



9 May 2017

**TO: ALL APRA-REGULATED INSTITUTIONS OTHER THAN PRIVATE HEALTH INSURERS**

**SUBSTITUTED COMPLIANCE FOR MARGIN REQUIREMENTS FOR NON-CENTRALLY CLEARED DERIVATIVES**

APRA has today released for consultation a draft of *Prudential Standard CPS 226 Margining and risk mitigation for non-centrally cleared derivatives* (CPS 226), in which APRA proposes to recognise substituted compliance with respect to the margin requirements or provisions of seven foreign jurisdictions, subject to a condition for intra-group requirements for certain jurisdictions.

APRA has assessed that the margin requirements or provisions issued or administered by the following foreign bodies are comparable in outcomes with the BCBS-IOSCO framework and the requirements in CPS 226:

- Canada's Office of the Superintendent of Financial Institutions;
- the European Commission;
- the Hong Kong Monetary Authority;
- Japan's Financial Services Agency;
- Japan's Ministry of Economy, Trade and Industry and Ministry of Agriculture, Forestry and Fisheries;
- the Monetary Authority of Singapore;
- the Swiss Financial Market Supervisory Authority;
- the United States Commodity Futures Trading Commission; and
- the United States Farm Credit Administration, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, Board of Governors of the Federal Reserve System and Office of the Comptroller of the Currency.

As set out in paragraphs 63 and 64 of the consultation draft of CPS 226, an APRA covered entity may substitute compliance with the margin requirements or provisions (in their entirety) of any of these foreign bodies for compliance with the margin requirements in CPS 226. An APRA covered entity may only substitute compliance in a transaction where the APRA covered entity is directly subject to the relevant foreign requirements or provisions, or where it is transacting with a covered counterparty that is subject to the relevant foreign margin requirements or provisions.

APRA also proposes to amend paragraph 45(b) of CPS 226 to better align eligible collateral with the international framework. The proposed change limits the debt securities issued by Commonwealth, State and Territory governments in Australia (including State and Territory central borrowing authorities); central, state and regional governments in other countries; the Reserve Bank of Australia; central banks in other countries; and the international banking agencies and multilateral development banks that an APRA covered entity can collect as margin to only those securities with a credit rating grade of three or better.

The draft CPS 226 will be subject to a four-week public consultation and is available on the APRA website at: <http://www.apra.gov.au/adi/PrudentialFramework/Pages/Consultation-substituted-compliance-May-2017.aspx>.

Written submissions on the proposed amendments to CPS 226 should be sent to [PolicyDevelopment@apra.gov.au](mailto:PolicyDevelopment@apra.gov.au) by 6 June 2017 and addressed to:

General Manager, Policy Development  
Policy and Advice Division  
Australian Prudential Regulation Authority

Yours Sincerely,



Pat Brennan  
Executive General Manager  
Policy and Advice Division

### **Important disclosure notice - publication of submissions**

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the *Freedom of Information Act 1982* (FOIA). APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA-regulated entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the *Australian Prudential Regulation Authority Act 1998* and will therefore be exempt from production under the FOIA.