



Circular No.: 134328
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From : Saudi Arabian Monetary Agency
To : All Banks
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **A Finalized Document of September 2013 issued by Basel Committee on Banking Supervision and Board of the International Organization of Securities Commissions concerning Margin Requirements for Non-centrally Cleared Derivatives**

In February 2013, the BCBS and IOSCO released a second consultative document that reflected the near-final policy framework after careful consideration of the responses to the first consultative document as well as the QIS results. The second consultative document sought comments, and BCBS has now finalized it in September 2013 for banks to implement where deemed necessary. The attached document lays out the key objectives, elements and principles of the final margining framework for non-centrally cleared derivatives.

In this respect, margin requirements for non-centrally cleared derivatives have two main benefits:

Reduction of systemic risk. These non-centrally cleared derivatives, totaling hundreds of trillions of dollars in notional amounts posed the same type of systemic contagion and spillover risks that materialized in the recent financial crisis. Consequently, Margin requirements for non-centrally cleared derivatives would be expected to reduce contagion and spillover effects by ensuring that collateral is available to offset losses caused by the default of a derivatives counterparty.

Promotion of central clearing. In many jurisdictions, central clearing will be mandatory for most standardized derivatives. But clearing imposes costs, in part because CCPs require margin to be posted. However, margin requirements on non-centrally cleared derivatives, reflect generally higher risk. Consequently, these higher risk and related margin will promote central clearing. This could, in turn, contribute to the reduction of systemic risk and promoting central clearing.

This BCBS document can be obtained from BIS website: www.bis.org and if further clarifications are required, please contact by e-mail Dr. Alwaleed Alsheikh at akalsheikh@sama.gov.sa, Mr. Tariq Javed at t_javed@sama.gov.sa and Mr. Abbas Hassan at ahassan@sama.org.sa.

Best regards,

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