

MEMO# 29962

June 6, 2016

ICI Global and the Investment Association Submit Letter to European Commission to Clarify Compliance Date of FX Forward Variation Margin Requirements

[29962]

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TO: DERIVATIVES MARKETS ADVISORY COMMITTEE No. 27-16
ICI GLOBAL TRADING & MARKETS COMMITTEE No. 25-16
INVESTMENT COMMITTEE
SECURITIES OPERATIONS ADVISORY COMMITTEE RE: ICI GLOBAL AND THE INVESTMENT ASSOCIATION SUBMIT LETTER TO EUROPEAN COMMISSION TO CLARIFY COMPLIANCE DATE OF FX FORWARD VARIATION MARGIN REQUIREMENTS

As previously reported, the European Securities and Markets Authority, the European Banking Authority, and the European Insurance and Occupational Pensions Authority (collectively, “European Supervisory Authorities” or “ESAs”) recently issued final draft regulatory technical standards for margin requirements for non-centrally cleared over-the-counter (“OTC”) derivatives. [\[1\]](#) The Draft Margin RTS have been submitted to the European Commission for review and the Commission must decide whether to endorse the RTS “as is” or whether to recommend changes by June 8.

An ambiguity in the Draft Margin RTS could cause variation margin requirements to take effect for physically settled foreign exchange (“FX”) forward contracts earlier than anticipated. ICI Global and the Investment Association have submitted the attached letter urging the European Commission to clarify this ambiguity to ensure that market participants have sufficient time to comply with margin obligations.

Our letter recommends a modest change to the text of the Draft Margin RTS. Specifically, we urge that the Draft Margin RTS should apply margin requirements for FX forwards from the date of application of MiFID II, which is expected to be 3 January 2018. This modification would achieve the ESAs’ stated objective of postponing variation margin requirements for FX forwards to permit market participants time to understand the scope of their obligations under the new definitions.

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[Attachment](#)

endnotes

[1] Final Draft Regulatory Technical Standards on Risk-Mitigation Techniques for OTC-Derivative Contracts not Cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012, March 8, 2016 (“Draft Margin RTS”), available at <http://www.esa.europa.eu/documents/10180/1398349/RTS+on+Risk+Mitigation+Techniques+for+OTC+contracts+%28JC-2016-+18%29.pdf>. For a summary of the Draft Margin RTS, see ICI Memorandum No. 29785 (March 22, 2016), available at https://www.ici.org/my_ici/memorandum/memo29785.

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