



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B1/21C
B9/129C

11 September 2020

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Revised Supervisory Policy Manual (SPM) CR-G-14

I am writing to inform you that, following consultation with the industry, the Monetary Authority (MA) issues by notice in the Gazette today a revised version of the SPM module “Non-centrally Cleared OTC Derivatives Transactions – Margin and Other Risk Mitigation Standards” as a statutory guideline under section 7(3) of the Banking Ordinance.

The changes incorporated in the revised SPM module are mainly to:

- revise the phase-in schedule of initial margin requirements according to the announcement made by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) in April 2020;
- defer the remaining implementation phases of the risk mitigation standards (RMS) to align with the updated initial margin implementation phase-in schedule;
- extend the exemption of non-centrally cleared single-stock options, equity basket options and equity index options from the margin requirements;
- provide clarification on the documentation, reporting, and notification requirements for AIs adopting substituted compliance;
- update the list of WGMR¹ member jurisdictions deemed comparable under the HKMA’s margin requirements and RMS;

¹ WGMR refers to the BCBS-IOSCO Working Group on Margin Requirements.

- clarify that genuine amendments made to existing derivatives contracts to give effect to benchmark reforms will not be considered as new contracts subject to the margin requirements;
- introduce a new guidance on AIs' derivatives transactions with leasing entities that are part of manufacturing groups; and
- update the guidance in relation to valuation with counterparties, portfolio reconciliation, dispute resolution, monitoring of model performance as well as collateral eligibility to enhance the consistency in implementing the margin requirements and RMS.

AIs that are currently in scope for the margin requirements and RMS but have not applied the provisions set out in the revised paragraphs of the SPM module should comply with these requirements from 1 September 2021.² Early adoption is allowed.

On-line access to the module is available under the icon for “Supervisory Policy Manual” on the HKMA’s public website (<https://www.hkma.gov.hk/eng/>) and its private website (<https://www.stet.iclnet.hk>).

Should you have any questions regarding this module, please contact Ms Eva Tung (2878 1228, eywtung@hkma.gov.hk) or Mr Lincoln Wong (2878 1271, llhwong@hkma.gov.hk).

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

Encl

cc: The Chairperson, The Hong Kong Association of Banks
The Chairperson, The DTC Association
FSTB (Attn: Ms Eureka Cheung)

² Initial margin requirements and RMS are subject to the thresholds laid down in paragraphs 2.4.2 and 2.4.3 of the revised SPM CR-G-14.