



**Questionnaire on assessment of the expected impact of non-centrally cleared OTC Derivatives margin requirements**

The Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA) are in the process of revising the margin requirements in respect of non-centrally cleared Over-the-Counter (OTC) derivatives transactions as a Joint Standard to be issued by the two Authorities.

As part of the process for making standard in terms of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017), the Authorities are expected to publish a statement of the expected impact of the standard under consideration. Against this background, the information is being gathered in order to ascertain the expected impact of the non-centrally cleared OTC derivatives margin requirements on market participants.

The responses to the questionnaire will be anonymised and used to assess the expected impact of the proposed margin requirements for non-centrally cleared OTC derivative transactions. Information obtained will be treated as strictly confidential and only utilised for the purpose indicated above.

When completing the questionnaire, please bear in mind the following assumptions / considerations:

* The margin requirements are applicable to “covered entities” and the following are covered entities for purposes of the margin requirements:

1. An authorised OTC derivative provider;
2. an authorised user;
3. a bank, bank controlling company or branch  as defined in terms of the Banks Act, 1990 (Act No. 94 of 1990);
4. a manager of a collective investment scheme registered in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002);
5. a financial services provider authorised to provide financial services in derivative instruments as contemplated in the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002);
6. an insurer registered to conduct long-term insurance business in terms of the Long-term Insurance Act, 1998 (Act No. 52 of 1998);
7. an insurerregistered to conduct short-term insurance business in terms of the Short-term Insurance Act, 1998 (Act No. 53 of 1998); and
8. a private equity fund.

* When the initial margin amount to be exchanged is less than the threshold amount of R500 million, the parties to the non-centrally cleared OTC derivative transaction may, at their discretion , decide whether or not to collect the initial margin amount;
* Where the initial amount to be exchanged is equal to or exceeds the threshold amount of R500 million, the parties to the non-centrally cleared OTC transactions must collect at least the difference between the relevant required initial margin amount and the threshold amount;
* Apply the staggered thresholds in respect of initial margin and variation margin as set out in the margin requirements as released by the Financial Services Board (FSB) (now FSCA) for public consultation during August 2017 (see the margin notice e.g. Aggregate month-end average gross notional of R30 trillion etc.), with a commencement date of 1 January 2019 for the exchange of initial margin and a commencement date of 1 July 2019 for the exchange of variation margin.
* OTC derivative transactions between covered entities in the same group are not subject to any margin requirements provided that the aggregate outstanding gross notional amount of all relevant transactions in OTC derivative transactions between any two covered entities in the group is below R1 billion at the close of business on each relevant day; both parties to the transaction are subject to appropriate centralised risk evaluation, measurement and control procedures; and risk management procedures of both parties are adequately robust and consistent with the level of complexity; and
* Information must be provided for the period ending March 2018.

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| **Information on responding institution** | |
| **Name of institution (Optional)** |  |
| **Name and position of respondent (Optional)** |  |
| **Type of institution**  for example: bank, branch of a foreign institution, long-term or short-term insurance, asset management, authorised user, financial service provider that deals in derivatives, etc. |  |
| **Size of institution:**  please state total assets or other indicator(s) that describe the size of your institution, total assets, or other indicators (please specify) |  |
| **Please state the main supervisor(s) of activities at your institution under financial sector legislation** |  |

**PART 1: GENERAL QUESTIONS**

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| * 1. **Does your institution clear through a foreign central counterparty (CCP) or is your institution an indirect clearing client of a foreign CCP? If none of the above, what arrangements/initiatives will be in place to make central clearing possible?**   Please provide the names of the CCPs or clearing members that you clear through. |
| Response: |
| * 1. **If the answer to question 1.1. above is in the affirmative, please specify the size of the difference between centrally cleared OTC derivative transactions and non-centrally cleared OTC derivative transactions (please indicate the breakdown between asset classes)**   Please provide the breakdown of each sub-category (equity, interest-rate, foreign exchange, credit, commodities) |
| Response: |
| * 1. **What is the size of your institution’s outstanding gross non-centrally cleared OTC Derivatives contracts?**   Please provide the breakdown of each sub-category (equity, interest-rate, foreign exchange, credit, commodities) and split by domestic and foreign counterparties. |
| Response: |
| * 1. **Does the institution currently exchange initial margin and variation margin for non-centrally cleared OTC derivative transactions?**   Please provide details of the models used to calculate the margins e.g. standardized models, International Swaps and Derivatives Association Standard Initial Margin Model (ISDA SIMM) or quantitative portfolio model |
| Response: |
| * 1. **What existing collateral is exchanged (posted or received) in respect of non-centrally cleared OTC derivative transactions?** |
| Response: |
| * 1. **Does the collateral currently exchanged vary from the list of eligible collateral as identified in the draft Margin Requirements as published for public comment by the FSB during August 2017?** |
| Response: |
| * 1. **Please indicate whether the collateral was in respect of initial or variation margin, the value before and after haircuts.** |
| Response: |
| * 1. **Please indicate the value of collateral that was re-hypothecated and how many times the collateral is hypothecated?** |
| Response: |
| * 1. **Please indicate whether the collateral is segregated from the institution’s proprietary assets or whether the institution requires the collateral to be segregated from the proprietary assets of a third party custodian?** |
| Response: |
| * 1. **Please indicate whether the collateral is held on or off-shore?** |
| Response: |
| * 1. **Please indicate if the institution is ready to implement margin requirements. If not, what is the institution doing to meet the proposed margin requirements?** |
| Response: |
| * 1. **What is the value (ZAR)/volume of intra-group OTC derivatives transactions & aggregate outstanding gross notional in the group per month/day** |
| Response: |
| * 1. **What agreements are in place for OTC derivatives e.g. ISDA agreements/Credit Support Annex (CSAs) or other agreements. Do these agreements incorporate specific default measures (insolvency requirements/immediate availability of collateral etc.)** |
| Response: |
| * 1. **Has any trade been halted as a result of requirements for margin not been in effect/different** |
| Response: |

**PART 2: CURRENT AND EXPECTED CHANGES IN OVERALL COSTS**

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| * 1. **Given that other countries have already implemented margin requirements, has this impacted on your organisation or operations, if so, how has this impacted you? Have there been exemptions for margining?** | |
| Response: | |
| * 1. **What do you see as the main costs or risks to the introduction of margin requirements for the non-centrally cleared OTC Derivatives in South Africa?**   Where possible, please quantify expected costs. | |
| * 1. **What aspects of the proposed framework will increase costs or risks?** | Response: |
| * 1. **How will the costs or risks identified above be managed or minimised?** | Response: |
| * 1. **Overall, what is the expected change in costs? Overall, what is the anticipated expect cost (on staffing; systems; processes; contracts etc.) to implementing the margin requirements?** | |
| Response: | |

**PART 3: EXPECTED BENEFITS**

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| **3.1 What do you see as the main benefits of margin requirements for the non-centrally cleared OTC Derivatives to your organisation and operations?** |
| Response: |
| **3.2 Assuming a go-live date of 1 January 2019, please provide an indication or estimation of the number of transactions that would require the exchange of initial margin (bearing in mind the thresholds as set out above).** |
| Response: |
| **3.3 Do you anticipate that the compliance with the margin requirements will have an impact on the institution’s ability to comply with other prudential requirements imposed on the institution?** |
| Response: |

**PART 4: OTHER**

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| * 1. **Are there any other issues regarding the non-centrally cleared OTC Derivatives margin requirements that you would like to bring to the attention of the PA and the FSCA?** |
| Response: |