*Banking Policy Department*

Our Ref.: B9/129C
B1/15C

6 December 2016

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

**Implementation of margin and risk-mitigation standards for non-centrally cleared OTC derivatives**

I am writing to inform you that, following consultation with the banking industry and taking into account the proposed implementation schedules of other jurisdictions, the Hong Kong Monetary Authority (HKMA) intends to begin both the phase-in of initial margin (IM) requirements for phase 1 institutions[1] and the exchange of variation margin (VM) for all covered entities (as defined in paragraph 1.1.1 of the SPM module CR-G-14 "Non-centrally Cleared OTC Derivatives Transactions – Margin and Other Risk Mitigation Standards") from 1 March 2017.

There will be a 6-month transitional period (from 1 March to 31 August 2017 inclusive) during which authorized institutions (AIs) will be expected to begin exchanging margin as soon as practicable and in any event to make reasonable and continuous progress towards the required margin exchange. Progress during this period will be closely monitored by the HKMA but there will be no retrospective application of margining requirements in respect of transactions entered into during the transitional period.

[1] Phase 1 institution refers to an AI that has an average aggregate notional amount of non-centrally cleared derivatives, calculated according to paragraph 2.4.9 of the SPM module CR-G-14, of more than HKD 24 trillion.

Should you have any questions regarding this letter, please feel free to contact Mr Johannes Ehrentraud on 2878-1271 or at jehrentraud@hkma.gov.hk.

Yours faithfully,

Richard Chu
Acting Executive Director (Banking Policy)

c.c.: The Chairperson, The Hong Kong Associations of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Eureka Cheung)