Office of the Superintendent of Financial Institutions Canada | Bureau du surintendant des institutions financières Canada

Reference: Guideline for Banks/FBB/BHC/
T&L/Life/P&C/IHC

June 28, 2019

To: Banks
Foreign Bank Branches
Bank Holding Companies
Trust and Loan Companies
Life Insurance Companies
Property and Casualty Insurance Companies
Insurance Holding Companies

Subject: Margin Requirements for Non-Centrally Cleared Derivatives Guideline (E-22)

In February 2016, OSFI issued the final version of its *Margin Requirements for Non-Centrally Cleared Derivatives* Guideline (E-22). Under this guideline, most covered federally regulated financial institutions meeting the definition of a covered entity ("covered FRFIs") are subject to the mandatory exchange of variation margin beginning March 1, 2017. In addition, Guideline E-22 requires covered FRFIs to exchange initial margin. The exchange of initial margin began in September 2016 for the largest derivatives counterparties and is being gradually phased-in to smaller counterparties until September 2020.

In March 2019, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) released a statement[1] related to the margin requirements for non-centrally cleared derivatives[2]:

- The BCBS and IOSCO realize that market participants may need to amend derivatives contracts in response to interest rate benchmark reforms. Amendments to legacy derivative contracts pursued solely for the purpose of addressing interest rate benchmark reforms do not require the application of the margin requirements for the purposes of the BCBS/IOSCO framework, although the position may be different under relevant implementing laws; and

- In the remaining phases of the framework's implementation in 2019 and 2020, initial margin requirements will apply to a large number of entities for the first time, potentially involving documentation, custodial and operational arrangements. The BCBS and IOSCO note that the framework does not specify documentation, custodial or operational requirements if the

[1] Press release: BCBS/IOSCO statement on the final implementation phases of the Margin requirements for non-centrally cleared derivatives, March 5, 2019

[2] Framework: Margin requirements for non-centrally cleared derivatives, March 18, 2015

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bilateral initial margin amount does not exceed the framework's €50 million initial margin threshold. It is expected, however, that covered entities will act diligently when their exposures approach the threshold to ensure that the relevant arrangements needed are in place if the threshold is exceeded.

OSFI supports the BCBS-IOSCO statement and issues the following guidance to FRFIs:

- Amendments to legacy derivative contracts pursued solely for the purpose of addressing interest rate benchmark reforms are deemed genuine amendments under footnote 17 of Guideline E-22. As such, these amendments would not require the application of the margin requirements for legacy derivative contracts under Guideline E-22.
- Documentation, custodial and operational arrangements related to the exchange of initial margin between covered entities are not required to be entered into until the amount of initial margin to be exchanged approaches the CAD$75 million threshold noted in Guideline E-22[3].

Questions regarding Guideline E-22 should be directed by email to Patrick Tobin, Capital Division at patrick.tobin@osfi-bsif.gc.ca.

Yours truly,

Bernard Dupont
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[3] Covered entities will act diligently when their exposures approach the threshold to ensure that the relevant arrangements needed are in place if the threshold is exceeded.