("JBA"), would like to express our gratitude for this opportunity to comment on a proposed rule *"Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants —Cross-Border Application of the Margin Requirements; Proposed Rule"* (the "proposed rule" or the "proposed cross-border application") (RIN 3038–AC97) issued on July 14, 2015 by the Commodity Futures Trading Commission (the "CFTC").

(2) To our understanding, the primary impact of the proposed rule on Japanese financial institutions arises when they transact with a covered swap entity (CSE). In September 2013, the Basel Committee on Banking Supervision ("BCBS") and the Board of the International Organization of Securities Commissions ("IOSCO") released their final report on *"Margin requirements for non-centrally cleared derivatives"* ("BCBS/IOSCO Final Report"), and national supervisors are to establish detailed margin requirements based on that international minimum standards. The proposed rule published accordingly by the CFTC, which supervises the U.S. market (i.e. the world's largest derivative market), is considered important because it is deemed as a model or guidance for other jurisdictions to follow.

(3) We would like to comment particularly from the perspectives not only of Japan, but also of Asian regions and jurisdictions where collateral agreements ("CSA") are less commonly used. We expect that our comments below will be of assistance and offer an additional point of reference as the CFTC, as well as other supervisors, work towards finalizing the rule so that it will become a most reasonable and fair rule from global perspectives and will promote the implementation of the international standards.

(4) When reading our comments provided herein, please refer to our comments of December 2, 2014 submitted to the CFTC (entitled "Comments on *'Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants'* issued by the Commodity Futures Trading Commission")[1], and also our comments

[1] http://www.zenginkyo.or.jp/fileadmin/res/abstract/opinion/opinion261232.pdf

of July 10, 2015 submitted to the European Supervisory Authorities (entitled "Comments on Second Consultation Paper: *Draft Regulatory Technical Standards on risk-mitigation techniques for OTC-derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012* issued by the European Supervisory Authorities")[2]. We presume that the consultation paper issued by the European Supervisory Authorities reflects harmonization efforts made among main supervisors, such as the U.S., Europe and Japan, and would like to ask the CFTC to recognize our comments to such a consultation paper as our most recent view and gain full understanding of it.

2. General comments

(1) Necessity of integrating swap margin rules

As national proposed rules increase, there will be numerous combinations of rules according to counterparty's home countries, subjecting entities to respective standards for documentation and management. Given this, it is obvious that the swap margin regulatory framework will fail to function in effect. For example, unless various versions of ISDA agreements are established, it would be extremely difficult to retroactively apply the requirement of initial margin exchange to existing transactions. Further, while the proposed cross-border application prescribes the use of Hybrid, Firm-Wide Approach, the approach is considered as complicated and thus it will require significant cost (e.g. labor and system costs) and time to prepare for regulatory compliance. If cross-border application rules vary across jurisdictions, such burdens for regulatory compliance will further increase, making it more difficult for entities to comply with applicable rules. In this view, for essential solution of this issue, it would be necessary to promote the integration of swap margin rules in order to avoid substituted compliance.

(2) Permission of substituted compliance without comparability assessment

If it is determined that swap margin rules will not be integrated and thus entities will need to avail themselves of substituted compliance, the comparability assessment between national rules will need to be performed, which is expected to take a year(s) even if the public- and private sectors take prompt actions with joint efforts. Further, system development and other specific regulatory compliance tasks by individual entities cannot be initiated unless the comparability assessment is completed. Therefore, if the comparability assessment is performed, it is our concern that regulatory compliance tasks will not be completed before the effective date of the proposed rule, giving rise to a number of parties that will have to suspend new transactions. From this point of view, the CFTC is requested to ensure comparability with other national regulations before, instead of after, the finalization of the

[2] http://www.zenginkyo.or.jp/fileadmin/res/abstract/opinion/opinion270740.pdf

proposed rule, and then to make substituted compliance available for all national regulations without requiring comparability assessment, thereby giving an option of substituted compliance to parties to each transaction.

(3) Provision of realistic preparation period

If our requests mentioned in (1) and (2) above will not be met and thus the comparability assessment will need to be performed, it may be necessary to complete the assessment immediately. Given the effective date of the proposed rule, the comparability determinations need to be approved within the year 2015 at the latest. However, more realistic time for preparation would be necessary taking into consideration that joint efforts by the public- and private sectors to assess comparability will be made, and necessary actions such as documentation and system development will be taken, after all national regulations are finalized. In this view, it is requested to set a transitional period of at least one and a half years prior to starting the regulation implementation phase after the U.S., Europe and Japanese rules are finalized.

It goes without saying that we consider that the timing of implementation should not be delayed unnecessarily. Therefore, also from the perspective of avoiding extension of the timing of implementation, the approach requested in paragraph (1), or at least the approach requested in paragraph (2), should be taken. If both approaches cannot be taken, it is indispensable that realistic timing of implementation will be set or a transitional period will be provided.

3. Specific comments

(1) Necessity of integrating swap margin rules

Currently, there are 16 (= 4 (i.e. the CFTC, the U.S. prudential regulators, EU and Japan rules) x 4) combinations of standards depending on the counterparty's home countries or their supervisors. In the future, as national rules increase, there will be numerous combinations of rules of counterparty's home countries, subjecting entities to respective standards for documentation and management. Given this, it is obvious that the swap margin regulatory framework will fail to function in effect. Further, while the proposed cross-border application proposes the use of Hybrid, Firm-Wide Approach, the approach is considered as complicated and thus it will require significant cost (e.g. labor and system costs) and time to prepare for regulatory compliance. If cross-border application rules vary across jurisdictions, such burdens for regulatory compliance will further increase, making it more difficult for entities to comply with applicable rules. In this view, for essential solution of this issue, it would be necessary to promote the integration of swap margin rules in order to avoid substituted compliance.

(2) Permission of substituted compliance without comparability assessment

If it is determined that swap margin rules will not be integrated and thus entities will need to avail themselves of substituted compliance, the comparability assessment between national rules will need to be performed, which is expected to take a year(s) even if the public- and private sectors take prompt actions with joint efforts. Further, specific approaches to documentation and system development, etc. to be taken by individual entities cannot be initiated unless the comparability assessment is completed. Therefore, if the comparability assessment is performed, it is our concern that such regulatory compliance tasks will not be completed before the effective date of the proposed rule, giving rise to a number of parties that will have to suspend new transactions. Moreover, comparability between jurisdictions should be ensured because each national rule is established based on the BCBS/IOSCO Final Report. Given above, the CFTC is requested to ensure comparability with other national regulations before, instead of after, the finalization of the proposed rule and then to make substituted compliance available for all national regulations without requiring performance of comparability assessment, thereby giving an option of substituted compliance to parties to each transaction; or to allow substituted compliance as long as the BCBS/IOSCO Final Report is observed.

(3) Provision of realistic preparation period

If our requests for the integration of swap margin rules and the permission of substituted compliance without comparability assessment will both not be met and thus the comparability assessment will need to be performed, it is necessary to complete the assessment immediately. Given the effective date of the proposed rule, the comparability determinations need to be approved within the year 2015 at the latest. However, more realistic time for preparation would be necessary taking into consideration that joint efforts by the pubic- and private sectors to assess comparability will be made, and necessary actions such as documentation and system development will be taken, after all national regulations are finalized. In this view, it is requested to set a transitional period of at least one and a half years prior to starting the regulation implementation phase after the U.S., Europe and Japanese rules are finalized.

(4) Timeframe up to the effective date (September 1, 2016)

Suppose that the approaches (1) to (3) requested above are not accepted and the proposed rule will be implemented on the currently-planned effective date. Given that contractual negotiations with counterparties (documentation) need to be completed before that effective date, major supervisors, such as the U.S., Europe and Japan, will have to finalize their national rules by end of October 2015 and the comparability assessment will have to be completed by end of this year. Otherwise, preparation for regulatory compliance will not be able to be completed before the

effective date, which is expected to give rise to confusion among market participants; for example, a number of parties will suspend new transactions. The CFTC is requested to understand that even if such confusion has not materialized yet, a considerable amount of stress will inevitably arise if finalization of the rules by national supervisors is not progressing well.

Documentation	At least 6 months are necessary
↓<Condition>	
ISDA to finalize templates and each firm to develop a documentation policy	3 to 4 months are necessary
↓<Condition>	
Finalization of national rules by major supervisors, such as the U.S., Europe and Japan, and completion of the comparability assessment	Need to be completed by December 2015 at the latest
↓<Condition>	
Harmonization efforts among the U.S., Europe and Japan	3 to 4 months

See Appendix for supplementary explanation of the above timeframe.

(5) Areas requiring harmonization

We highlighted three areas in our comments of July 10, 2015 submitted to the European Supervisory Authorities (entitled "Comments on Second Consultation Paper: *Draft Regulatory Technical Standards on risk-mitigation techniques for OTC-derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012* issued by the European Supervisory Authorities"): (i) setting a practical settlement period ("the issue of T+1"); (ii) exemption for jurisdictions where the regulation is not implemented and those where the legal enforceability is not assessed; and (iii) easing the conditions for applying the additional haircut of 8%. In addition to these areas, it is considered that the netting sets, interaffiliate transactions and initial margin (IM) calculation models are also areas requiring harmonization.

For the purpose of reiterating our views particularly on those areas characteristic to the U.S. national rules (i.e. (a) netting sets, (b) interaffiliate transactions and (c) eligible collateral), excerpts from our comments of December 2, 2014 submitted to the CFTC (entitled "Comments on *'Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants'* issued by the Commodity Futures Trading Commission") are provided below. With regard to interaffiliate transactions, it is considered that harmonizing to "not apply the rules without exception, " which JFSA proposed as a draft regulation for Japan, is the best approach to take rather than to impose respective national rules. If such an approach is difficult to take, an

exemption similar to the CFTC's exemption with respect to central clearing obligation (which is almost consistent with the content of the consultation paper published by the European Supervisory Authorities) should at least be provided to maintain consistency with other relevant regulations.

(a) Netting sets

> Calculation requirements: Netting sets (59929; §23.154(b)(2))
>
> i) Under the proposed rule, if swaps entered into before and after the applicable compliance date ("legacy trade" and "new trade," respectively) are covered by the same ISDA master agreement, both legacy trade and new trade are required to be included in the aggregate in the IM calculation.
>
> ii) Compared to the case where IM is calculated solely for new trade, if IM is calculated for legacy trade and new trade in the aggregate, the required amount of IM may become excessive. This contradicts with the objective of the BCBS/IOSCO Final Report to avoid a rapid dry up of liquidity and market turmoil by phasing in the regulation.
>
> iii) If, on the other hand, financial institutions seek to exclude legacy trade from the IM calculation, they need to cover legacy trade and new trade under separate ISDA master agreements. In such cases, the effect of close-out netting upon default decreases and thus credit risks of the overall financial system increases; thereby undermining the objective of introducing the proposed rule.
>
> The proposed rule therefore should delete this requirement; or if it is difficult to do so, should be amended to require legacy trade to be included in the IM calculation only when legacy trade and new trade are covered under the same CSA.

(b) Interaffiliate transactions

> Interaffiliate transactions (59904; 2nd Column)
>
> The proposed rule imposes margin requirements also on interaffiliate transactions (including the case where the counterparty is non-financial entity). Although we understand that the proposed rule intends to mitigate the systemic risk by applying the margin requirements without exception, the necessity for imposing the proposed rule on interaffiliate transactions is not considered to be high, and at least, it is not necessary to apply the proposed rule from the date of its enforcement. This is because; (a) risks arising from interaffiliate transactions are generally much lower than external transactions, (b) although organized as a locally-incorporated company in accordance with local authorities' intention, etc., many affiliates are substantially managed integrally with the bank similarly to the structure of the head office and branches and thus transactions with the affiliates do not differ in substance from transactions with the head office and branches, (c) imposing the margin rules on interaffiliate transactions may undermine the establishment of an efficient booking system and (d) it is practically difficult to

enter into the CSA with all covered counterparties, including affiliates, within a considerably limited timeframe by no later than the compliance date. Given above, it is recommended that the CFTC addresses this issue carefully by also taking into account international regulatory developments.

(c) Eligible collateral

Eligible collateral and haircuts (§23.156)

The proposed rule limits eligible collateral for variation margin (VM) to cash only. (According to our interpretation) cash collateral should be denominated either in U.S. dollars or in the settlement currency (of the swap transaction). The issue here is that under the swap where payment obligations are settled in the currency other than U.S. dollars (e.g. euro interest rate swap), cash collateral denominated in the currency other than that settlement currency (e.g. JPY cash collateral) will not be permitted to be used as VM. This would not only undermine the discretion of financial institutions but also would create a considerably unfair playing field for non-U.S. financial institutions relative to U.S. financial institutions because the former will need to obtain foreign currency to pledge collateral, which will increase collateral cost and the liquidity risk of foreign funds.

(6) Cross-border application approach

The CFTC's proposed rule on margin requirements (Federal Register of October 3, 2014) sought comments for the following three alternative approaches:

i) Transaction-level approach (the approach provided in the CFTC's Cross-Border Guidance (Federal Register of July 26, 2013))
ii) Prudential Regulators' approach (the approach provided in the Prudential Regulator's proposed margin requirements (Federal Register of September 24, 2014))
iii) Entity-level approach

The proposed cross-border application prescribes a new approach (Hybrid, Firm-Wide Approach) which is a combination of the approach i) and approach iii) and is closely aligned with the approach ii). Basically, under the new approach, regulatory requirements to be applied ((a) to be subject to the U.S. margin rules, (b) to be eligible for substituted compliance or (c) to be excluded from the U.S. margin rules) are determined in accordance with the attribute of the counterparty of a covered swap entity ("CSE"). Also, regulatory requirements to be applied are adjusted in accordance with margin types ((a) IM received by a CSE, (b) IM posted by a CSE or (c) VM).

This is a complicated approach that will require a considerable amount of costs to prepare for regulatory compliance. It will especially require significant workload to request attestation from counterparties in respect of their attribute and organize and

maintain such information. Even if it is determined to use this approach, the CFTC is requested to make necessary coordination in advance with other U.S. authorities (the U.S. Prudential Regulators and the SEC) so that they will also adopt the same approach.

If the U.S. authorities adopt their respective cross-border approaches, covered entities will incur increasing costs to comply with U.S. regulations. To realize a better regulatory environment, and from a perspective of pursuing the better regulation which intends to enhance the quality of financial regulations, we consider that a common approach should be adopted at least under the Dodd-Frank Act. Otherwise, the current ongoing market fragmentation caused by establishing comprehensive regulations by the Volcker Rule as well as rules on swap dealers ("SD") and major swap participants ("MSP") is expected to accelerate. Specifically, it is anticipated that disincentives (a negative incentive to avoid transactions with U.S. entities) will increase; for example, a non-SD/MSP will avoid transactions with a SD/MSP.

Further, what concerns Japanese banks is ambiguity about which cross-border application approaches should be taken for certain interaffiliate transactions; for example, it is unclear whether the CFTC's proposed approach or the Prudential Regulators' approach would be taken for derivative transactions between a U.S. derivatives subsidiary, which is registered as an SD/MSP and thus is subject to the CFTC regulations, and the New York branch of a non-U.S. bank, which is not registered as an SD/MSP. Therefore, a cross-border application approach to be taken for such interaffiliate transactions should be clarified. Namely, the CFTC is requested to clarify that the CFTC's proposed approach will take precedence by focusing on an SD/MSP-registered entity. It is also requested to make necessary coordination with other U.S. authorities so that the same approach will be adopted in this respect.

With regard to the treatment of a Foreign Consolidated Subsidiary ("FCS") which is not guaranteed by a U.S. person, it is prescribed that the CFTC's cross-border application approach is adopted basically (41387; 1st to 3rd Column). However, since FCSs are operating under the supervision of the authorities of the country in which they were established and are obliged to primarily comply with the rules imposed by such authorities, the national rules of the country of their establishment should take precedence over the CFTC rules. Although the CFTC's cross-border application approach is designed to allow substituted compliance to a greater extent, substituted compliance is not available for transactions with a non-U.S. CSE guaranteed by a U.S. person. Further, substituted compliance is also not available for those jurisdictions where the regulation is not implemented in which case the CFTC rules

are applied. This could cause a considerable burden on those counterparties located in the country of establishment.

(7) Substituted compliance

Our comment in this paragraph is based on the assumption that swap margin rules will not be integrated and thus entities will need to avail themselves of substituted compliance. We support that the procedures for the CFTC to determine that other national rules and regulations have comparability and comprehensiveness in light of the regulatory requirements of the CFTC ("comparability determination") have been clarified.

The proposed rule provides some descriptions that reconfirm the content of the CFTC's Cross-Border Guidance.

> i) It is described that under the outcome-based approach, the CFTC does not look to whether the identicalness between the CFTC rules and regulations is ensured (41389; 2nd Column).
>
> ii) Non-U.S. private financial institutions may apply for a comparability determination individually. Also, a foreign regulatory authority may submit such a request based on intention of financial institutions under its supervision (41390; 1st & 2nd Column).
>
> iii) Once a comparability determination is made for a jurisdiction, it will apply for all entities or transactions in that jurisdiction (41390; 2nd Column).
>
> iv) In the comparability determination process, the CFTC closely consults, cooperates, and coordinates with the U.S. prudential regulators and relevant foreign regulators. The foreign regulator(s) enters into a memorandum of understanding ("MOU") with the CFTC, as necessary (41390; 2nd Column).

The concept of "stricter rules apply" should not be easily applied in evaluating comparability to other foreign jurisdictions' margin requirements. Instead, it is important to conduct a comprehensive evaluation by taking into consideration risk mitigation effects. For example, under the proposed rule by the U.S. authorities, U.S. dollar cash is always eligible as collateral for VM but cash denominated in other currencies can be used as eligible collateral only when transactions are executed in that currency. On the other hand, under the proposed rules by European or Japanese authorities, all major currencies are always eligible as cash collateral for VM. At a glance, the U.S. regulation seems a stricter rule because its scope of eligible collateral is narrower. However, from the perspective of achieving the original objective of mitigating risks, it cannot be said that the U.S. regulation is always more effective than other national regulations. In this view, the CFTC is requested to make a comparability determination by capturing substance.

It is also mentioned with respect to substituted compliance that the proposed rule does not contain an emerging market exception (41390; Question 4 in 3rd Column). To our understanding, the emerging market exception is a rule that allows exemption of those transactions constituting less than 5% of the firm's notional swaps from the margin requirements; and is an essential rule particularly when executing transactions with those jurisdictions where the legal enforceability of netting is not assessed (e.g. China). In the absence of such rule, bankruptcy of a counterparty located in those jurisdictions where the legal enforceability of netting is not assessed will cause risk of cherry picking by the receiver in bankruptcy. Please also refer to the ISDA letter of July 10, 2015 submitted to the European Supervisory Authorities[3].

With regard to the treatment of those jurisdictions where the legal enforceability of netting is not assessed, the proposed rule questions whether the CFTC should permit the collecting/posting of VM on a net basis (41390; Question 5 in 3rd Column). In the first place, VM should be collected/posted on a net basis. Transactions with counterparties located in those jurisdictions where the legal enforceability of netting is not assessed should be exempted from both VM and IM requirements. Exposures related to transactions with counterparties located in those jurisdictions where the legal enforceability of netting is not assessed are calculated in a different way depending on which side of the contractual party performs the calculation (i.e. the party located in those jurisdictions where the legal enforceability of netting is verified should calculate exposures under the assumption that positive exposures cannot be offset against negative exposures, whereas its counterparty should calculate exposures under the assumption that such netting is permitted). Therefore, the amount of VM to be collected/posted cannot be fixed. If VM is calculated on a net basis, the party located in those jurisdictions where the legal enforceability of netting is verified will be required to post collateral even if it has positive exposure, which may rather raise the possibility of increase in risk. Further, given that IM is originally designed to cover the portion that cannot be covered by VM under the assumption that netting is permitted, requiring collecting and posting of IM under transactions with counterparties for which netting is not permitted would be inconsistent with the original nature of IM.

[3] http://www2.isda.org/functional-areas/wgmr-implementation/

II. ISSUES NOT RAISED IN QUESTIONS IN CONSULTATION PAPER

ISSUE 1. Cross-Border.

A. Permit transactions with non-netting jurisdictions for up to 5% of an entity's OTC derivatives.

Suggestion:

We ask the ESAs to provide an exemption from the margin requirements for an entity's OTC derivatives with parties in "non-netting jurisdictions" for up to 5% of the entity's OTC derivatives (measured by notional amounts). "**Non-Netting Jurisdictions**" are those in which it is not possible to get a clean netting opinion.

Explanation: (omitted)

(8) Definition of "U.S. person"

(a) 41384; Question 1 in 1st Column: Consistency with the definition of other U.S. authorities

The proposed cross-border application sets out the definition of "U.S. person" which differs from the following two definitions, giving rise to potential confusion. If it is determined to introduce a new definition in the proposed cross-border application, the definition of "U.S. person" should be integrated across relevant U.S. authorities by modifying the currently-adopted definitions in the future.

- Definition of "U.S. person" under the CFTC's Cross-Border Guidance
- Definition of "U.S. person" under the SEC's final rule on cross-border application (issued in June 2014)

If the term "U.S. person" is separately defined on a regulation-by-regulation basis, the parties to the transaction will be required to provide status representations (whether U.S. person or Non-U.S. person) for respective regulations, leading to increasing costs for compliance with U.S. regulations (e.g. representation by ISDA Amend and Representation Letter). For the purpose of realizing better regulation, a common definition should be used at least under the Dodd-Frank Act.

(b) 41384; Questions 2 & 3 in 1st Column: Comparison with the definition of "U.S. person" under the CFTC's Cross-Border Guidance

We welcome the exclusion, from the proposed rule, of the description of prong (vi) in the CFTC's Cross-Border Guidance: "any commodity pool, pooled account, investment fund, or other collective investment vehicle that is not described in prong (iii) and that is majority-owned by one or more persons described in prong (i), (ii), (iii), (iv), or (v), except any commodity pool, pooled account, investment fund, or other collective investment vehicle that is publicly offered only to non-U.S. persons and not offered to U.S. persons".

With regard to the description of prong (vii) in the CFTC's Cross-Border Guidance: "any legal entity (other than a limited liability company, limited liability partnership or similar entity where all of the owners of the entity have limited liability) that <u>is directly or indirectly majority-owned by one or more persons</u> described in prong (i), (ii), (iii), (iv), or (v) and in which such person(s) bears unlimited responsibility for the obligations and liabilities of the legal entity"; the underlined part has been modified in prong (vi) of the proposed rule to read as "is owned by one or more persons", excluding the majority ownership requirement. This exclusion may result in a broader scope of "U.S. persons"

relative to other swap regulations, and therefore, the majority ownership requirement should not be excluded.

(c) <u>41384; Question 4a in 1st Column: Treatment of international institutions (Comparison with the definition of "U.S. person" under the SECs final rule on cross-border application)</u>

The SEC's final rule on cross-border application excludes international institutions headquartered in the U.S. (e.g. IMF, IBRD, IADB, ADB, AFDB and United Nations) from the definition of "U.S. person". The proposed rule should provide for such an exemption as well.

We request this exemption from the perspective that consistency with other swap regulations should be basically maintained while at the same time redundant costs for regulatory compliance should be minimized. It is considered unlikely that the above-mentioned international institutions will represent themselves as a U.S. person when the CFTC's swap regulations come into effect. Although they are invested by the U.S. government, financial institutions generally separate them from the U.S. country risk in evaluating their credit risk in practice. In this view, it would be appropriate to exclude the above international institutions from the definition of "U.S. person".

(9) <u>Other</u>

(a) <u>Definition of "Guarantee"</u>

We support the CFTC's decision to narrow the definition of "guarantee" in the proposed rule relative to its Interpretive Guidance and Policy Statement Regarding Compliance with Certain Swap Regulations. A broader definition under the interpretive guidance that includes arrangements such as keepwells and liquidity puts would increase regulatory compliance costs. Since the definition set out in the proposed rule enables clearer understanding, and thus is considered to be more appropriate; the definition of "guarantee" under the interpretive guidance should be modified similarly to the proposed rule.

Simulation of time schedule for margin requirement

Appendix

Note: The simulation is performed by setting the due date on the end of August 2016.

IM Phase1 (end of month 8)

	7	8	9	10	11	12	1	2	3	4	5	6	7	8	Remarks
Finalization of the rules	【EU】 Consultation	【US】 Final rule 【JPN】 Consultation	【EU】 Final rule	【JPN】 Final rule											
Finalization of templates for VM & IM				NY LAW		ENG LAW JPN LAW									It is estimated that NY Law templates will be finalized 2 months after the US rule is finalized. Although it is estimated that other templates will be finalized 3 months after the NY Law templates are finalized, this schedule is slightly front-loading.
Finalization of templates for ACA (*)ACA: Account Control Agreement					NY LAW		ENG LAW	JPN trust							It is estimated that NY Law templates will be finalized 3 months after the US rule is finalized. It is estimated that other templates will be finalized 4 months after the EU rule is finalized.
Industry movement						Development of templates* and documentation policies		Major banks to start negotiation		Negotiation to gain momentum in the industry					After finalizing templates, each company needs to develop a documentation policy before starting negotiation. ⇒ Equivalence assessment needs to be finished until year-end, otherwise it is impossible to reflect it.

*ACA needs 2 steps: 1. custodian creates a template; and 2. each company customizes the template.

⇒ Based on the above simulation, 1. templates and documentation policies need to be developed within a short period, and 2. the US final rule should be finalized at least end of August.

⇒ The schedule is really tight, so if assumptions in simulation change, on-time implementation is difficult.