

December 2017

Client Communication

EMIR Non-Cleared Margin Requirements

Important Notification for SSGA Fund Investors:

Implications of European Market Infrastructure Regulation (EMIR) for SSGA Funds trading Currency Forwards

Background

EMIR imposes requirements to collateralise derivative transactions that are not cleared through a clearing house or traded on an exchange, including FX forward transactions. The requirement to exchange variation margin for physically settled FX forwards has been scheduled to commence on 3 January 2018.

However, the European Supervisory Authorities (EBA, ESMA and EIOPA) (“ESAs”) published a statement on 24 November 2017 in which they confirmed they are in the process of reviewing, and proposing amendments to, the EMIR physically-settled FX forwards obligations. In the statement the ESAs said the amendments to the physically-settled FX forward obligations “*would most likely imply that the scope should cover transactions between institutions (credit institutions and investment firms).*”

On 8 December 2017, the UK Financial Conduct Authority published a statement in which it said that it “*will not require firms whose physically settled FX forwards are likely to be outside the scope of the amended [EMIR] requirements to continue putting processes in place to exchange variation margin.*”

To date, other national European regulators have not commented on the announcement made by the ESAs. It is possible that they will not make any such announcement.

SSGA’s proposed approach

The SSGA funds are not credit institutions or investment firms. Therefore, following on from the announcements referred to above, the investment manager does not intend to collateralise the physically settled FX forward transactions for the SSGA Funds.

Non-Deliverable Forwards

The requirement under EMIR to collateralise non-deliverable forwards came into effect on 1 March 2017. This obligation is not impacted by the above announcements and SSGA will continue to collateralise such transactions.

If you have any questions relating to this change, please contact your SSGA representative.

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Marketing Communication.

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