

**MEMO# 30894**

October 3, 2017

# **ICI Global Submits Letter to European Regulators Requesting Deferral and Reconsideration of Uncleared Swap Variation Margin Requirements for Physically-Settled Foreign Exchange Derivative Contracts**

[30894]

October 3, 2017 TO: ICI Members

ICI Global Members

Derivatives Markets Advisory Committee

ICI Global Trading & Markets Committee SUBJECTS: Derivatives

International/Global RE: ICI Global Submits Letter to European Regulators Requesting Deferral and Reconsideration of Uncleared Swap Variation Margin Requirements for Physically-Settled Foreign Exchange Derivative Contracts

ICI Global, in conjunction with four other trade associations, submitted a letter urging European regulators to defer and reconsider variation margin (VM) requirements for physically-settled foreign exchange derivatives contracts (FX contracts). FX contracts are the only remaining foreign exchange derivatives not subject to VM requirements. Beginning in January 2018, however, EU counterparties subject to the European Market Infrastructure Regulation (EMIR) will be required to exchange VM for these products (and have documentation in place to comply with these new requirements). Other jurisdictions, including Switzerland, the United States, and a number of Asia-Pacific jurisdictions do not impose prescriptive VM requirements for FX contracts. Instead, authorities in those jurisdictions have taken a risk-based supervisory approach, excluding FX contracts from their uncleared swap margin rules.

Our letter expresses concern that imposing VM requirements on FX contracts will undermine the ability of regulated funds and their asset managers to hedge risk by making it costlier to use FX contracts. The letter also observes that the new VM requirements will place an undue burden on smaller entities that do not generally trade derivatives but that occasionally use FX contracts to hedge currency risk. The letter requests:

- A deferral of the VM requirements for FX contracts sufficiently beyond January 2018 to provide time for EU authorities to reconsider the margining of these products; and
- Revision of the VM requirements for FX contracts through legislation.

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[Attachment](#)

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