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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) (the Authorities) today publish the draft Joint Standard on margin requirements for non-centrally cleared over-the-counter (OTC) derivative transactions (the Joint Standard) for a public comment period of six weeks in terms of section 98(1)(a)(iv), read with section 99 of the Financial Sector Regulation Act No. 9 of 2017 (FSRA).

The Joint Standard was previously published by the Authorities on 17 August 2018, pursuant to section 98 of the FSRA. Based on the public consultation process during 2018, and following further internal discussions between the PA and the FSCA on the Joint Standard, the Authorities have effected certain amendments to the Joint Standard. The proposed amendments to the Joint Standard are substantial and therefore require further public consultation pursuant to section 99 of the FSRA.

The recent global financial crisis highlighted that the further regulation of OTC derivatives and market participants would be necessary to limit excessive risk-taking in order to mitigate the systemic risk posed 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. The BCBS-IOSCO Margin 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 the Joint Standard 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 Joint Standard is closely aligned with 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 potentially result in regulatory arbitrage. However, incorporating the BCBS-IOSCO Framework into the domestic regulatory framework must be done in a manner that takes into account the nature of the domestic legal framework and local market conditions. The international standard has therefore being appropriately customised in the Joint Standard in order to account for the local context.

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 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 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** [FSCA.JointStandardComments@fsca.co.za](mailto:FSCA.JointStandardComments@fsca.co.za) for the attention of Ms Elmarie Hamman by close of business on 20 May 2019.

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

**Date: 08 April 2019**