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**NOTICE REGARDING THE PUBLICATION OF THE DRAFT JOINT STANDARD ON MARGIN REQUIREMENTS IN RESPECT OF NON-CENTRALLY CLEARED OVER-THE-COUNTER DERIVATIVE TRANSACTIONS AND INVITATION TO MAKE SUBMISSIONS IN TERMS OF THE FINANCIAL SECTOR REGULATION ACT, 2017**

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The Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA) (jointly referred to as Authorities) today publish the draft Joint Standard on margin requirements for non-centrally cleared over-the-counter (OTC) derivative transactions (referred to as Joint Standard) for a public comment period of six weeks in terms of section 98(1)(a)(iv) of the Financial Sector Regulation Act No.9 of 2017 (FSRA).

The recent global financial crisis highlighted that further regulation of OTC derivatives and market participants would be necessary to limit excessive risk-taking to mitigate the systemic risk posted by OTC derivative transactions. In response to the global financial crisis, the Group of Twenty (G20) Leaders in 2009 initiated a reform programme to reduce the systemic risks posed by OTC derivative transactions, which comprised of the following four elements:

- all standardised OTC derivatives should be traded on exchanges or electronic platforms, where appropriate;
- all standardised OTC derivatives should be cleared through central counterparties (CCPs);
- OTC derivatives contracts should be reported to trade repositories; and
- non-centrally cleared derivatives contracts should be subject to higher capital requirements.

In 2011, the G20 mandated the Basel Committee on Banking Supervision (BCBS) and the International Organisation for Securities Commissions (IOSCO) to develop standards on margin requirements for non-centrally cleared OTC derivatives in order to offer enhanced protection against counterparty credit risk. This framework was finalised in 2015 and provides an international standard for G20 member states to adopt into their domestic regulatory frameworks.

The Authorities have developed a draft Joint Standard for margin requirements for non-centrally cleared OTC derivative transactions in line with the BCBS-IOSCO Framework in order to give effect to South Africa's commitment to making the OTC derivatives market safer and more transparent. The draft Joint Standard is closely aligned to the international standard in order to create a level playing field amongst market participants.

The Authorities acknowledge that South African market participants interact with more developed markets and failing to adopt or implement the BCBS-IOSCO Framework will create disparities for local market participants and result in regulatory arbitrage.

However, incorporating the international standard into the domestic regulatory framework must be done in a manner that takes into account the nature of the domestic legal framework and the local market conditions. Adjustments have therefore been made to the international standard as set out in the draft Joint Standard.

In accordance with section 98 of the FSRA, the Authorities hereby invite submissions on the draft Joint Standard and the Statement of the need for, expected impact and intended operation of the Joint Standard. The relevant documentation released for the public consultation process can be accessed via the respective websites of the two Authorities as follows:

[www.resbank.co.za](http://www.resbank.co.za) or [www.fsca.co.za](http://www.fsca.co.za)

Submissions on the draft Joint Standard and Statement using the comments template attached as Annexure A may be submitted in writing to [PA-Standards@resbank.co.za](mailto:PA-Standards@resbank.co.za) for the attention of Ms Lyle Horsley and [Michael.Kabai@fsca.co.za](mailto:Michael.Kabai@fsca.co.za) for the attention of Mr Michael Kabai by close of business on 1 October 2018.

**Jointly issued by the Prudential Authority and the Financial Sector Conduct Authority**

**Date: 17 August 2018**