Consultative document: Margin requirements for non-centrally-cleared derivatives

Issued for comment by 28 September 2012

The consultative document which presents the initial policy proposals emerging from the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) joint Working Group on Margining Requirements (WGMR) was studied and the following concerns should be noted:

1. **Proposals threaten liquidity**: Liquidity will be tied up in collateral, especially as there will be a reduced scope for netting and re-hypothecation. This could increase concentration risk, therefore undermining the stated aim of reducing systemic risk;

2. **Proposals are excessive**: Not all OTCs present significant counterparty risks, particularly short dated instruments of less than a year's maturity in foreign exchange;

3. **Proposals lack flexibility**: The standardised margin proposals do not account for hedging, diversification or netting benefits. Furthermore, the requirement that internal IM calculation models should be at least as conservative as the standardised IM levels makes these very unattractive due to the time / costs in developing them;

4. **Proposals will result in increased costs**: Many firms such as hedge fund managers are not experienced or equipped to accommodate two-way margining, and will have to invest substantially in new IT systems and in the recruitment of experienced personnel for this purpose;

5. Posting initial margin to some unregulated counterparties poses a significant risk;

6. **Proposals threaten innovation**: Developing bespoke OTCs will be more costly and time consuming.