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Basel Committee
on Banking Supervision

Board of the
International
Organization of
Securities Commissions

Margin requirements for non-centrally cleared derivatives

September 2013

BANK FOR INTERNATIONAL SETTLEMENTS

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Abbreviations

BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CCP	Central counterparty
CGFS	Committee on the Global Financial System
CPSS	Committee on Payment and Settlement Systems
FSB	Financial Stability Board
FX	Foreign exchange
G20	The Group of Twenty
G-SIFI	Global systemically important financial institution
IOSCO	International Organization of Securities Commissions
LCR	Liquidity coverage ratio
MTA	Minimum transfer amount
NSFR	Net stable funding ratio
OTC	Over-the-counter
PSE	Public Sector Entity
QIS	Quantitative impact study
WGMR	Working Group on Margining Requirements

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Part A: Executive summary

This document presents the final policy framework that establishes minimum standards for margin requirements for non-centrally cleared derivatives as agreed by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO).[1] This final framework was developed in consultation with the Committee on Payment and Settlement Systems (CPSS) and the Committee on the Global Financial System (CGFS).

Background

The economic and financial crisis that began in 2007 exposed significant weaknesses in the resiliency of banks and other market participants to financial and economic shocks. In the context of over-the-counter (OTC) derivatives in particular, the recent financial crisis demonstrated that improved transparency in the OTC derivatives markets and further regulation of OTC derivatives and market participants would be necessary to limit excessive and opaque risk-taking through OTC derivatives and to mitigate the systemic risk posed by OTC derivatives transactions, markets, and practices.

In response, the Group of Twenty (G20) initiated a reform programme in 2009 to reduce the systemic risk from OTC derivatives. As initially agreed in 2009, the G20's reform programme comprised 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.
- Non-centrally cleared derivatives contracts should be subject to higher capital requirements.[2]

In 2011, the G20 agreed to add margin requirements on non-centrally cleared derivatives to the reform programme and called upon the BCBS and IOSCO to develop, for consultation, consistent global standards for these margin requirements.[3] To this end, the BCBS and IOSCO, in consultation with the CPSS and CGFS, formed the Working Group on Margining Requirements (WGMR) in October 2011 to develop a proposal on margin requirements for non-centrally cleared derivatives for consultation by mid-2012.

In July 2012, an initial proposal was released for consultation. The initial proposal was followed by an invitation to comment on the proposal by 28 September 2012. Additionally, a quantitative impact study (QIS) was conducted to assess the potential liquidity and other quantitative impacts associated with mandatory margining requirements.

1 Throughout this paper, the term "non-centrally cleared derivatives" is used as shorthand to refer to derivatives that are not cleared through a central counterparty.

2 G20, *Pittsburgh summit declaration*, www.g20.utoronto.ca/2009/2009communique0925.html.

3 G20, *Cannes summit final declaration*, www.g20civil.com/documents/Cannes_Declaration_4_November_2011.pdf.