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Good News on FX Forward Transactions for Irish Buy Side including Irish UCITS and AIFs

20 December 2017

With the deadline of 3 January 2018 fast approaching for counterparties to commence exchanging variation margin for physically-settled FX forward transactions, there is good news for Irish buy side (non-institution) firms including Irish UCITS and AIFs preparing for the operational risks and challenges posed by the requirements.

On 19 December 2017, the Central Bank of Ireland (CBI) issued a [statement](#) welcoming the recent European Supervisory Authorities (ESAs) [statement](#) on the variation margin requirements under EMIR for physically settled FX forwards acknowledging the challenges being faced by counterparties and proposing amendments to exempt institution-to-non-institution transactions from the EMIR uncleared margin rules (UMR).

The CBI statement acknowledges the proposed exemption and confirms that, in accordance with the ESAs recommendation to competent authorities, the CBI will apply its risk-based supervisory powers in the day-to-day enforcement of applicable legislation in a proportionate manner.

The CBI statement follows the [statement](#) by the UK Financial Conduct Authority that it will not require firms whose physically settled FX forwards are likely to be outside the scope of the amended requirements to continue putting processes in place to exchange variation margin.

These developments align with the updated version of the EMIR amending [regulation](#) published by the EU Council on 15 November 2017 which proposes to take physically-settled FX forwards outside the scope of the UMR (with the exception of transactions between credit institutions).

The CBI statement is set out in full below:

“Statement on the Variation Margin requirements under EMIR for physically settled FX forwards

The Central Bank welcomes the recent European Supervisory Authorities (ESAs) statement on the variation margin requirements under EMIR for physically settled FX forwards. The Central Bank notes that the ESAs are undertaking a review of the relevant requirements and will propose some targeted amendments. These are likely to continue to require the exchange of variation margin for physically-settled FX forwards in a risk based and proportionate manner but to limit the scope to transactions between institutions (credit institutions and investment firms).

The Central Bank confirms that, in accordance with the recommendation from the ESAs and pending the outcome from their review, the Central Bank will apply its risk-based supervisory powers in the day-to-day enforcement of applicable legislation in a proportionate manner.”



Please contact any of the below or your usual contact at Walkers for further information.

Contacts



Garry Ferguson
Partner, Finance & Capital Markets
T: +353 1 470 6659
E: garry.ferguson@walkersglobal.com



Sarah Maguire
Partner, Investment Funds
T: +353 1 470 6691
E: sarah.maguire@walkersglobal.com



Kerill O'Shaughnessy
Partner, Investment Funds
T: +353 1 470 6676
E: kerill.oshaughnessy@walkersglobal.com



Noeleen Ruddy
Partner, Finance & Capital Markets
T: +353 1 470 6650
E: noeleen.ruddy@walkersglobal.com



Andrew Traynor
Partner, Finance & Capital Markets
T: +353 1 470 6632
E: andrew.traynor@walkersglobal.com



Matt Hedigan
Of Counsel, Finance & Capital
Markets
+353 1 470 6688
E: matt.hedigan@walkersglobal.com

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