

7 May 2020

Circular to licensed corporations

Margin requirements for non-centrally cleared OTC derivative transactions

This circular informs licensed corporations (LCs) that the Securities and Futures Commission (SFC) will defer the introduction of initial margin (IM) requirements for non-centrally cleared over-the-counter (OTC) derivative transactions¹ by one year to provide operational relief amidst the COVID-19 situation.

Subject to specified thresholds, the IM requirements for LCs which are contracting parties to non-centrally cleared OTC derivative transactions entered into with a covered entity² were originally to be phased in starting from 1 September 2020.

In light of the significant challenges posed by the COVID-19 outbreak, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) on 3 April 2020 announced a one-year extension of the deadlines for completing the final implementation phases of the IM requirements for non-centrally cleared OTC derivatives. Covered entities with an average aggregate notional amount (AANA) of non-centrally cleared OTC derivatives greater than €50 billion will now be subject to the IM requirements from 1 September 2021. Covered entities with an AANA of non-centrally cleared OTC derivatives greater than €8 billion will be subject to the IM requirements from 1 September 2022³.

Taking into consideration the BCBS-IOSCO announcement, the SFC will extend the phase-in schedule for the IM requirements by one year:

	Period	Threshold
Phase-in	1 September 2021 to 31 August 2022	HK\$375 billion
Permanent	On a permanent basis from 1 September 2022 for each subsequent 12-month period	HK\$60 billion

- (a) From 1 September 2021 to 31 August 2022, the exchange of IM by an LC is required in a one-year period where both the LC and the covered entity have an AANA of non-centrally cleared OTC derivatives exceeding HK\$375 billion on a group basis.
- (b) On a permanent basis starting from 1 September 2022 and for each subsequent 12-month period, the exchange of IM by an LC is required in a one-year period

¹ See the [Consultation Conclusions on the OTC derivatives regime for Hong Kong – Proposed margin requirements for non-centrally cleared OTC derivative transactions, 18 December 2019](#).

² A covered entity includes an authorised institution, an LC or another defined entity.

³ See [press release](#) issued by BCBS and IOSCO dated 3 April 2020.



where both the LC and the covered entity have an AANA of non-centrally cleared OTC derivatives exceeding HK\$60 billion on a group basis.

Paragraphs 9(a) and 9(b) of the proposed Part III of Schedule 10 to the Code of Conduct⁴ will be amended accordingly and gazetted in due course.

For the avoidance of doubt, the variation margin requirements will still become effective on 1 September 2020.

Should you have any queries regarding the contents of this circular, please contact your case officer.

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

End

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⁴ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.