

15 January 2024

Circular to licensed corporations

Deferral of margin requirements for non-centrally cleared equity options

This circular informs licensed corporations 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 (collectively, “non-centrally cleared equity options”) by two years to 4 January 2026 to align with the latest global developments.

The SFC’s margin requirements for non-centrally cleared equity options were originally scheduled to take effect on 4 January 2024 when such margin requirements were expected to become effective in the UK and European Union (EU). Nevertheless, on 18 December 2023, the UK’s Prudential Regulation Authority and Financial Conduct Authority published a joint policy statement² containing amendments to the Binding Technical Standards 2016/2251³. The statement extended the temporary exemptions for single-stock equity options and index options from the UK bilateral margining requirements from 4 January 2024 until 4 January 2026. In addition, on 20 December 2023, the European Supervisory Authorities (ESAs)⁴ published the joint draft regulatory technical standards (RTS)⁵ under the European Market Infrastructure Regulation, proposing an extension to the equity option exemption from bilateral margining by two years until 4 January 2026⁶.

To prevent regulatory arbitrage and considering that licensed corporations’ exposures to non-centrally cleared equity options are currently insignificant, the SFC has decided to align the effective date of its margin requirements with the UK and EU’s timelines.

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

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 See PS18/23 – Margin requirements for non-centrally cleared derivatives: Amendments to BTS 2016/2251: <https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/margin-requirements-for-non-centrally-cleared-derivatives-policy-statement>

³ Binding Technical Standards 2016/2251 refer to the UK version of Commission Delegated Regulation (EU) 2016/2251 of 4 October 2016 and the regulatory technical standards for risk-mitigation techniques for over-the-counter (OTC) derivative contracts not cleared by a central counterparty.

⁴ The ESAs refer to the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority.

⁵ See the draft RTS published by the ESAs: <https://www.esma.europa.eu/press-news/esma-news/esas-propose-extending-emir-equity-option-exemption>.

⁶ The RTS are subject to endorsement by the European Commission and non-objection by the European Parliament and the Council of the EU before they enter into force.



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

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End

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