



6 December 2016

To: All APRA-regulated institutions other than private health insurers

RE: MARGINING AND RISK MITIGATION FOR NON-CENTRALLY CLEARED DERIVATIVES

In response to the global financial crisis, the G20 initiated a series of important reforms to reduce systemic risk in the over-the-counter derivatives market. APRA is committed to implementing requirements for margining and risk mitigation for non-centrally cleared derivatives in the Australian market and is now announcing its implementation timetable for these new requirements.

This announcement follows APRA's release of the final *Prudential Standard CPS 226 Margining and risk mitigation for non-centrally cleared derivatives* (CPS 226), without an implementation date, on 17 October 2016.

Since that time, APRA has continued to monitor progress in other jurisdictions and is now advising that CPS 226 will commence on 1 March 2017, subject to the following:

- In relation to the requirements to exchange variation margin, CPS 226 incorporates a six-month transition period (ie until 1 September 2017) during which APRA covered entities may finalise their implementation and transition to full compliance. During the transition period, APRA expects APRA covered entities to comply with the margin requirements on a best endeavours basis and on-board counterparties in a risk-focused manner. All qualifying transactions entered into from the official commencement date of 1 March 2017 are considered new transactions that are in-scope for the variation margin requirements under CPS 226, and an APRA covered entity must be in full compliance with the variation margin requirements in CPS 226 for all in-scope transactions by 1 September 2017, following the conclusion of the transition period.
- Requirements for the post and collection of initial margin will be subject to a phase-in timetable that is broadly equivalent to the international timetable; details of the Australian phase-in timetable are detailed in the Attachment to this letter.
- The risk mitigation requirements in CPS 226 will take effect from 1 March 2018.

Together with this letter, APRA has released an updated version of CPS 226 incorporating the implementation arrangements outlined in this letter. The revised CPS 226 also includes:

- minor changes to the Application and Authority sections that do not affect the operation of CPS 226; and
- clarification to the operation of references to external material in paragraph 8 and subparagraphs 9(c), 9(l) and 9(n). These changes are intended to provide legal certainty

about whether the reference is to the materials as they exist from time to time or at a particular time, and do not represent a change in policy.

APRA expects all APRA covered entities to actively continue their preparations for the new margin and risk mitigation requirements in CPS 226 and will continue to engage with APRA covered entities throughout the implementation period.

If you have any questions in relation to this matter, please contact your Responsible Supervisor.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Pat Brennan', with a long, sweeping horizontal stroke at the end.

Pat Brennan
Executive General Manager
Policy and Advice Division

ATTACHMENT

Implementation of variation margin requirements

Reference period	Qualifying level	Commencement date for requirements	Transition period
March, April and May 2016	AUD 3 billion	1 March 2017	1 March 2017 to 31 August 2017 (inclusive)

Implementation of initial margin requirements

Reference period	Qualifying level	Commencement date for requirements
March, April and May 2016	AUD 4.5 trillion	1 March 2017
March, April and May 2017	AUD 3.375 trillion	1 September 2017
March, April and May 2018	AUD 2.25 trillion	1 September 2018
March, April and May 2019	AUD 1.125 trillion	1 September 2019
March, April and May 2020	AUD 12 billion	1 September 2020