

## **Financial Markets Act, 2012**

## **Financial Sector Regulation Act, 2017 (Act No. 9 of 2017)**

## **Joint Communication 4 of 2021**

### **Joint standard on margin requirements for non-centrally cleared over the counter derivative transactions: implementation roadmap and request for information.**

#### **1. PURPOSE**

- 1.1 The purpose of this communication is to:
  - 1.1.1 communicate the implementation roadmap developed by the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) (jointly hereafter referred to as the Authorities) for Joint Standard 2 of 2020: Margin requirements for non-centrally cleared over the counter derivative transactions<sup>1</sup> (Joint Standard);
  - 1.1.2 communicate the publication of Joint Information Request 1 of 2021; and
  - 1.1.3 make available the forms for use by those providers that intend to apply for the use of -
    - (a) the quantitative portfolio margin model (QPMM) (for the computation of initial margin requirements) – Form A; and/or
    - (b) the risk-sensitive quantitative model-based haircut (RQMH) approach (for the computation of collateral haircuts) – Form B.

#### **2. THE IMPLEMENTATION ROADMAP**

- 2.1 On 2 June 2020, the Authorities published the Joint Standard on their respective websites.
- 2.2 The Authorities have developed a high-level implementation roadmap, as set out in Appendix A, which addresses various structural, technical and operational requirements of the Joint Standard and is intended to guide project planning initiatives within the Authorities, as well as counterparties<sup>2</sup> and providers,<sup>3</sup> as captured by the Joint Standard.
- 2.3 This implementation roadmap may be subject to revision, with due consideration to the impact on the counterparties' and providers' preparatory programmes ahead of the various due dates set out in Appendix A. All matters related to regulatory data submissions, system development and implementation dynamics are captured as system and process testing in Appendix A.

<sup>1</sup> <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-financial/sector-regulation-joint-standards/2020/9975>

<sup>2</sup> Counterparty has the meaning ascribed to it in the Joint Standard (Joint Standard 2 of 2020)

<sup>3</sup> Provider has the meaning ascribed to it in the Joint Standard (Joint Standard 2 of 2020)

### **3. JOINT INFORMATION REQUEST 1 OF 2021**

Alongside this communication, the Authorities have issued the Joint Information Request 1 of 2021 in accordance with section 131 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017). The information required for completion and submission to the Authorities is set out in the questionnaire annexed to the Joint Information Request and must be completed by all providers that are subject to the Joint Standard and submitted to the Authorities by no later than **1 December 2021**.

### **4. FORMS FOR USE IN APPLICATIONS TO THE AUTHORITIES**

- 4.1 The Joint Standard requires all licensed providers that intend to apply for the use of the QPMM<sup>4</sup> and/or the RQMH approach<sup>5</sup> to submit an application to the Authorities for approval.
- 4.2 To this end, the Authorities have developed two forms for use by licenced providers when submitting any such applications. Attached to this Joint Communication for purposes of such applications are:
- Form A - application for approval for the use of the QPMM
  - Form B - application for approval for the use of the RQMH approach.
- 4.3 Any licensed provider intending to make use of the QPMM is requested to make use of Form A, and any provider intending to make use of the RQMH approach is requested to make use of Form B, when submitting an application for approval by submitting the relevant form to the Authorities via email at [queries.otc@fsca.co.za](mailto:queries.otc@fsca.co.za) and [marginrequirements@resbank.co.za](mailto:marginrequirements@resbank.co.za) (and the responding institution's respective frontline team at the PA, where applicable).

### **5. PHASED APPROACH TO THE DEVELOPMENT OF FUTURE REPORTING**

The PA is in the process of developing an implementation stream related to the ongoing submission of specific information pertaining to transactions between a provider and a counterparty. It is envisaged that the providers and counterparties will be required to submit such information to the PA on a daily basis. Implementation of this proposal is envisaged to consist of two phases. Phase one is intended to relate to an interim requirement, in terms of which providers and counterparties will be required to submit information/data on a predetermined Microsoft Excel template. Phase two will focus on a long-term strategic solution, whereby providers and counterparties will submit information/data into a dedicated technological solution. The phased implementation of the strategic reporting requirements and solution is still under development. In this regard, the PA will consider publishing an implementation roadmap in due course, potentially in 2022. During the respective implementation periods, providers and counterparties will be advised of the requisite specifications that need to be adhered to for the transmission of information/data for both the interim and strategic solutions. The reporting metrics and business dates applicable for all

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<sup>4</sup> Referred to in Section 4.6 of the Joint Standard.

<sup>5</sup> Referred to in Section 6(5)(e) of the Joint Standard.



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test submissions leading up to implementation will be addressed in a purpose-specific communication to be published by the PA.

## 6. CLOSING AND ENQUIRIES

- 6.1 Finally, all counterparties and providers are encouraged to apply the full extent of their internal technical and governance procedures to ensure compliance with the Joint Standard. Should a counterparty or a provider foresee any challenges in meeting the implementation requirements of the Joint Standard, the respective counterparty or provider should consequently engage the Authorities on the expected impact of such challenges.
- 6.2 The Joint Communication is available on the Authorities' websites at [www.fsca.co.za](http://www.fsca.co.za) and [www.resbank.co.za](http://www.resbank.co.za).
- 6.3 For further information about this Joint Communication or the Joint Standard, please contact the Authorities via email at [queries.otc@fsca.co.za](mailto:queries.otc@fsca.co.za) and [marginrequirements@resbank.co.za](mailto:marginrequirements@resbank.co.za) (and the responding institution's respective frontline team at the PA, where applicable).

UNATHI KAMLANA  
COMMISSIONER  
FINANCIAL SECTOR CONDUCT AUTHORITY

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KUBEN NAIDOO  
CHIEF EXECUTIVE OFFICER  
PRUDENTIAL AUTHORITY

DATE: 13.08.2021

## Appendix A: Implementation roadmap

1. General		Start date	End date
1.1	<b>Procedural guidelines for implementation of the Joint Standard</b>		
	1.1.1. Development and approval of procedural guidelines by the Authorities	01-09-2021	30-06-2022
	1.1.2. Issuance and engagement with counterparties and providers on procedural guidelines	01-09-2021	30-06-2022
1.2	<b>General implementation requirements submission in terms of the Joint Information Request 1 of 2021 (including Annexure A)</b>		
	1.2.1. General implementation requirements submission	01-12-2021	01-12-2021
	1.2.2. Authorities' assessment of submissions by providers (with potential feedback, on a case-by-case basis)	01-12-2021	30-06-2022
1.3	<b>System and process testing</b>		
	1.3.1. Submission of test data by providers to the Prudential Authority.	01-09-2021	29-10-2021
	1.3.2. Feedback to providers by the Prudential Authority related to the test data submissions.	01-09-2021	29-10-2021
1.4	<b>Reporting</b>		
	1.4.1. Commencement of interim regulatory reporting requirements.	16-08-2021	N/A
2. Initial application-specific submissions <sup>6</sup>		Start date	End date
2.1	<b>QPMM and RQMH application submission/s – Form A or Form B</b>		
	2.1.1. Submission of application(s) by providers to the Authorities.	01-12-2021	01-12-2021
	2.1.2. Authorities' assessment of applications and communication of application outcomes to providers.	01-12-2021	30-06-2022 <sup>7</sup>

<sup>6</sup> All application-specific submissions including by newly licensed providers subsequent to this initial period may be done on an ad-hoc basis

<sup>7</sup> The application assessment period is indicative and may be subject to change at the discretion of the Authorities