

23 December 2020

Circular to licensed corporations

Deferral of margin requirements for non-centrally cleared OTC derivative transactions

This circular informs licensed corporations (LCs) that the Securities and Futures Commission (SFC) will defer the effective date of its margin requirements¹ for non-centrally cleared single-stock options, equity basket options and equity index options by three years until 4 January 2024.

The SFC's margin requirements for such transactions were originally scheduled to take effect on 4 January 2021. However, the draft Regulatory Technical Standards published by the European Supervisory Authorities on 23 November 2020² proposed several amendments to the EU margin regime for non-centrally cleared over-the-counter (OTC) derivatives, including one which further defers the application of margin requirements for single-stock equity options and index options transactions by three years until 4 January 2024.

Given that LCs' exposure to non-centrally cleared single-stock equity options, equity basket options and equity index options is currently not significant, and to prevent market fragmentation and regulatory arbitrage, the SFC has decided to align the effective date of its margin requirements with the EU's timeline.

Paragraph 7(e) of Part III of Schedule 10 to the Code of Conduct will be amended accordingly and gazetted in due course.

Should you have any queries regarding the contents of this circular, please contact your case officer.

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

End

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¹ As set out in Part III of Schedule 10 to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct).

² Final Report – EMIR RTS on various amendments to the bilateral margin requirements in view of the international framework as well as on novations from UK to EU counterparties:
https://www.esma.europa.eu/sites/default/files/library/esas_2020_20_-_final_report_-_bilateral_margin_amendments_intragroup_equity_options_and_novations.pdf