



## IMPLEMENTATION PLAN FOR MARGIN REQUIREMENTS FOR NON-CENTRALLY CLEARED OTC DERIVATIVE TRANSACTIONS

The FSC announced its adjusted schedule to implement initial margin requirements for non-centrally cleared derivative transactions in accordance with internationally-agreed standards:

- ▶ Initial margin requirements for financial institutions with derivatives of KRW70 trillion or more will be implemented from September 1, 2020 as scheduled, while the implementation for those with derivatives of less than KRW70 trillion will be delayed until September 1, 2021.
- ▶ The FSC will also propose a bill on margin requirements for non-centrally cleared OTC derivative transactions as the relevant guidelines by the Financial Supervisory Service (FSS) are due to expire in August 2020.

### **Background**

#### **> Global discussion**

In the aftermath of the global financial crisis of 2008, the G20 countries agreed to a series of reform proposals to enhance stability and transparency in OTC derivative markets.

As part of such reform efforts, the Basel Committee on Banking Supervision (BCBS) and International Organization of Securities Commissions (IOSCO) published a final report on margin requirements for non-centrally cleared OTC derivatives in September 2013, aimed at reducing a systemic risk and promoting central clearing of OTC derivatives.

In the detailed framework announced in March 2015, the BCBS and IOSCO set differential implementation schedules according to the amount of non-centrally cleared OTC derivatives in order to give enough time to prepare for the new regime of margin requirements.

<Implementation schedule for margin requirement for non-centrally cleared OTC derivatives>

type	schedule	Subject
Variation margin	September 1, 2016 ~	Institutions with non-centrally cleared derivatives exceeding €3 trillion
	March 1, 2013 ~	All institutions subject to margin requirements
Initial Margin	September 1, 2016 ~	Institutions with non-centrally cleared derivatives exceeding €3 trillion
	September 1, 2017 ~	Institutions with non-centrally cleared derivatives exceeding €2.25 trillion
	September 1, 2018 ~	Institutions with non-centrally cleared derivatives exceeding €1.5 trillion
	September 1, 2019 ~	Institutions with non-centrally cleared derivatives exceeding €0.75 trillion
	September 1, 2020 ~	Institutions with non-centrally cleared derivatives exceeding €8 billion

※ The amount of non-centrally cleared derivatives are calculated as an average at the end of March, April and May each year and applied from September of the respective year to August of the following year.

On July 23 this year, the BCBS and IOSCO announced a postponement of implementation of initial margin requirements for financial institutions with non-centrally cleared derivatives of less than €50 billion, originally scheduled to come into force in September 2020, until September 2021. The one-year postponement is intended to ease the impact of the new rules on smaller financial institutions and give financial supervisory authorities enough time to prepare for domestic implementation.

### > Domestic progress

Korea has adopted margin requirements for non-centrally cleared OTC derivatives in March 2017 in the form of administrative guidance executed by the FSS.

Since March 2017, variation margin requirements are being applied to 76 financial institutions as of July 2019. Initial margin requirements were initially due to apply in September 2020, given the smaller amount of non-centrally derivative transactions of domestic financial institutions.

### Future Plans

#### > One-year postponement of implementation of initial margin requirements for smaller financial institutions

For financial institutions with non-centrally cleared derivatives worth more than KRW10 trillion and less than KRW70 trillion, the implementation of initial margin requirements will be delayed until September 1, 2021. The postponement is expected to cover 19 financial companies (as of 2018).

For those with non-centrally cleared derivatives of more than KRW70 trillion, initial margin requirements will be implemented from September 1, 2020 as originally scheduled. About 35 financial companies are expected to subject to initial margin requirements from September 1, 2020.

<Adjusted schedule for domestic implementation of initial margin requirements>

Type	Schedule	Subject
Variation margin	Mar. 1, 2017 ~	Institutions with non-centrally cleared derivatives of more than KRW10 trillion
	Sept. 1, 2017~	Institutions with non-centrally cleared derivatives of more than KRW3 trillion
Initial margin	Sept. 1, 2020 ~	Institutions with non-centrally cleared derivatives of more than <b>KRW70 trillion</b>
	<b>Sept. 1, 2021~</b>	<b>Institutions with non-centrally cleared derivatives of more than <b>KRW10 trillion</b></b>

The FSS will hold a briefing on implementation plans for initial margin requirements to help financial institutions better prepared for the new rules.

#### > Proposal for a legislation on margin requirements for non-centrally cleared derivatives

The FSC plans to propose a bill on margin requirements for non-centrally cleared derivatives in August 2019 as the FSS's guidelines are due to expire in August 2020. The bill is to prescribe legal obligation of margin requirements and disciplinary measures against non-compliance in order to ensure the effectiveness of margin requirement rules.