Ref.: 15/8

Annexure A

DRAFT JOINT STANDARD

MARGIN REQUIREMENTS FOR NON-CENTRALLY CLEARED OTC DERIVATIVE TRANSACTIONS

Comments Template

INSTRUCTIONS

Please note the following instructions for filling in the template:

- For referencing purposes please use the numbering as contained in the draft Joint Standard.
- For comments on the definitions please indicate which definition is being commenting on under the "paragraph" column (see below for an example).
- For any other general comments, please use Section C.
- Commentators may insert extra rows to provide comments on sub-paragraphs or sub-items
- Please send the completed template, in Word Format, to: FSCA.JointStandardComments@fsca.co.za for the attention of Ms Elmarie Hamman **and** PA-Standards@resbank.co.za for the attention of Ms Lyle Horsley.

Please note that no PDF or scanned documents or any late submissions will be accepted unless agreed to in writing by the Authorities

SECTION A - DETAILS OF COMMENTATOR

Name of organisation/individual:	Global Foreign Exchange Division ("GFXD") of the Global Financial Markets Association ("GFMA")
If the commentator is an organisation, provide the name and designation of the contact person:	Victoria Cumings (Managing Director, Americas)
Email address:	vcumings@gfma.org
Contact number:	+1-212-313-1141

SECTION B - COMMENTS ON THE DRAFT JOINT STANDARD

No	Paragraph of the Standard	Comment
1. DEFINITIONS		
	"Sovereign"	We recommend that, in order to avoid deviating from international standards, state-owned entities should be treated as quasi-sovereign entities and exempted from margin requirements.
2. APPLICATION AND EXCLUSIONS		
2.1 GENERAL APPLICATION		
(1)		
(2)		
(3)		
(4)		We welcome, agree with and strongly support the Authorities' exemption of physically-settled FX forwards and swaps from both initial margin ("IM") and variation margin ("VM") requirements. This will ensure consistent treatment of these types of products from a margin perspective globally.
2.2 TREATMENT OF INTRA-GROUP TRANSACTIONS		
(1)		
(2)	(a)	We reiterate our previous comments and continue to support an exemption for intragroup margin exchange. Should a threshold be deemed required, we recommend it be higher than that currently provided for. We also recommend that physically-settled FX swaps and forwards transactions be excluded from any intragroup margin exchange threshold calculation.

No	Paragraph of the Standard	Comment
(3)		
2.3 CROSS-BORDER TRANSACTIONS		
(1)		We request clarification regarding the intention of making paragraph 2.3 subject to paragraph 2.2 and whether or not this means that paragraph 2.2 is the only clause regulating group relationships; if so, would this mean that the distinction between netting and non-netting jurisdictions is not relevant for transactions within group relationships?
(2)		We request clarification on what "additional documentary evidence, or further information" may be required.
(3)	(a)(i)	We support the exclusion from margin for transactions with non-netting jurisdictions of up to 2.5% of the total derivatives contract portfolio.
(4)		
(5)		
3. GENERAL REQUIREMENTS		
(1)		
(2)		
(3)		
(4)		
4. INITIAL MARGIN		
4.1 GENERAL		
(1)		
(2)		
(3)		We recommend that the IM exchange threshold be increased from R 500 million to R 800 million, to more closely resemble the €50 million figure in the international framework.
4.2 PHASING IN OF INITIAL MARGIN REQUIREMENTS		
(1)		We request clarification by the Authorities that below IM exchange threshold parties do not have to re-document or enter into custodial arrangements.
(2)		
(3)		
(4)		
(5)		

No	Paragraph of the Standard	Comment
(6)		
(7)		
(8)		
		4.3 COLLATERAL
(1)		
(2)		
		4.4 ALTERNATIVE MEASUREMENT METHODOLOGIES
(1)		
(2)		
(3)		
		4.5 STANDARDISED METHOD
(a)		
(b)		
(c)		
(d)		
		4.6 Quantitative portfolio margin model
(a)		
(b)		
(c)		
(d)		
		5. VARIATION MARGIN
(1)		
(2)		
(3)	(a) and (b)	We welcome and agree with the amended application dates for VM.
		6. ELIGIBLE COLLATERAL
(1)	(c)	We would like to highlight that the requirement for the portfolio of eligible collateral for purposes of initial and variation margin to be "reasonably diversified" is overly broad and would appreciate guidance from the Authorities on what constitutes "reasonably diversified" eligible collateral. Furthermore, we would also appreciate clarification that this requirement does not apply to cash collateral, given that single currency cash-only CSAs are commonly used within the industry.

No	Paragraph of the Standard	Comment
(2)		
(3)		
(4)		
(5)		
7. COMMENCEMENT AND SHORT TITLE		
(1)		
(2)		

SECTION C - GENERAL COMMENTS

No.	Issue	Comment/input
ANY OTHER GENERAL COMMENTS		
1.	FX securities conversion transactions	We welcome the Authorities acknowledging our previous recommendation that FX transactions that are incidental to and for the purpose of effecting customers' foreign security transactions, entered into in connection with the funding of a purchase or sale of a foreign security ("FX security conversion transactions"), be deemed spot transactions and therefore not included within the scope of derivatives regulation in South Africa, including uncleared margin requirements, even if settled on a longer than T+2 basis. Nevertheless, we would appreciate further clarity on how the Authorities plan to incorporate this in the final Joint Standard.
2.		
3.		