

**ISSUES DISCUSSED AT THE OTC DERIVATIVES REGULATION  
REVIEW PANEL  
(EXECUTIVE SUMMARY)**

**On using electronic trading platform (ETP) for OTC derivatives markets**

[Purposes of establishing a framework in Japan]

- To enable regulatory oversight on trades, including the price formation process.
- To contribute in stabilizing the markets during financial crises, through establishing a reliable method of trading based on defined set of rules.
- To enable improvement in market efficiency and increase in market participants through improvements in price transparency.
- To promote straight-through processing (STP), from execution through to settlement.

[Overview of the proposed framework]

- Parties included in this framework: In the first instance, those OTC derivatives dealers (Financial Instruments Business Operators - FIBOs) whose trading volume of eligible trades is significant (by notional outstanding and trading volume) will be subject to this framework, and the scope will be expanded as necessary.
- Eligible trades: Products that are sufficiently standardized, maintains adequate liquidity and cleared through CCP. In the first instance, Yen-denominated plain vanilla IRS is envisaged to be deemed eligible for ETP trades.
- Requirement for ETP operators: 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 trading rules to ensure fair trading.
- Special rules for foreign ETP operators: A foreign ETP operator may operate in Japan without requiring registration as Type I FIBO, if it is regulated by the home-country regulator, and if a framework for cooperative oversight arrangement exists.
- Implementation: Considering the time required for both ETP operators

and users, we intend to establish the framework without delay, but will provide certain period before implementation (circa three years)

### **On CCP clearing and trade reporting frameworks**

- Building on the 2010 amended Financial Instruments and Exchanges Act which provided frameworks for CCP clearing and record keeping / reporting of trade data, Cabinet Ordinance will contain further details for these frameworks.
- For both these frameworks, implementation will take place progressively; in the first instance FIBOs will be the primary focus, reflecting their significant trade volumes and notional outstanding.