



## **Joint discussion document**

# **Proposed eligibility criteria for mandatory central clearing of over-the-counter derivative transactions**

**Determination to be issued in terms of regulation 4(1) of the Financial Markets Act Regulations<sup>1</sup>**

**April 2026**

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<sup>1</sup> Financial Markets Act Regulations published under Government Notice R98 in *Government Gazette No. 41433* of 9 February 2018.

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## **EXECUTIVE SUMMARY**

This Joint Discussion Document, issued by the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) (collectively referred to as the Authorities), is informed by the 2022 Joint Roadmap, which outlines the development of a regulatory framework for central clearing in South Africa. This document seeks public consultation on proposed eligibility criteria for the mandatory central clearing of over-the-counter (OTC) derivatives, aligning with Group of Twenty (G20) commitments. Under regulation 4(1) of the Financial Markets Act 19 of 2012, the Authorities may determine these criteria based on factors such as product standardisation, trading volumes and liquidity. Based on currently available information, the Authorities have identified South African rand interest rate swaps and forward rate agreements as the initial instruments for mandatory clearing, pending further industry engagement and the availability of a suitably licensed central counterparty. This document invites market input via a questionnaire and feedback template, and outlines plans for further consultation and governance processes prior to the final determination.

## 1. Purpose

1.1 The purpose of this Joint Discussion Document is to:

- (a) communicate proposals by the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) (hereafter jointly referred to as the Authorities) on the determination of eligibility criteria for OTC derivative transactions to be subjected to mandatory central clearing;
- (b) request submissions from interested persons on the proposals as well as the anticipated impact that mandatory central clearing of OTC derivative transactions that meet the criteria as identified in this Joint Discussion Document may have on the South African financial markets, to be populated in the comments template marked as Annexure A; and
- (c) invite OTC derivative providers (ODPs) to complete the questionnaire attached to this Joint Discussion Document marked as Annexure B.

## 2. Background

2.1 In February 2022, the Authorities issued the 'Joint Roadmap for the development of a regulatory framework for central clearing in South Africa' (Roadmap).<sup>2</sup> The Roadmap was issued to highlight the steps that the Authorities would take to mandate central clearing in South Africa.

2.2 The Roadmap indicated three phases for the implementation of a clearing mandate in South Africa. Phase 1 pertained to the development of a joint standard for the licensing of a local central counterparty (CCP). Phase 1 has been completed as per the publication of Joint Communication 1 of 2021.<sup>3</sup> Phase 2 related to establishing a framework that enables external CCPs and external trade repositories (TRs) to operate in the South African market, subject to certain regulatory concessions. This phase entailed the development of an equivalence framework in terms of which a foreign jurisdiction can be determined as equivalent to that of South Africa if its financial markets regulatory framework is deemed equivalent to the framework established in the Financial Markets Act 19 of 2012 (Financial Markets Act). It also included the development of a licensing framework and criteria for exemption of external CCPs, external TRs and external central depository links that may want to operate in South Africa. Phase 2 has been completed as per the publication of Joint Communication 4 of 2025.<sup>4</sup> This Joint Discussion Document relates to Phase 3 of the Roadmap, which deals with the formulation of eligibility criteria for mandatory central clearing for specific OTC derivative transactions.

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<sup>2</sup> The Roadmap is available on the PA website at [PA Joint Roadmap](#).

<sup>3</sup> [Joint Communication 1 of 2021 Publication of Joint Standard published 31 March 2021](#).

<sup>4</sup> [Joint Communication 4 of 2025 - Criteria for exemption of external CCP and TR](#).

- 2.3 As a member of the Group of Twenty (G20), in 2009 South Africa committed to implementing the reforms identified as necessary to improve the regulation and supervision of the OTC derivative markets in response to the global financial crisis that commenced in 2007. The G20 reform programme consisted of the following four key elements:
- (a) All standardised OTC derivatives should be traded on exchanges or electronic platforms, where appropriate.
  - (b) All standardised OTC derivatives should be cleared through CCPs.
  - (c) OTC derivative contracts should be reported to TRs.
  - (d) Non-centrally cleared (bilateral) derivative contracts should be subject to higher capital requirements.
- 2.4 In March 2012, National Treasury published a discussion document titled 'Reducing the risks of over-the-counter derivatives in SA'. The discussion document outlined South Africa's proposed policy approach to regulating its OTC derivative markets. From a legislative perspective, the central clearing commitments made at the G20 were, in relevant parts, incorporated into the regulatory framework through the Financial Markets Act.
- 2.5 On 3 June 2013, the Financial Markets Act came into force, repealing the Securities Services Act 36 of 2004. The Financial Markets Act has among its objectives the reduction of systemic risk; the protection of regulated persons<sup>5</sup>, clients and investors; and the promotion of fair, efficient and transparent financial markets. As enabling legislation, the Financial Markets Act provides for the regulation and supervision of the OTC derivative market and related market infrastructures such as clearing houses, CCPs and TRs, necessary for the implementation of G20 requirements. The legal framework on which this Joint Discussion Document is based is set out in the paragraph below.
- 2.6 OTC derivatives are financial instruments traded directly between parties, without being listed on an exchange. These derivatives have played a significant role in the global financial markets by providing instruments for hedging financial risk, speculating on price movements and enhancing liquidity. However, the global financial crisis of 2007/08 exposed significant weaknesses in the OTC derivative market, particularly related to counterparty credit risk, and a general lack of transparency.<sup>6</sup> In response, global regulatory bodies have emphasised the need for increased oversight and risk mitigation measures. One such measure is the mandatory central clearing of eligible OTC derivative transactions.<sup>7</sup>

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<sup>5</sup> As defined in section 1 of the Financial Markets Act.

<sup>6</sup> OICU-IOSCO, 'Requirements for Mandatory Clearing', Technical Committee of the International Organization of Securities Commissions, *OR05/12*, 2012.

<sup>7</sup> S G Cecchetti, J Gyntelberg and M Hollanders, 'Central counterparties for over-the-counter derivatives', *Bank for International Settlements Quarterly Review*, September 2009.

- 2.7 Central clearing involves the use of a CCP to intermediate between parties in a derivative transaction. The CCP becomes the buyer to every seller and the seller to every buyer, thereby mitigating counterparty credit risk. This process enhances financial market stability by ensuring that the default of one party does not propagate through the financial system. Additionally, central clearing promotes transparency and operational efficiency, as CCPs are required to have robust risk management practices and adhere to regulatory standards.
- 2.8 The role of the CCP, particularly with respect to the safeguards it provides as stated in paragraphs 2.6 and 2.7 above, as well as the determination of a central clearing mandate are critical for the fulfilment of the second element of the G20 commitments set out in paragraph 2.3 above.
- 2.9 In developing the proposals in this Joint Discussion Document, the Authorities consulted a variety of sources, including local legislation, approaches in comparable jurisdictions,<sup>8</sup> research conducted by relevant standard-setting bodies as well as internationally and locally generated research reports.
- 2.10 Upon completion of the consultation process on the proposals below, the Authorities will publish a determination by joint notice on the respective websites of the Authorities setting out the eligibility criteria for mandatory central clearing of OTC derivative transactions in South Africa.

### **3. Enabling legislative framework**

- 3.1. Regulation 4 of the Financial Markets Act enables the FSCA, with the concurrence of the PA, to determine eligibility criteria for OTC derivative transactions to be subject to mandatory central clearing. It is against the background highlighted in section 2 that the Authorities communicate the proposed eligibility criteria for central clearing set out in the upcoming sections 4 and 5.
- 3.2. Regulation 4(1) provides that:
- The Authority<sup>9</sup> may, with the concurrence of the Prudential Authority –*
- (a) determine eligibility criteria for OTC derivative transactions to be subject to mandatory clearing; and*
  - (b) conduct assessments into other categories of OTC derivative transactions upon which additional mandatory clearing requirements could be based.*
- 3.3. Regulation 4(3) provides matters that must be considered by the Authorities when determining eligibility criteria:

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<sup>8</sup> These jurisdictions include the UK, Australia, Canada and Singapore.

<sup>9</sup> The 'Authority' refers to the FSCA.

*In making a determination in terms of sub-regulation (1), the Authority must have regard to –*

- (a) the suitability of the OTC derivative transaction for clearing, and other relevant considerations, such as the level of contractual and operational standardisation, volume and liquidity of the relevant OTC derivative transactions;*
- (b) the effect on the efficiency, integrity and stability of the South African financial system;*
- (c) the interconnectedness between counterparties to the relevant classes of OTC derivative transactions and the impact on the levels of counterparty credit risk;*
- (d) the resources and suitability of the central counterparty available to clear the relevant OTC derivative transactions;*
- (e) the impact on the competitiveness of the South African market of imposing a clearing requirement in relation to the relevant OTC derivative transactions; and*
- (f) any other matters that the Authority considers relevant.*

- 3.4. Once the eligibility criteria have been determined, regulation 4(2) will impose a mandatory central clearing obligation on OTC derivative providers. Regulation 4(2) states that:

*An authorised OTC derivative provider must ensure that an OTC derivative transaction determined by the Authority in terms of sub-regulation (1) as eligible for clearing, is cleared through a licensed central counterparty or a licensed external central counterparty in the manner prescribed by the Authority.*

- 3.5. The Financial Markets Act defines the term 'prescribed' to mean prescribed by the Minister of Finance by regulations or prescribed by the Authorities by a conduct standard or a joint standard. Accordingly, the Authorities will, once the eligibility criteria have been determined in accordance with regulation 4(1) read with regulation 4(3), develop a joint standard to prescribe the manner in which OTC derivative transactions will be cleared through a licensed CCP or a licensed external CCP. In this regard, 'the manner in which' OTC derivative transactions are cleared may include where and how transactions should be cleared once a licensed OTC clearing house or a CCP licensed to clear OTC derivative transactions is operational in South Africa. Therefore, following the evaluation of all relevant industry consultations and the consequential policy processes by the Authorities, mandatory central clearing is expected to take effect once the joint standard is in effect and a licensed CCP or clearing house is operational.
- 3.6. The Authorities will interrogate the various models available as to where and how the transactions should be cleared, and will consult with interested persons on the proposed models, the conditions and the feasibility as part of the development of such a joint standard. Thereby, the specific types of OTC derivative instruments subject to central clearing and identified according to the established eligibility criteria will be determined through a joint notice published by the FSCA with the concurrence of the PA. The operationalisation of such a joint notice and the aforementioned joint standard will be coordinated.

#### 4. Summary of approaches in comparable jurisdictions

- 4.1 The Authorities conducted a review of the approaches to mandating central clearing and the development of eligibility criteria for central clearing in comparable foreign jurisdictions. The jurisdictions considered were the United Kingdom (UK), Australia, Canada and Singapore. The Authorities also considered approaches in the European Union (EU).
- 4.2 In the UK, the Bank of England (BoE) determines which OTC derivatives are subject to mandatory central clearing.<sup>10</sup> In its 2012 paper, the BoE highlighted three key criteria for eligibility: product standardisation, process standardisation and liquidity.<sup>11</sup> Product standardisation involves using standard legal terms, such as International Swaps and Derivatives Association (ISDA) agreements, to enable novation, netting and effective risk management, while process standardisation covers trade confirmation, straight-through processing and CCP risk management. Liquidity ensures that instruments can be absorbed by the market in case of a default, thus supporting CCP risk management.
- 4.3 In Australia, the Minister for Financial Services determines which derivatives are eligible for central clearing under the Corporations (Derivatives) Determination 2023, covering derivatives denominated in the Australian dollar, the United States (US) dollar, the euro, the British pound and the Japanese yen. Eligibility for mandatory central clearing is assessed based on the likely effects on the Australian economy, financial system efficiency, integrity and stability, as well as the regulatory impacts and, for commodity derivatives, effects on relevant markets. While the Australian Securities and Investments Commission (ASIC) specifies the legal and process requirements for central clearing, including regulatory obligations, reporting and exemptions, the detailed reasoning for selecting specific instruments is not publicly described, though international standards and consultation feedback has been considered.
- 4.4 In the 2017 *National Instrument 94-101 – Mandatory central counterparty clearing of derivatives and related companion policy*, the Canadian Securities Administrators<sup>12</sup> set the following criteria for mandatory central clearing of OTC derivatives:
- (a) the derivative being available to be cleared on a regulated clearing agency;

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<sup>10</sup> The BoE issues a public register to identify the classes of OTC derivatives that are subject to a clearing mandate. At the time of this publication, the BoE had issued the register available at this link, dated 30 December 2025: [Public Register for the Clearing Obligation](#).

<sup>11</sup> See Financial Stability Paper No. 14, March 2012, accessible at [BOE Thoughts on determining central clearing of OTC derivatives](#).

<sup>12</sup> In 2017, the Canadian Securities Administrators issued National Instrument 94-101 specifying the applicable criteria. The criteria are accessible at [National Instrument 94-101](#).

- (b) the level of standardisation of the derivative, such as the availability of electronic processing, the existence of master agreements, product definitions and short-form confirmations;
- (c) the effect(s) of central clearing of the derivative on the mitigation of systemic risk, taking into account the size of the market for the derivative and the available resources of the regulated clearing agency to clear the derivative;
- (d) whether mandating the derivative or class of derivatives to be cleared would bring undue risk to regulated clearing agencies;
- (e) the outstanding notional amount of the counterparties transacting in the derivative or class of derivatives, the current liquidity in the market for the derivative or class of derivatives, the concentration of participants active in the market for the derivative or class of derivatives, and the availability of reliable and timely pricing data;
- (f) the existence of third-party vendors providing pricing services;
- (g) with regard to a regulated clearing agency, the existence of an appropriate rule framework as well as the existence of capacity, operational expertise and resources, and credit support infrastructure to clear the derivative on terms that are consistent with the material terms and trading conventions on which the derivative is traded;
- (h) whether a regulated clearing agency would be able to manage the risk of the additional derivatives that might be submitted due to the mandatory CCP clearing requirement determination;
- (i) the effect(s) on competition, taking into account appropriate fees and charges applied to clearing, and whether mandating clearing of the derivative could harm competition;
- (j) alternative derivatives and/or clearing services co-existing in the same market; and
- (k) the public interest.

4.5 In Singapore, section 129G of the Securities and Futures Act specifies that:

*In deciding whether to prescribe any derivatives contract or class of derivatives contracts for the purposes of the definition of 'specified derivatives contract' in section 129B, the Authority may have regard to -*

- (a) *the level of systemic risk posed by that derivatives contract or class of derivatives contracts;*
- (b) *the characteristics and level of standardisation of the contractual terms and operational processes relating to that derivatives contract or class of derivatives contracts;*

- (c) *the depth and liquidity of the market for that derivatives contract or class of derivatives contracts;*
- (d) *the availability of fair, reliable and generally accepted pricing sources for that derivatives contract or class of derivatives contracts;*
- (e) *the international regulatory approach towards that derivatives contract or class of derivatives contracts;*
- (f) *whether there is any anti-competitive effect associated with that derivatives contract or class of derivatives contracts;*
- (g) *the availability of approved clearing houses or recognised clearing houses that operate clearing facilities for the clearing of that derivatives contract or class of derivatives contracts; and*
- (h) *any other matters that the Authority deems to be relevant.*

4.6 In its consultation paper,<sup>13</sup> the Monetary Authority of Singapore (MAS) specified that, based on the fact that interest rate derivatives accounted for above 50% of derivative transactions, they would begin by imposing the clearing mandate on this class of derivative contracts. The MAS also specified the specific types of interest rate derivatives in scope, the currency in which they are denominated and the maturities in respect of each type of interest rate derivative. In October 2018, the MAS introduced a mandatory central clearing requirement for certain OTC derivatives.

4.7 Based on the above, key learnings are that standardisation and process efficiency are critical across jurisdictions. Furthermore, liquidity, volume and pricing transparency are important considerations for the effective implementation of a clearing mandate.

## **5. Considerations of eligibility criteria for mandatory central clearing of over-the-counter derivative transactions**

5.1 According to Gregory (2014),<sup>14</sup> there are five general characteristics necessary and sufficient for effective central clearing:

- (a) Legal (documentation and definitions) and economic terms (valuation calculations, payment structures and dates) should be **standardised** to facilitate trade processing, multilateral netting and contract replacement if a clearing member defaults.

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<sup>13</sup> The paper is accessible at [Draft Regulations for mandatory clearing of derivatives contracts](#).

<sup>14</sup> J Gregory, *Central Counterparties: Mandatory Clearing and Bilateral Margin Requirements for OTC Derivatives*, 2014; J Wiley and Sons cited in J Kiff, A Gullo, C Hillier and P Papapanagiotou, 'Applying the Central Clearing Mandate: Different Options for Different Markets', *International Monetary Fund Working Papers*, 2022 (014), A001, available at <https://doi.org/10.5089/9781616359232.001.A001>.

- (b) Products should be **non-complex** to avoid adverse selection and valuation subjectivity.
- (c) Products should be **liquid** for accurate valuations and to facilitate contract replacement if a clearing member defaults. This liquidity should be robust.
- (d) Products should not be subject to **wrong-way risk** (when product and clearing member default risks are highly correlated).
- (e) Product **trading volumes** should be sufficient to make it economically worthwhile for central clearing services to be offered.

5.2 As discussed above, regulation 4(3) sets out the factors that must be considered when determining eligibility criteria for central clearing. The factors listed in regulation 4(3) (particularly paragraph (a)) and Gregory's general characteristics are largely aligned. Below, we discuss how these factors and general characteristics noted above were considered by the Authorities in considering eligibility criteria for the purposes of regulation 4(1).

### **General considerations for mandatory central clearing of over-the-counter derivatives**

#### **(a) Market efficiency and integrity**

5.3 The transparency of OTC derivative markets is enhanced by the centralised reporting of CCPs and mandatory disclosure to a CCP. These reporting requirements and disclosures can assist regulators and market participants to better monitor and understand the market risks involved. Greater transparency can lead to improved market discipline and better-informed decision-making by market participants.

#### **(b) Financial stability**

5.4 Central clearing can support the reduction of systemic risk through the robust risk management processes of CCPs. Effective risk management by CCPs is crucial for maintaining financial stability during times of market stresses. Central clearing centralises risk management, reducing the likelihood of systemic crises caused by the failure of a major market participant. By pooling resources and exposures, CCPs can more effectively manage and mitigate systemic risks.

5.5 The resilience brought to the market by central clearing during periods of financial turbulence, such as the COVID-19 pandemic, demonstrates the effectiveness of clearing in maintaining market stability. Central clearing has allowed continued price discovery and mitigated counterparty credit risk, which has assisted in promoting post-crisis regulatory efforts.

- 5.6 By centralising and standardising the clearing of certain OTC derivative transactions, the system becomes more transparent and resilient to shocks, contributing to the stability of the financial system. However, the concentration of risk within CCPs necessitates stringent regulatory oversight and robust financial resources to ensure its resilience in order to prevent systemic risks. In turn, centralising and standardising clearing may enable an innovative and competitive market, encouraging the entry of multiple CCPs, thus alleviating concentration risk.
- 5.7 CCPs are required to maintain significant financial resources, including default funds and access to emergency liquidity to cover potential losses. This supports financial resilience that enhances the overall stability of the financial system. The resilience of a CCP depends on its risk management practices, including stress-testing, margining policies and the ability to quickly mobilise financial resources.
- 5.8 The stability and reliability of CCPs can enhance market confidence, encouraging greater participation and investment. A stable financial system is attractive to both domestic and international investors. Ensuring the continuous operation of CCPs, even in times of market stress, is vital for maintaining market confidence and stability.

**(c) The interconnectedness of role players and the implications for counterparty credit risk**

- 5.9 In considering the interconnectedness between counterparties, the Authorities relied on the findings of the report of the International Monetary Fund (IMF) titled 'South Africa: Financial Sector Assessment Program – Financial System Stability Assessment'.<sup>15</sup>
- 5.10 The findings were:
- (i) The domestic market is substantially concentrated and highly interconnected.
  - (ii) Larger banks cause outward 'spillovers'<sup>16</sup> in the system, while the smaller banks are more vulnerable.
  - (iii) Interconnectedness between banks and insurers is very high and causes meaningful 'spillover' risks.
  - (iv) Money market funds are also significantly exposed to the top six banks in South Africa.

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<sup>15</sup> The report is accessible at [2022 IMF REPORT](#).

<sup>16</sup> A spillover is a positive or a negative impact (but more often negative) experienced in the financial system due to an independent event occurring from an unrelated environment.

- (v) The financial system is resilient and stable, although extreme shocks may cause contagion.
- (vi) Cross-border exposures have risen sharply over the years.
- (vii) South Africa remains highly vulnerable to global shocks, and strong fundamentals and domestic buffers can help limit such vulnerability.

5.11 A Banking Association South Africa (BASA) study further highlights that:

*The concept of indirect clearing may be relevant. Assuming the mandatory clearing mandate is limited to a particular product class, such a scenario could result in only certain (large) banks with the operational capabilities, economies of scale and financial resources becoming clearing members able to clear client trades. In this instance, some ODPs may themselves become non-clearing members clearing trades through banks who are clearing members.<sup>17</sup>*

5.12 The South African financial system is highly concentrated and interconnected, meaning that the failure of a major institution could cause significant spillovers. Mandatory central clearing could reduce bilateral counterparty credit risk, but may increase dependence on large banks, especially if smaller participants must clear indirectly. Therefore, a careful design and robust risk management are essential to mitigate concentration and contagion risks while preserving financial stability.

**(d) Resources and suitability of an available central counterparty**

5.13 In reference to the resources and suitability of a CCP available to clear the relevant OTC derivative transactions, the Authorities note that there is currently no operational CCP in South Africa to clear OTC derivative transactions. The Authorities will consider applications for licensing from both local and international CCPs in line with the requirements in the Financial Markets Act. Further to this, and as alluded to in paragraph 3.5 above, requirements on where (i.e. through which CCP) and how the transactions should be cleared will be considered as part of the development of the joint standard in accordance with regulation 4(2).

5.14 Given the criticality of the availability of a CCP to clear transactions subjected to mandatory clearing, the Authorities will bring the determination mandating central clearing into effect once a CCP is operational in South Africa and able to clear relevant OTC derivative transactions.

**(e) Potential impact on the competitiveness of the South African market**

5.15 The impact on the competitiveness of the South African market following the imposition of a mandatory central clearing requirement has also been assessed, the outcomes of which are set out from paragraphs 5.24 to 5.33. These implications are offset by the significant risk mitigation benefits that will enhance the integrity of the local financial markets.

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<sup>17</sup> See page 46 of the BASA study.

- 5.16 Furthermore, on a principal level, central clearing is intended to remove opaqueness in the derivative markets and enhance transparency. A key benefit of enhanced transparency is the promotion of informed choice for market participants. This invariably brings about a positive impact on the competitiveness of the derivative market. Additionally, some international firms are currently unable to clear in South Africa as South Africa has not yet joined the global shift to mandatory central clearing of appropriate OTC derivatives. Therefore, fully implementing South Africa's international commitments to mandate central clearing would benefit the international competitiveness of the local market.
- 5.17 In view of the benefits highlighted in the preceding paragraphs, the Authorities note the implications of imposing a clearing mandate in South Africa, some of which are not unique to the local market.
- 5.18 Mandating an onshore CCP for clearing could increase the risk of bifurcation between cleared and non-cleared trades, particularly affecting hedges between South African banks and foreign banks. This could potentially lead to an increase in costs. The Authorities will closely monitor the matter as part of the implementation of the clearing mandate. As required in regulation 4(3) of the Financial Markets Act Regulations, this will form part of the considerations of the Authorities on the manner in which mandatory central clearing will be prescribed.
- 5.19 Foreign banks might be unwilling to clear through a domestic CCP due to concerns associated with the South African sovereign credit rating, which impacts the onshore CCP. This reluctance may affect the competitiveness of the South African market by limiting the participation of international players. The design of the mandatory central clearing obligation could influence market participation and will therefore be carefully considered by the Authorities. If limited to certain product classes indefinitely or for a protracted period, only large banks with the necessary operational capabilities and financial resources might become clearing members, potentially marginalising smaller ODPs.
- 5.20 The shift to central clearing is expected to impact trading costs due to collateral requirements.<sup>18</sup> These costs may impact trading entities differently based on their nature, scale and complexity. To alleviate the potential cost implications, the Authorities will consider appropriate transitional arrangements, allowing the market sufficient time to prepare and build up resources and then develop and implement systems and processes required for central clearing of OTC derivative transactions. The Authorities will also consider a phased implementation of mandatory central clearing, in particular to support smaller institutions throughout the process.

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<sup>18</sup> The impact of the implementation of 'Joint Standard 2 of 2020 – Margin requirements for non-centrally cleared OTC derivative transactions' will also be factored in.

- 5.21 The Authorities acknowledge that, if mandatory central clearing is not implemented through a well-planned and orderly framework that allows for sufficient time for entities to build up resources, the cost and operational implications of the central clearing mandate may lead to smaller institutions struggling to meet collateral requirements and thus merging with larger institutions. Such a market consolidation would reduce market diversity and competition. Without such a planned transition, larger institutions might benefit from their economies of scale, thus potentially unduly increasing their competitive positions. Ensuring a level playing field may help maintain competitiveness.
- 5.22 Aligning with global standards (as mandated by the G20), mandatory central clearing can enhance the South African market's attractiveness to international investors, fostering greater integration with global financial markets. However, it is vital that the Authorities also consider local market conditions and monitor any potential adverse impact on domestic competitiveness.
- 5.23 The South African market has certain unique characteristics that need to be considered in the implementation of mandatory central clearing of OTC derivative transactions. Tailoring regulations to fit local conditions can help mitigate any potential adverse impacts on competitiveness. Engaging with market participants to understand their specific needs and challenges can help in designing effective and balanced regulatory frameworks.
- 5.24 As an overarching aim, the Authorities considered the extent of risk reduction which could be achieved from clearing those instrument types that meet the eligibility criteria. The role of CCP models for the effective risk management of the cleared instruments is viewed as important to reduce systemic risk. The role of CCP models is also important for influencing the distribution and range of end users who participate in the market for the products that meet the eligibility criteria.
- 5.25 Concentration risk and credit quality were factored into the selection of the eligibility criteria, as positions which are highly concentrated among low credit quality participants will likely affect concentration risk. Furthermore, the availability of, and ease of access to, other liquid exchange-traded products and other centrally cleared OTC products should also be considered when assessing which derivative instruments are eligible for central clearing, as these products may enhance competitiveness by providing alternative hedging opportunities and adding a layer of risk management capability for the clearing house and its participants.

**(f) Other considerations**

- 5.26 OTC derivative transactions are often used for risk management purposes,<sup>19</sup> and it is prudent that the risk management mechanisms applied to these types of transactions are effective and reliable. Well-defined risk characteristics are vital for a central clearing mandate because the sound management of counterparty credit risk and operational risk will reduce disputes relating to OTC derivative transactions. It is therefore very important that ODPs have well-defined risk policies and effective risk management mechanisms in place. This includes a clear understanding of counterparty credit risk, market risk and operational risk associated with the relevant OTC derivatives.

**Product considerations for mandatory central clearing of over-the-counter derivatives**

**(g) Contractual and operational standardisation**

- 5.27 Per regulation 4(3)(a), various considerations need to be assessed to determine the extent to which derivative transactions are suitable for central clearing, including the level of contractual and operational standardisation, the volume and the liquidity of the relevant OTC derivative transactions. Standardisation aids in the mandating of central clearing in that standardised procedures allow for an orderly close-out of positions and the liquidation of collateral in the event of a member default. Aspects of a transaction for which standardisation is important for mandatory central clearing include contractual standardisation, operational standardisation and standardisation of economic terms.
- 5.28 Contracts that are standardised, including their definitions and maturity dates, among other factors, minimise ambiguity in the interpretation of the parties' rights and duties. As such, a CCP is able to novate, close out or replace positions in a timely manner, particularly in a default scenario.
- 5.29 Operational standardisation allows for the automation of post-trade activities. This avoids the use of manual processes that are associated with increased costs, operational risk and slow trade processes, among other issues.
- 5.30 Standardisation of economic terms enables a CCP to conduct multilateral netting by treating trades as interchangeable on the basis that the economic terms of the trades are standardised.
- 5.31 As such, the Authorities believe that, for derivative transactions to be eligible for central clearing, it is critical that such products/transactions display product and contractual standardisation as well as certain operational and process standardisation.

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<sup>19</sup> Please see page 4 of the paper by ISDA titled 'Policy Framework for Safe and Efficient Derivatives Activity in Emerging and Developing Markets' accessible at <https://www.isda.org/a/YHVgE/Policy-Framework-for-Safe-and-Efficient-Derivatives-Activity-in-Emerging-and-Developing-Markets.pdf>.

- 5.32 In respect of product and contractual standardisation, it is submitted that OTC derivative products should display standardisation in respect of the following:
- (i) standardised contractual terms in relation to maturity dates, notional amounts, valuation calculations, payment frequencies and structures;
  - (ii) standardised legal terms relating to start dates, end dates, frequency of interim payments and currency of denomination; and
  - (iii) all trade economic terms being capable of being captured in a predefined product template.
- 5.33 In respect of operational and process standardisation, it is submitted that OTC derivative products should display standardisation in respect of the following:
- (i) post-trade processing; and
  - (ii) trade confirmation and post-trade processing being automated.
- 5.34 Product, contractual, operational and process standardisation is critical. Accordingly:
- (i) OTC derivative transactions must not be complex.
  - (ii) The products must not be susceptible to wrong-way risk in respect of the product and the clearing member.
  - (iii) Fair, reliable and generally accepted pricing sources for derivative contracts must be available.

**(h) Trading volumes and liquidity**

- 5.35 Product trading volumes are important for central clearing in particular because of the economic viability that high-volume trading creates for central clearing services and because a diversity of members supports the reduction of concentration risk.
- 5.36 With respect to the economic viability of providing a central clearing service, products that are highly traded spread the cost of operating the clearing service by spreading the cost over many transactions to be centrally cleared. Higher volumes of trade reduce the cost per transaction, which benefits both the CCP and its members from a costing perspective.
- 5.37 A diverse member base is linked to products traded in high volumes because of the likelihood that more participants would be trading in the particular product. The diversity of the participant base minimises the risk of concentration of, for example, a single institution, the default of which would cause elevated pressure on the CCP.

- 5.38 The liquidity of derivative transactions is very important from a central clearing perspective. In the ordinary course of business, liquidity assists in price transparency. Price transparency is important to a CCP in determining whether a member's position has gained or lost value. If the member's position has lost value, the CCP is able to make a more accurate margin call based on the overall accuracy of price information found in a liquid market.
- 5.39 In times of stress, on the other hand, if, for example, derivatives are not sufficiently liquid, it means that they are not readily available for trading, and this could cause challenges in the market in such conditions. Where a member defaults, liquid markets support the function of the CCP by creating an environment where the CCP can act quickly to unwind or replace the defaulting member's position.
- 5.40 Liquidity is therefore also important to ensure that accurate valuation of the derivative contracts can take place. Furthermore, it facilitates contract replacement if, for example, a clearing member defaults.
- 5.41 The Authorities have found that more complex OTC derivative transactions are tailored towards specific counterparties' needs, making them operationally bespoke and therefore possibly unsuitable for standardised clearing processes. Such derivative types may also have limited liquidity and market depth, which is not appropriate for effective CCP risk management.
- 5.42 A preliminary quantitative analysis of liquidity and volume within the South African derivative markets was conducted based primarily on the information available from regulatory returns and further engagements with certain ODPs. The analysis was compared with the independent research analysis exploring OTC derivative central clearing for South African market participants<sup>20</sup> commissioned by BASA in August 2020 (BASA study). In addition, the Authorities consulted the BA 350 report as the primary source of information and the Bank for International Settlements (BIS) triennial survey (2025) as a secondary source. The BA 350 report provides monthly data on derivative exposures submitted by ODPs, whereas the BIS triennial survey is a comprehensive global survey of foreign exchange and OTC derivatives conducted every three years, with South Africa being a participating member.
- 5.43 With regard to volume and liquidity, the above analysis found that a substantial amount of the total OTC derivative transactions is interest rate-related derivatives. Industry-led research suggested that interest rate swaps and forward rate agreements (FRAs) are the most likely instruments eligible for central clearing, based on the liquidity and volumes traded in the South African market. However, based on the regulatory data available to the Authorities, it is unclear which portion of the derivative transactions was traded in the cleared and uncleared market, nor does it specify the underlying currencies in which the FRAs were denominated.

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<sup>20</sup> The BASA study is accessible at <https://www.banking.org.za/wp-content/uploads/2020/09/Final-Report-BASA-OTC-Central-Clearing-Research-31-Aug-2020.pdf>.

- 5.44 The BASA study also refers to an analysis conducted to determine market liquidity based on instrument type (FRA, swap, option etc.), tenor, currency and notional volume. Less liquidity was observed in non-rand trades, longer-dated trades and trades with larger notional values.

## **6. Potential drawbacks for mandating central clearing**

Mandating the central clearing of OTC derivative transactions delivers important systemic risk benefits, but it also introduces a number of potential drawbacks such as structural, market and operational challenges. These factors are briefly discussed below.

- 6.1 Mandating central clearing reduces bilateral counterparty risk, which impacts the general market positively. However, mandated central clearing also brings with it new risks associated with channelling bilateral risks to a single focal point, namely a CCP.
- 6.2 Practically speaking, the mandated clearing of select asset classes but not others may split liquidity pools. Traders may face reduced depth and higher bid-ask spreads in uncleared markets. Additionally, financial institutions may lose the ability to offset exposures across cleared and uncleared products. Mandatory clearing can also result in higher collateral requirements, especially where margins must be posted separately for cleared and uncleared trades.
- 6.3 Furthermore, centrally cleared products may appear more attractive due to lower capital charges or margin benefits. This can lead to the mispricing of risk and inefficient capital allocation. Additionally, market participants may shift activity to products where a clearing mandate does not apply in order to avoid margin or reporting requirements.
- 6.4 The difference in risk controls between a CCP and those created by contracting parties in bilateral trades may create uneven systemic resilience across asset classes.
- 6.5 Having considered these potential drawbacks, the Authorities have formed the view that, based on the features of the local market, the benefits of central clearing for the maintenance of systemic stability outweigh the risks associated with mandating the central clearing of South African rand-denominated interest rate swaps and FRAs.
- 6.6 Despite the potential to enhance market confidence, in extreme or volatile market conditions, the market may experience procyclical risk amplification: a CCP may increase its margin requirements in attempting to manage the stress event. In turn, this may negatively impact clearing members and liquidity, and potentially cause systemic risk. The concern around 'a single point of failure' caused by reliance on one or a few CCPs may result in concentration risk should the CCP(s) fail.

## **7. Proposed eligibility criteria for mandatory central clearing of over-the-counter derivative transactions**

7.1 Accordingly, the Authorities are proposing that the following criteria be applied in determining which OTC derivative transactions are eligible for mandatory central clearing<sup>21</sup>:

### **1) Level of standardisation**

- The OTC derivative transactions must be simple and must display a sufficient level of product and contractual standardisation as well as operational and process standardisation as elaborated on in this discussion document.
- The products must not be susceptible to wrong-way risk in respect of the product and contribution margin.
- Fair, reliable and generally accepted pricing sources for derivative contracts must be available.

### **2) Trading volumes**

High-volume trading creates economic viability by promoting economies of scale and risk mutualisation, while a diverse member base supports the reduction of concentration risk. Based solely on the identification of high trading volumes, it appears as if it should be economically viable to mandate central clearing for the following types of OTC derivative transactions:

- South African rand-denominated interest rate swaps; and
- South African rand-denominated FRAs.

### **3) Liquidity of products**

The Authorities believe that OTC derivative transactions which are subject to central clearing should display sufficient market liquidity in order to close out positions in a timely manner. In addition, the following factors should be considered when determining the liquidity of the instrument:

- the availability of bid-ask quotes;
- the frequency of the trading of the contracts measured by the average number of transactions and average notional transactions;

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<sup>21</sup> The above-mentioned is, however, based on the limited trading volume data available, and the Authorities will reassess this view once more information has been obtained.

- the total trading volume;
- the average trade size;
- the number of dealers supporting the product;
- sufficient transaction activity and participation to absorb the risk resulting from the default of two large participants of a regulated clearing agency, as measured by the number of participants subscribing to OTC derivative services at the regulated clearing agencies; and
- the capacity of a CCP to manage its risks and ensure well-functioning markets, even where liquidity changes over time.

## **8. Proposed over-the-counter derivatives for mandatory central clearing**

8.1 The Authorities will implement a phased and structured approach to identify additional OTC derivatives informed by the industry feedback and market data analysis outlined in section 5. This process will involve an exhaustive consultation phase during which market participants will be able to provide input on the practical implications of expanding the clearing mandate. Following this, the Authorities will assess relevant transaction data – such as volumes, liquidity and standardisation levels – to determine which products meet the necessary criteria for clearing. The Authorities aim to balance market needs, industry concerns and systemic stability, making adjustments as necessary based on ongoing feedback and ever-evolving market dynamics.

8.2 At this point, the Authorities are proposing that the following OTC derivative transactions are potentially suitable for mandatory central clearing based on the eligibility criteria outlined in the previous section:

- (a) South African rand-denominated interest rate swaps; and
- (b) South African rand-denominated FRAs.

## **9. Summary and conclusions**

9.1 The approach to mandating central clearing in South Africa proposed above strives to balance international commitments and the prescripts of the regulatory framework in the Financial Markets Act, taking into account the features of the local OTC derivatives market.

9.2 Key components of the mandate include:

- a high degree of legal, economic and operational standardisation to ensure enforceability, comparability for multilateral netting and process efficiency;
- sufficient liquidity and trading volumes to enable accurate valuations, timely close-outs and economic viability; and
- access arrangements that avoid overconcentrating clearing capabilities in a small number of large institutions.

9.3 Central clearing can enhance transparency, reduce counterparty credit risk and improve market stability, but it also carries potential downsides such as concentration risk and increased costs for market players. The interconnectedness of South African financial institutions makes the benefits of centralising counterparty risk management significant, yet also demands careful structuring to prevent new systemic vulnerabilities caused by 'a single point of failure'.

9.4 In conclusion, the Authorities proposes eligibility criteria for mandatory central clearing of OTC derivative transactions (as set out in Section 7), and an associated set of OTC derivative transactions (as set out in Section 8) as part of the introductory phase of mandating central clearing of OTC derivative transactions in South Africa.

## **10. Invitation to comment on the Joint Discussion Document and Questionnaire**

10.1 All interested parties are invited to submit comments on the proposals and contents of this Joint Discussion Document by using the comments template, attached as Annexure A.

10.2 Although the Authorities have certain data (such as the industry study), the data is lacking to some extent and there is a need to augment the information with updated data from providers that operate in the South African market to inform the eligibility criteria.

10.3 As such, the Authorities have developed a questionnaire that is intended to provide both quantitative and qualitative data from market participants on the current use, risks, costs and operational considerations associated with OTC derivative transactions, with a focus on assessing the potential benefits and challenges of introducing mandatory central clearing. The insights collected will support existing regulatory data and industry-wide evaluations regarding the feasibility, risk mitigation and efficiency improvements that mandatory central clearing of OTC derivative transactions may provide.

- 10.4 All licensed ODPs are expected to complete the questionnaire supporting this Joint Discussion Document. Responses to the questionnaire must be submitted to the Authorities by via email to [queries.otc@fsca.co.za](mailto:queries.otc@fsca.co.za) and [PA-Standards@resbank.co.za](mailto:PA-Standards@resbank.co.za) by no later than **5 June 2026**.
- 10.5 The responses to the questionnaire will be anonymised and used to inform policy decisions and market infrastructure development aimed at enhancing market stability and transparency through the introduction of mandatory central clearing of OTC derivatives.
- 10.6 Comments on this Joint Discussion Document must be submitted to the Authorities by completing the comments template and sending it via email to [queries.otc@fsca.co.za](mailto:queries.otc@fsca.co.za) and [PA-Standards@resbank.co.za](mailto:PA-Standards@resbank.co.za) by no later than **5 June 2026**.
- 10.7 For further information related to this Joint Discussion Document and the proposals contained herein, please feel free to contact the Authorities via the above-mentioned email addresses.