International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

THE BOARD
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

Statement on Variation Margin Implementation

23 February 2017

The Board of the International Organization of Securities Commissions (IOSCO) acknowledges the challenges facing some market participants working to complete the necessary documentation and processes to be in full compliance with variation margin requirements, which are scheduled to take effect by 1 March 2017 in accordance with minimum standards established by IOSCO and the Basel Committee on Banking Supervision (BCBS) and implemented under domestic laws in various jurisdictions. While reaffirming its commitment to implementation of the margin requirements by 1 March 2017, the Board believes that relevant IOSCO members, to the extent permitted by their relevant legal and supervisory frameworks, also should consider taking appropriate measures available to them to ensure fair and orderly markets during the introduction and application of such variation margin requirements.

Margin for non-centrally cleared derivatives is a critical component of the G20 Leaders' statements on reforms to the over-the-counter derivatives markets to mitigate systemic risk and make the financial system safer. Consistent with the G20 Leaders' statement that all non-centrally cleared derivatives should be subject to margining requirements, IOSCO established, together with the BCBS, minimum standards for margin requirements for non-centrally cleared derivatives.[1] According to the timetable set by IOSCO and BCBS, the first implementation date for initial and variation margin for major firms was 1 September 2016, and the second implementation date for variation margin for a broader class of firms is 1 March 2017. The Board remains committed to the prescribed deadlines, bearing in mind that differences in implementation timing across jurisdictions could raise certain operational and competitive challenges for industry.

The Board, however, understands that some market participants report that they likely will not be in a position to fully comply with the new requirements by 1 March 2017. Among other things, they report facing difficulty in completing the necessary credit support documentation and operational processes to settle variation margin in accordance with the requirements despite efforts to do so.

[1] Basel Committee on Banking Supervision and Board of the International Organization of Securities Commissions, *Margin requirements for non-centrally cleared derivatives* (March 2015), www.bis.org/bcbs/publ/d317.pdf.

While the Board recognizes that some market participants have been exchanging variation margin on a regular basis for some time, some firms, including, in particular, smaller financial firms, buy-side firms, asset managers, pension funds, and insurance companies, may not yet have well-developed infrastructures to calculate and exchange margin by 1 March 2017.

In light of the above, the Board is concerned that such firms will not be able to comply fully with the pending variation margin requirements. If this is the case, there may be a reduction in their ability to hedge positions and a potential impact on liquidity. Such a result would undermine IOSCO and BCBS's work in establishing the minimum standards for margin requirements for non-centrally cleared derivatives and IOSCO's objective to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets and seek to address systemic risks.

The Board expects all affected parties to make every effort to fulfill the necessary variation margin requirements by the prescribed deadlines. At the same time, the Board believes that relevant IOSCO members, together with other relevant authorities, should consider taking appropriate measures available to them to ensure fair and orderly markets during the introduction and application of such variation margin requirements.