

**MEMO# 31315**

August 6, 2018

# **Draft Comment Letter on the SFC's Proposed Margin Requirements for Non-Centrally Cleared OTC Derivative Transactions**

[31315]

August 6, 2018 TO: ICI Members

ICI Global Members

Derivatives Markets Advisory Committee

ICI Global Pacific Chapter

ICI Global Trading & Markets Committee SUBJECTS: Derivatives

International/Global RE: Draft Comment Letter on the SFC's Proposed Margin Requirements for Non-Centrally Cleared OTC Derivative Transactions

Attached for your review is a draft comment letter to a Hong Kong Securities and Futures Commission ("SFC") consultation paper proposing margin requirements on non-centrally cleared over-the-counter derivative transactions.<sup>[1]</sup> The letter supports the consultation and its efforts to harmonize the SFC's margin requirements with other global jurisdictions. Consistent with that effort, the letter recommends that the SFC amend the proposed regulations to:

- Clarify that collective investment schemes, such as regulated funds, do not need to exchange variation margin when transacting with Hong Kong-licensed entities in physically settled foreign-exchange forwards and swaps;<sup>[2]</sup>
- Clarify that the minimum asset thresholds set forth in the rules apply to each regulated fund of an umbrella trust, not the entire umbrella trust; and
- Clarify how the SFC will determine whether a foreign jurisdiction is deemed "comparable" for substituted compliance purposes.

Final comments are due to the SFC by Monday, August 20. If you have any comments on the draft letter, please provide them in writing to Ken Fang at [kenneth.fang@ici.org](mailto:kenneth.fang@ici.org) by **close of business on Monday, August 13**.

Kenneth Fang

[Attachment](#)

**endnotes**

[1] See *SFC, Consultation Paper on the OTC derivatives regime for Hong Kong – Proposed margin requirements for non-centrally cleared OTC derivative transactions* (June 19, 2018), available at <https://www.sfc.hk/edistributionWeb/gateway/EN/consultation/openFile?refNo=18CP5>. For a summary of the consultation paper, please see ICI Memorandum No. 31267 (June 29, 2018), available at [https://www.ici.org/my\\_ici/memorandum/memo31267](https://www.ici.org/my_ici/memorandum/memo31267).

[2] These transactions also would include the “FX transaction” embedded in cross-currency swaps associated with the exchange of principal.