Press release

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BCBS and IOSCO issue consultative paper on margin requirements for non-centrally-cleared derivatives

The Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO) have today published a consultative paper on margin requirements for non-centrally-cleared derivatives. The paper is available on the websites of the Bank for International Settlements and IOSCO.

In 2009, the G20 Leaders initiated a reform programme to reduce the systemic risk of over-the-counter (OTC) derivatives markets. In particular, a number of measures were agreed to enhance the transparency and regulation of OTC derivatives, including mandatory central clearing. However, mandatory clearing requirements will capture only standardised OTC derivatives. Non-standardised products will thus continue to be non-centrally cleared and will remain subject to bilateral counterparty risk management.

In 2011, the G20 Leaders agreed to add margin requirements on non-centrally-cleared derivatives to the reform programme. These requirements can further mitigate systemic risk in the derivatives markets. In addition, they can encourage standardisation and promote central clearing of derivatives by reflecting the generally higher risk of non-centrally-cleared derivatives. The consultative paper published today lays out a set of high-level principles on margining practices and treatment of collateral, and proposes margin requirements for non-centrally-cleared derivatives.

These policy proposals are articulated through a set of key principles that primarily seek to ensure that appropriate margining practices will be established for all non-centrally-cleared OTC derivative transactions. These principles will apply to all transactions that involve either financial firms or systemically important non-financial entities.

To prevent regulatory arbitrage, international consistency with regard to margin requirements and their implementation is crucial. To this end, the proposal is designed to achieve global consistency for margin requirements. The interaction of regulatory regimes envisioned in the proposed rules will lead to the formulation of consistent regulatory margin requirements across jurisdictions.

It is also important to consider the potential impact of margin requirements on financial markets and the broader financial system. The potential benefits must be weighed against the liquidity impact arising from the need for derivative counterparties to provide liquid, high-quality collateral when meeting margin requirements. The Basel Committee and IOSCO therefore plan to conduct a quantitative impact study (QIS) during the consultation period.

The Basel Committee and IOSCO would like to solicit feedback from the public on questions related to the scope, feasibility and impact of the margin requirements. Responses to the public consultation, together with the QIS results, will be considered in formulating a final joint proposal on margin requirements on non-centrally-cleared derivatives by year-end.

Comments on the proposed rules should be submitted by **Friday, 28 September 2012** by e-mail to: baselcommittee@bis.org and/or wgmr@iosco.org. Alternatively, comments may be sent by post to the Secretariat of the Basel Committee on Banking Supervision, Bank for International Settlements, CH-4002 Basel, Switzerland; or to the Secretariat of IOSCO at Oquendo 12, 28006 Madrid, Spain. All comments may be published on the websites of the Bank for International Settlements and IOSCO unless a comment contributor specifically requests confidential treatment.