



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE DEPUTY GOVERNOR
SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM NO. M-2017- 004

To: ALL BANKS AND QUASI-BANKS

Subject: Cross-Border Derivatives Transactions Subject to Margin Requirements

In March 2015, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) finalized the policy framework on margin requirements for non-centrally cleared derivatives.¹ The margin requirements are intended to prevent contagion and spillover effects as margins can be used to offset losses arising from a counterparty default.

The framework requires all covered entities² that engage in non-centrally cleared derivatives to exchange initial and variation margins. The methodologies for calculating margins should reflect the current and future exposures associated with the portfolio of non-centrally cleared derivatives. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in a time of stress.

Variation margin requirements are being phased in from 1 September 2016 to 1 March 2017 while initial margin requirements are being phased in from 1 September 2016 to 1 September 2020.³ Jurisdictions that have already adopted margin requirements have set timelines that are generally aligned with the BCBS-IOSCO framework.

Philippine banks and quasi-banks (QBs) are advised to assess the potential impact of the margin requirements and their readiness to comply with the same in relation to their cross-border derivatives transactions.⁴ They should evaluate the impact of the requirements on their strategic, liquidity, and operational risk profiles, in line with sound risk management practices, and establish policies and procedures to ensure that they are able to meet the said requirements.

As an initial step, banks/QBs should make a determination of the transactions that will be subject to margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the pertinent legal and operational arrangements. Banks'/QBs' assessments should consider whether they have the

¹ The document is available at <http://www.bis.org/bcbs/publ/d317.pdf> or <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD480.pdf>.

² These refer to financial firms and systemically important non-financial entities.

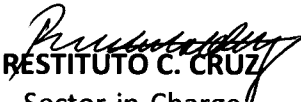
³ Refer to the summary of phase-in arrangements available at www.bis.org/bcbs/publ/d317_summarytable.pdf.

⁴ Philippine banks' derivatives transactions with foreign counterparties are most likely to be subject to variation margin requirements by 1 March 2017 and to initial margin requirements by 1 September 2020, except foreign bank branches which are subject to the timelines being followed by their parent institutions.

appropriate documentation in place, and whether they have the ability to calculate margins and deliver and receive collateral in accordance with the principles of the BCBS-IOSCO framework. Moreover, banks/QBs should pay attention to any liquidity risk concerns that may arise in respect of their need to obtain and deploy additional liquid assets to meet margins imposed on their cross-border derivatives transactions.

Banks/QBs are encouraged to communicate with their foreign counterparties on this matter. Banks/QBs must likewise inform the BSP of any significant concerns arising from the implementation of the margin requirements.

For information and guidance.


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8 February 2017