FSCA

Financial Sector
Conduct Authority

SOUTH AFRICAN RESERVE BANK
Prudential Authority

# JOINT NOTICE 2 OF 2025

## FINANCIAL SECTOR REGULATION ACT, 2017 (ACT NO.9 OF 2017)

### RISK MANAGEMENT MEASURES FOR THE USE OF NON-CASH COLLATERAL IN TERMS OF JOINT STANDARD 2 OF 2020: MARGIN REQUIREMENTS FOR NON-CENTRALLY CLEARED OVER THE COUNTER DERIVATIVE TRANSACTIONS

The Financial Sector Conduct Authority and the Prudential Authority, in terms of paragraph 6(2A) of Joint Standard 2 of 2020: Margin requirements for non-centrally cleared over-the-counter derivative transactions (as amended) (Joint Standard), hereby make the use of non-cash collateral, as determined by notice by the Authorities in accordance with paragraph 6(2) of the Joint Standard, conditional to the implementation of the risk management measures as set out in the Schedule hereto.

Fundi Tshazibana

**Unathi Kamlana**
**Commissioner**
**FINANCIAL SECTOR CONDUCT AUTHORITY**

**DATE: 17 APRIL 2025**

**Fundi Tshazibana**
**Chief Executive Officer**
**PRUDENTIAL AUTHORITY**

**DATE:** 29/04/25

## SCHEDULE

## RISK MANAGEMENT MEASURES FOR THE USE OF NON-CASH COLLATERAL IN TERMS OF JOINT STANDARD 2 OF 2020: MARGIN REQUIREMENTS FOR NON-CENTRALLY CLEARED OVER THE COUNTER DERIVATIVE TRANSACTIONS

### 1. Definitions

In this Notice, the "**Joint Standard**" means *Joint Standard 2 of 2020: Margin requirements for non-centrally cleared over the counter (OTC) derivative transactions* (as amended), and any word or expression to which a meaning has been assigned in the Joint Standard bears the meaning so assigned to it, unless the context indicates otherwise.

### 2. Risk management requirements to be implemented by providers wanting to make use of non-cash collateral

2.1 Paragraph 3 of the Joint Standard refers to the need to promote effective and sound risk management with respect to non-centrally cleared OTC derivative transactions. Paragraph 3(1)(b) further requires that a provider must put in place robust processes, procedures and board-approved policies to ensure that the provider complies with the requirements specified in paragraph 6 which is related to eligible collateral.

2.2 Paragraph 6(1) of the Joint Standard requires that a provider must ensure that assets or instruments collected or posted as collateral for purposes of initial or variation margin can be liquidated in time to generate proceeds that sufficiently protect the provider, its clients or counterparties. It further sets out that the provider must have sufficiently robust processes, procedures, and board-approved policies in place to address the risks associated with collateral and the valuation of the underlying assets collected as collateral.

2.3 In order to mitigate the increased risk associated with the use of non-cash collateral, the Authorities make the use of such non-cash collateral subject to the condition that providers implement and maintain the risk management requirements set out in this Notice.

2.4 A provider will only be allowed to make use of non-cash collateral subject to the provider having in place the following minimum risk management requirements that will include:

(a) collateral risk management policies, procedures, and processes;
(b) collateral management systems;
(c) valuation of collateral; and
(d) limit frameworks.

### 3. Collateral risk management policies, procedures, and processes

3.1 A provider must have approved collateral risk management policies, procedures, and processes in place, which must be subject to regular review in order to ensure that they remain appropriate and effective.

3.2 The policies, procedures, and processes referred to in paragraph 3.1 must at least include:

(a) terms of collateral agreements, types of collateral, and enforcement of collateral terms, including managing and administration of legal agreements;
(b) collateral-related dispute management;
(c) collateral and liquidity risk management, including stress testing under adverse market conditions; and
(d) computation of collateral mark-to-market values, at least daily.

**4. Collateral management systems**

4.1 A provider must use a collateral management system or an outsourced system to manage collateral that must include at least the following capabilities:

(a) allows for timely calculation and execution of margin calls, including posting, receiving, substituting, valuing (including limits) and liquidating collateral;
(b) allows for the accurate internal and regulatory reporting of levels of initial and variation margin;
(c) tracks the inventory of collateral available and the extent of re-use of securities held and posted as collateral; and
(d) allows for future operational and eligible collateral flexibility.

**5. Valuation of collateral**

5.1 A provider must establish and implement policies, procedures, and processes to –

(a) mark-to-market its collateral at least on a daily basis;
(b) monitor the credit quality, market liquidity and price volatility of each asset accepted as collateral, as frequently as is necessary; and
(c) apply haircuts to appropriately account for market fluctuations and credit risk.

5.2 A provider must review the adequacy of its valuation policies, procedures, and processes on a regular basis and whenever a material change occurs that affects the provider's risk exposure.

**6. Limit frameworks**

6.1 A provider must establish and implement policies, procedures, and processes to ensure that the collateral remains sufficiently diversified to allow liquidation within a defined holding period without a significant market impact.

6.2 The policies, procedures, and processes referred to in paragraph 6.1 must determine the risk management measures to be applied when the concentration limits are exceeded.

6.3 For purposes of paragraph 6.2, a provider must, as a minimum, determine concentration limits based on thorough due diligence and consideration of creditworthiness and overall market stability.

6.4 A provider must-

(a) monitor the adequacy of its concentration limit policies, procedures, and processes on a regular basis;
(b) review its concentration limit policy and procedures regularly, and whenever a material change occurs that affects the risk exposure of the provider; and
(c) implement policies and procedures to rectify any breach of concentration limits set by the provider.

6.5 A provider must set limits on the rehypothecation of non-cash collateral to manage counterparty credit risk and comply with regulations or other relevant requirements specified in writing regarding the reuse of collateral provided by counterparties.

**7. Short title and commencement**

This Joint Notice is called the Risk Management Measures for the use of non-cash collateral in terms of Joint Standard 2 of 2020, 2025 and comes into effect on the date of publication.