



Financial Sector
Conduct Authority



SOUTH AFRICAN RESERVE BANK
Prudential Authority

FINANCIAL SECTOR REGULATION ACT, 2017

NOTICE REGARDING THE PUBLICATION OF DRAFT AMENDMENTS TO JOINT STANDARD 2 OF 2020: MARGIN REQUIREMENTS FOR NON-CENTRALLY CLEARED OVER THE COUNTER DERIVATIVE TRANSACTIONS

The Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA), in accordance with section 98(1)(a)(iv) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act), hereby invites submissions on the draft amendments to Joint Standard 2 of 2020: Margin Requirements for non-centrally cleared over the counter derivative transactions, to be made in terms of section 107, read with sections 106(1)(a), 106(2)(a) and (e), 108(1)(g) and (j) and 108(2) of the FSR Act, as per the Schedule below.

The draft Notice, together with a tracked version of Joint Standard 2 of 2020 showing the proposed amendments and a statement supporting the proposed amendments, are available on the FSCA's website <https://www.fsca.co.za> and the PA's website <https://www.resbank.co.za>.

Comments on the draft Notice and supporting documents must be submitted in writing on or before **25 July 2022** to PA-Standards@resbank.co.za and FSCA.RFDStandards@fsca.co.za. Commentators are requested to make use of the submission template published alongside this document available on the FSCA's and PA's websites.

Unathi Kamlana
Commissioner
FINANCIAL SECTOR CONDUCT AUTHORITY

Fundi Tshazibana
Chief Executive Officer
PRUDENTIAL AUTHORITY

DATE:

SCHEDULE

1. Interpretation

In this Schedule “**the Joint Standard**” means Joint Standard 2 of 2020 – Margin requirements for non-centrally cleared over the counter derivative transactions jointly made by the FSCA and PA on 2 June 2020.

2. Amendments to the Joint Standard

- (1) Paragraph 1 of the Joint Standard is hereby amended by the substitution of sub-paragraph (h) under the definition of “counterparty” of the following:

“(h) any other person **[declared]** as may be determined by the Financial Sector Conduct Authority, with the concurrence of the Prudential Authority to be a counterparty;”.

- (2) Paragraph 2 of the Joint Standard is hereby amended by the substitution of sub-paragraph 2.1(1) of the following:

“(1) The Joint Standard applies to –
(a) a provider entering into non-centrally cleared OTC derivative transactions with a counterparty or a foreign counterparty; and
(b) for purposes of paragraph 6A, a financial institution that is a counterparty.”.

- (3) Paragraph 4 of the Joint Standard is hereby amended by –

- (a) the deletion of the repetition of the word “in” in sub-paragraph 4.1(3)(c);
(b) the substitution of sub-paragraph 4.2(1) of the following:

“(1) From the effective date of this Joint Standard to 31 August 2021, any provider belonging to a group of which the aggregate month-end average gross notional amount of OTC derivatives for March, April, and May 2020 exceeded R30 trillion must comply with the margin requirements when transacting with a counterparty belonging to a group that also meets the condition related to the aggregate month-end average gross notional amount of OTC derivatives for March, April, and May 2020 exceeding R30 trillion.”;

- (c) the substitution of sub-paragraph 4.2(2) of the following:

“(2) From 1 September 2021 to 31 August 2022, a provider belonging to a group of which the aggregate month-end average gross notional amount of OTC derivatives for March, April, and May 2021 exceeded R23 trillion,

must comply with the margin requirements when transacting with a counterparty belonging to a group that also meets the condition related to the aggregate month-end average gross notional amount of OTC derivatives for March, April, and May 2021 exceeding R23 trillion.”;

(d) the substitution of sub-paragraph 4.2(3) of the following:

“(3) From 1 September ~~[2022]~~ 2023 to 31 August ~~[2023]~~ 2024, a provider belonging to a group of which the aggregate month-end average gross notional amount of OTC derivatives for March, April, and May ~~[2022]~~ 2023 exceeded R15 trillion must comply with the margin requirements when transacting with a counterparty belonging to a group that also meets the condition related to the aggregate month-end average gross notional amount of OTC derivatives for March, April, and May ~~[2022]~~ 2023 exceeding R15 trillion.”;

(e) the substitution of sub-paragraph 4.2(4) of the following:

“(4) From 1 September ~~[2023]~~ 2024 to 31 August ~~[2024]~~ 2025, a provider belonging to a group of which the aggregate month-end average gross notional amount of OTC derivatives for March, April, and May ~~[2023]~~ 2024 exceeded R8 trillion must comply with the margin requirements when transacting with a counterparty belonging to a group that also meets the condition related to the aggregate month-end average gross notional amount of OTC derivatives for March, April, and May ~~[2023]~~ 2024 exceeding R8 trillion.”;

(f) the substitution of sub-paragraph 4.2(5) of the following:

“(5) On a permanent basis, that is from 1 September ~~[2024]~~ 2025, onwards, any provider belonging to a group of which the aggregate month-end average gross notional amount of OTC derivatives for March, April, and May ~~[2024]~~ 2025 exceeded R100 billion must comply with the margin requirements during the one-year period from 1 September of that year to 31 August of the following the year when transacting with a counterparty belonging to a group that also meet this condition, provided that any provider or counterparty that belonging to a group of which the aggregate month-end average gross notional amount of OTC derivatives for March, April, and May of the year is less than R100 billion shall not be subject to the initial margin requirements envisaged in this Joint Standard.”

(g) the substitution of sub-paragraph 4.6(b) of the following:

“(b) implement and maintain a sufficiently robust quantitative portfolio margin model, which model may either be developed internally or sourced from relevant counterparties or third-party vendors, that calculates an extreme but plausible estimate of an

increase in the value of the instrument that is consistent with a one-tailed 99% confidence interval over a 10-day horizon, based on historical data **[that incorporates a period of significant financial stress]** not exceeding five years, provided that-

(h) the substitution of item 4.6(b)(iv) of the following:

“(iv) the data must contain a period of significant financial stress which must [–
(aa) be identified and applied separately for each relevant broad asset class for which the relevant required portfolio margining amount is calculated;
[(bb) cover a historical period of not more than five years, provided that for calibration purposes, any relevant data within the period of significant financial stress must be equally weighted;]”

(i) the insertion of the following item after item 4.6(b)(vii):

“(viii) the data within the identified period referred to in sub-paragraph 4.6(b) must be equally weighted for calibration purposes.”

(4) Paragraph 6 of the Joint Standard is hereby amended by –

(a) the substitution in sub-paragraph 6.2(2)(c) of the following:

“(c) such high-quality government and central bank debt securities as may be **[specified in writing]** determined by the Authorities;”

(b) the substitution in sub-paragraph 6.2(2)(d) of the following:

“(d) such high-quality corporate bonds as may be **[specified in writing]** determined by the Authorities;”

(c) the substitution of sub-paragraph 6.2(2)(e) of the following:

“(e) such equities included in major indices as may be **[specified in writing]** determined by the Authorities;”

(d) the substitution of sub-paragraph 6.2(2)(f) of the following:

“(f) such other assets or instruments as may be **[specified in writing]** determined by the Authorities;”

(e) the insertion after sub-paragraph 6(2) of the following:

- “(2A) When determining eligible collateral as referred to in sub-paragraph (2)(c) – (f), the Authorities –
- (a) must publish the determination by notice on the website of the Authorities; and
 - (b) may make the use of the specified collateral subject to such conditions as the Authorities may specify in the determination, in order to give effect to the necessary risk management, internal control requirements and assurances referred to in subparagraph (1).”.

(5) The insertion of the following paragraph after paragraph 6:

“6A. Reporting Requirements

- “(1) A provider that enters into a non-centrally cleared OTC derivative transaction with a counterparty or a foreign counterparty, and a counterparty that is a financial institution, must report such information related to the requirements in this Joint Standard to the Authorities, as may be determined by the Authorities.
- (2) For purposes of subparagraph (1), the Authorities –
- (a) must publish the determination by notice on the websites of the Authorities; and
 - (b) may determine the form, manner, content and period of reporting by notice on the websites of the Authorities.”.

3. Short title and commencement

This regulatory instrument is called the Amendments to Joint Standard 2 of 2020: Margin Requirements for non-centrally cleared over the counter derivative transactions, 2022 and comes into effect on the date of publication.