The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

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ICI Joins Letter to BCBS and IOSCO Requesting Suspension of UMR Compliance Dates

[32323] March 26, 2020 TO: ICI Members
ICI Global Members
Derivatives Markets Advisory Committee
ICI Global Regulated Funds Committee
ICI Global Trading & Markets Committee
Securities Operations Subcommittee SUBJECTS: Compliance
Derivatives
International/Global
Investment Advisers
Operations
Trading and Markets RE: ICI Joins Letter to BCBS and IOSCO Requesting Suspension of UMR Compliance Dates

Yesterday, ICI joined the International Swaps and Derivatives Association (ISDA) and other trade associations in submitting the attached letter to the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO). The letter requests that BCBS and IOSCO issue an immediate, public recommendation to global regulators to suspend the compliance dates for implementation of Phases 5 and 6 of the regulations on margin for non-centrally cleared derivatives. The letter is attached and is summarized below.

In accordance with the BCBS-IOSCO Final Framework on Margin Requirements for Non-Centrally Cleared Derivatives, global regulators have established standards for margin requirements for non-centrally cleared derivatives (UMR), to be phased in over time. The current compliance dates for regulatory initial margin are September 1, 2020 for Phase 5 and September 1, 2021 for Phase 6.

The letter explains that market participants have been working diligently to meet the Phase 5 and Phase 6 compliance dates, but that their efforts to do so are being severely impacted by the global COVID-19 pandemic. The letter requests that BCBS and IOSCO issue an immediate, public recommendation to global regulators to suspend the compliance dates for implementation of Phases 5 and 6 of UMR, and that global regulators act swiftly to provide corresponding reassurance in their jurisdictions while they work to address necessary rule amendments or other means to effect this decision. The letter explains that a suspension of the current phase-in timeline would allow the associations' members to focus their limited resources on ensuring continued access to the vital derivatives market. As the overall impact of COVID-19 may not be known for some time, the letter recommends that decisions regarding a new timeline for the implementation of further phases of the IM requirements be delayed and reconsidered when relevant facts and circumstances are known. The letter requests that, when markets are back to normal conditions and new Phase 5 and Phase 6 compliance dates are to be set, sufficient lead time be provided in order to complete implementation in a phased and reasonable period.

The letter outlines the challenges that the associations' members face, as a result of the COVID-19 pandemic, in meeting the existing Phase 5 and Phase 6 compliance dates. Members' efforts to prepare have been severely impacted due to personnel, systems and other issues. These challenges are expected to worsen as markets continue to fluctuate, lockdowns broaden, and staff are compromised by illness or need to care for family members. The letter also details specific challenges to completing UMR implementation in the current environment, including the ability of global custodians to facilitate client onboarding and the ability to get documents physically signed in a remote working environment.

Most importantly, the letter emphasizes that members' current focus is ensuring proper business continuity. It states that run-the-institution activities have full priority over change-the-institution activities. Without timely and, to the greatest extent possible, globally consistent regulatory action in respect of UMR, there will be insurmountable hurdles to implementation for many market participants, limiting access to the derivatives market at a time when they are most greatly needed to hedge financial risk, including related market volatility.

Sarah A. Bessin
Associate General Counsel

Attachment