Basel Committee on Banking Supervision
BANK FOR INTERNATIONAL SETTLEMENTS

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Press release

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Margin requirements for non-centrally cleared derivatives

The Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO) released today the final framework for margin requirements for non-centrally cleared derivatives. The framework is available on the websites of the Bank for International Settlements and IOSCO.

Under the globally agreed standards published today, all financial firms and systemically important non-financial entities that engage in non-centrally cleared derivatives will have to exchange initial and variation margin commensurate with the counterparty risks arising from such transactions. The framework has been designed to reduce systemic risks related to over-the-counter (OTC) derivatives markets, as well as to provide firms with appropriate incentives for central clearing while managing the overall liquidity impact of the requirements.

The final requirements have been developed taking into account feedback from two rounds of consultation (a July 2012 consultative paper and a February 2013 near-final proposal) as well as a quantitative impact study that helped inform the policy deliberations.

Compared with the near-final framework proposed earlier this year, the final set of requirements includes the following modifications:

- The framework exempts physically settled foreign exchange (FX) forwards and swaps from initial margin requirements. Variation margin on these derivatives should be exchanged in accordance with standards developed after considering the Basel Committee supervisory guidance for managing settlement risk in FX transactions.

- The framework also exempts from initial margin requirements the fixed, physically settled FX transactions that are associated with the exchange of principal of cross-currency swaps. However, the variation margin

requirements that are described in the framework apply to all components of cross-currency swaps.

- "One-time" re-hypothecation of initial margin collateral is permitted subject to a number of strict conditions. This should help to mitigate the liquidity impact associated with the requirements.

A number of other features of the framework are also intended to manage the liquidity impact of the margin requirements on financial market participants. In particular, the requirements allow for the introduction of a universal initial margin threshold of €50 million below which a firm would have the option of not collecting initial margin. The framework also allows for a broad array of eligible collateral to satisfy initial margin requirements, thus further reducing the liquidity impact.

Finally, the framework published today envisages a gradual phase-in period to provide market participants with sufficient time to adjust to the requirements. The requirement to collect and post initial margin on non-centrally cleared trades will be phased in over a four-year period, beginning in December 2015 with the largest, most active and most systemically important derivatives market participants.

The Basel Committee and IOSCO acknowledge that the margin requirements are new to the market and that their precise impact will depend on a number of factors and market conditions that will only be realised over time as the requirements are put into practice. Accordingly, the Basel Committee and IOSCO will monitor and assess the impact of the requirements as they are implemented globally.

The Basel Committee and IOSCO wish to thank all those who provided feedback and comments on the previous consultative documents. These were instrumental in revising and finalising the requirements.