
ISDA Margin Survey 2007

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INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC.

INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION

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1. INTRODUCTION

A total of 97 ISDA member firms responded to the ISDA Margin Survey 2007; Appendix 1 lists the respondents. Table 1.1 shows the breakdown of respondents by size since the Survey was first conducted in 2000. The Survey classifies respondents into three size groups based on the number of collateral agreements executed. The threshold for classification as a large program continues to be 1,000 agreements; under this criterion, 18 firms are classified as large. Some 52 percent of respondents are based in Europe or South Africa; 25 percent in the United States or Canada; 12 percent in Japan; and 11 percent in Australia or Asia outside Japan. Table 1.2 classifies respondents according to firm or entity type. Of those responding “other”, one is an asset manager, one is a non-bank financial institution, and one is a central bank.

Table 1.1 Profile of firms responding to ISDA Margin Survey 2007

Numbers of firms

Size class	Number of agreements	2007	2006	2005	2004	2003	2002	2001
Large	>1000	18	18	19	16	14	14	12
Medium	51-1000	40	43	33	33	27	25	16
Small	0-50	39	52	57	48	32	32	15
Total		97	113	109	97	73	71	43

Table 1.2 Type of entity responding to ISDA Margin Survey 2007

Type	Number
Bank/Broker-dealer	77
Insurer	2
Corporate	2
Mutual fund	1
Hedge fund	1
Pension fund	1
Multinational institution	3
Government agency	3
Government-sponsored entity	4
Other	3
Total	97

In the 2007 Survey, the questions refer to respondents' collateral management functions as of December 29, 2006. All amounts are in U.S. dollars. As with all ISDA surveys, access to firm responses is strictly limited to selected ISDA staff and the data are not shared with the employee of any ISDA member firm or any other outside party. For questions, comments, or suggestions regarding the Survey results, please contact Johanna Schwab (Policy Director, jschwab@isda.org).

2. SUMMARY

1. ISDA estimates the gross amount of collateral in use to be \$1.335 trillion as of year-end 2006, an increase of 0.4 percent over the previous year. Last year's Survey, in contrast, reported a 10 percent increase.
2. The low growth rate compared with last year conceals both increases and decreases. There were significant increases in US dollar cash collateral received, but at the same time there were significant decreases in government agency securities received and in euro cash and government securities delivered.
3. Reported collateral grew by 1.8 percent among firms responding in both 2006 and 2007, compared with 9 percent the previous year. Among those 69 firms, collateral received grew by 2.7 percent and collateral delivered by 0.6 percent.
4. Cash is the most commonly used type of collateral, making up over 75 percent of collateral received and 80 percent of collateral delivered. Receipt of equities continues to grow, although it is still only 5 percent of collateral received.
5. The number of collateral agreements reported to be in place has grown to nearly 133,000 compared with almost 110,000 last year. Among firms responding in both 2006 and 2007, the number of collateral agreements has grown 34 percent. Respondents forecast further growth of 26 percent during 2007.
6. Respondents report that approximately 59 percent of their derivative transactions are secured by collateral agreements and that 59 percent of mark-to-market credit exposure is covered by collateral.
7. Large firms are the most active users of collateral; these firms hold approximately 80 percent of reported collateral. Large firms also tend to report higher coverage of both trade volume and exposure, especially for credit derivatives.
8. All large programs now report that they re-use collateral, although re-use is still relatively infrequent among small programs.
9. Hedge funds, followed by institutional investors, are the largest class of counterparties for large programs. For small programs, banks and broker-dealers remain by far the most important category of counterparty.

3. COLLATERAL ASSETS

3.1 VOLUME OF COLLATERAL USED IN MARKET

The ISDA Margin Survey 2007 estimates the gross amount of collateral in use to be \$1.335 trillion as of the end of 2006 (all results are in U.S. dollars), which represents a growth rate of 0.4% percent over the previous year. The \$1.335 trillion estimate is based on a total reported collateral amount of \$924 billion, and does not adjust for double counting; Appendix 2 describes the adjustment used to obtain the estimate. Chart 3.1 shows the growth of reported and estimated collateral since the 2000 ISDA Collateral Survey. Table 3.1 shows the breakdown of reported collateral by asset type.

Among the 69 firms that responded in both 2006 and 2007, collateral received grew by 2.7 percent and collateral delivered by 0.6 percent, for an overall increase of 1.8 percent. In last year's Survey, in contrast, collateral received grew by 13 percent and collateral delivered by 4 percent. Approximately 80 percent of total collateral—81 percent of collateral received and 77 percent of collateral delivered—was reported by the 18 programs classified as large.

Although the slower collateral growth might reflect in part the smaller sample size, a closer look at the numbers reveals a mixed picture of increases and decreases. On the one hand, there were significant increases in USD cash collateral received. But on the other hand, there were significant decreases in government agency securities received as well as in EUR cash and government securities delivered.

Chart 3.1 Growth of value of total reported and estimated collateral, 2000 - 2007

Billions of US dollars

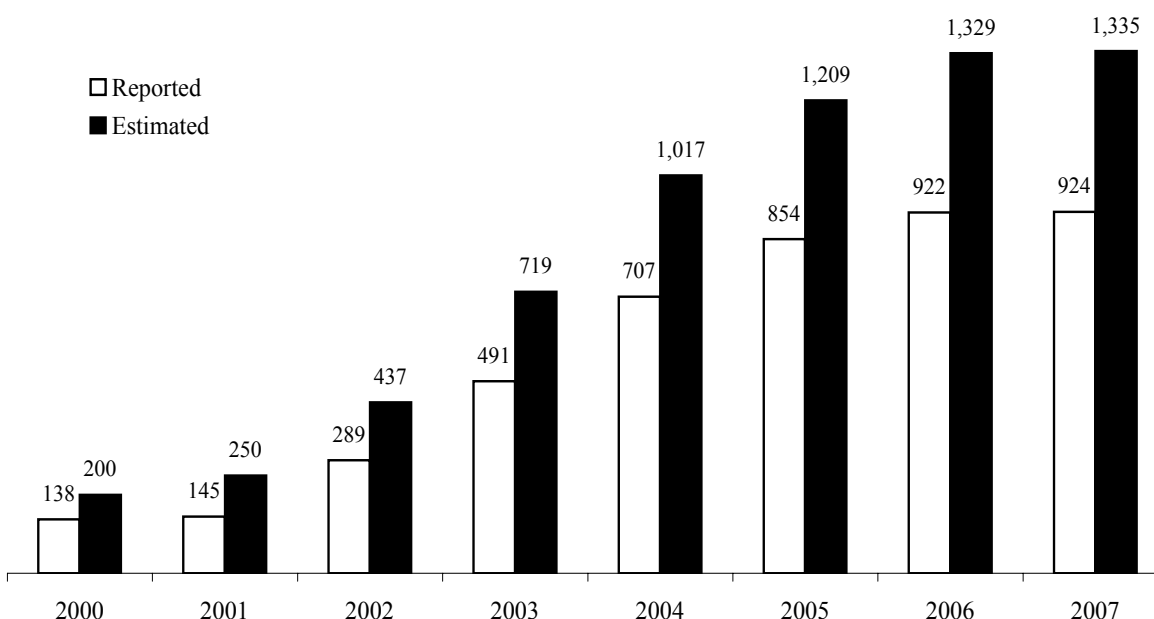


Table 3.1 Value of collateral received and delivered by respondents*By type, millions of US dollars*

		Collateral Received	Percent	Collateral Delivered	Percent
Cash	USD	252,711,741,464	45.9	171,753,669,719	46.0
	EUR	144,142,837,169	26.2	107,720,497,779	28.8
	GBP	6,080,906,697	1.1	10,137,711,628	2.7
	JPY	6,040,584,986	1.1	5,477,082,249	1.5
	Other	6,033,254,156	1.1	2,365,183,025	0.6
Subtotal		415,009,324,471	75.4	297,454,144,401	79.6
Government Securities	United States	25,243,595,468	4.6	30,646,767,280	8.2
	European Union	22,610,104,759	4.1	25,607,894,523	6.9
	United Kingdom	1,491,517,364	0.3	2,152,791,055	0.6
	Japan	9,513,252,065	1.7	4,230,918,661	1.1
	Other	4,945,713,148	0.9	2,385,462,800	0.6
Subtotal		63,804,182,804	11.6	65,023,834,320	17.4
Others	Govt. agency securities	12,268,001,187	2.2	8,347,293,614	2.2
	Supranational bonds	1,191,169,624	0.2	39,597,670	0.0
	Covered bonds	65,961,763	0.0	51,397,240	0.0
	Corporate bonds	14,243,437,598	2.6	1,093,985,925	0.3
	Letters of credit	7,788,751,758	1.4	0	0.0
	Equities	26,955,337,018	4.9	500,000,000	0.1
	Metals and commodities	594,959,251	0.1	0	0.0
	Other	8,399,788,036	1.5	1,008,197,360	0.3
Subtotal		71,507,406,234	13.0	11,040,471,809	3.0
Total collateral		550,320,913,509		373,518,450,530	
Grand total				923,839,364,039	

Table 3.2 Types of collateral received and delivered, by program size
Percents

		Collateral Received			Collateral Delivered		
		Large	Medium	Small	Large	Medium	Small
Cash	USD	48.9	23.6	55.9	49.6	27.7	18.2
	EUR	23.8	45.9	29.9	24.4	53.6	29.7
	GBP	1.2	0.4	0.0	3.2	0.6	0.2
	JPY	1.1	1.7	0.0	0.8	1.4	33.1
	Other	0.5	5.5	0.4	0.5	1.5	0.3
	Subtotal	75.5	77.0	86.2	78.5	84.8	81.3
Government Securities	United States	4.4	5.7	2.7	9.5	3.1	0.4
	European Union	4.0	4.3	9.9	7.7	2.5	11.7
	UK	0.3	0.2	0.1	0.7	0.0	0.0
	Japan	1.7	2.7	0.2	0.4	4.2	6.1
	Other	0.8	2.0	0.9	0.2	3.0	0.0
	Subtotal	11.2	14.7	13.8	18.5	12.8	18.2
Other	Agencies	2.1	2.1	0.1	2.5	1.1	0.4
	Supranationals	0.2	0.4	0.0	0.0	0.0	0.0
	Covered Bonds	0.0	0.0	0.0	0.0	0.1	0.0
	Corporate Bonds	2.8	1.1	0.0	0.2	0.4	0.0
	Letters of Credit	1.6	0.4	0.0	0.0	0.0	0.0
	Equities	4.9	3.0	0.0	0.2	0.0	0.0
	Metals and other comm.	0.1	0.0	0.0	0.0	0.0	0.0
	Others	1.4	1.2	0.0	0.2	0.8	0.0
	Subtotal	13.3	8.2	0.1	3.0	2.4	0.4

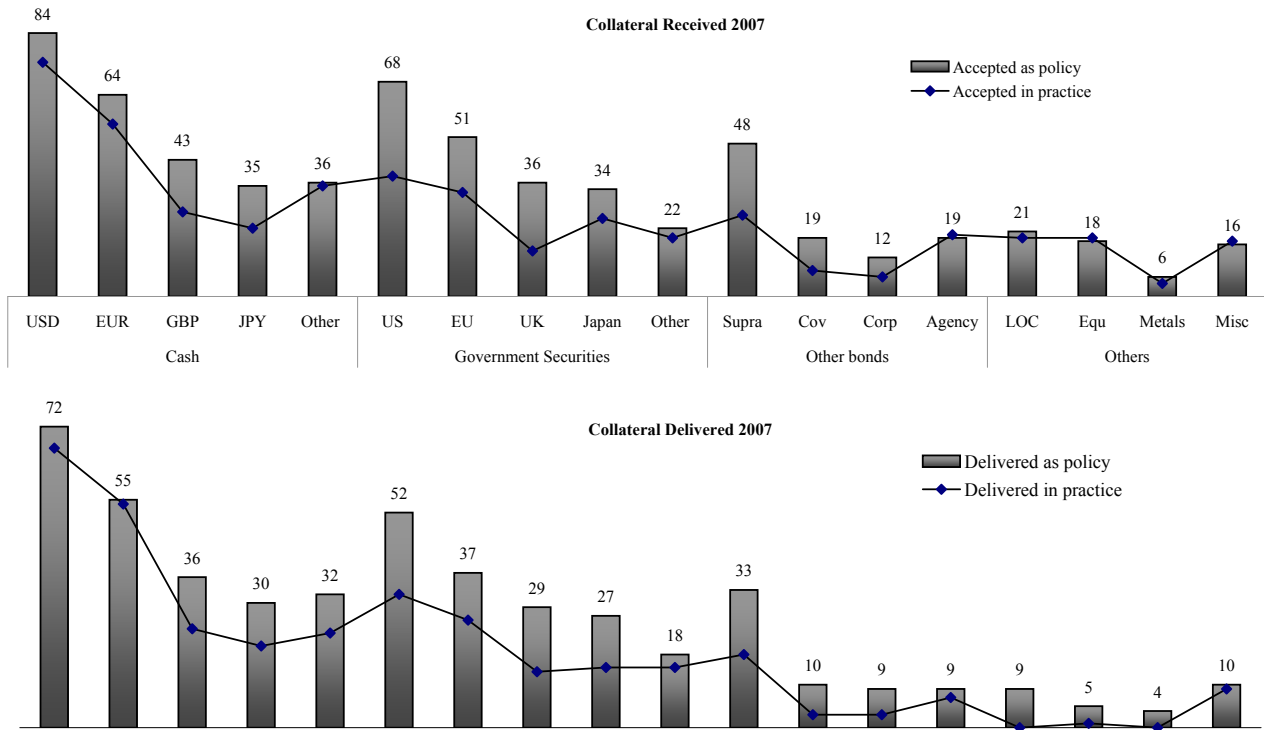
3.2 TYPES OF ASSETS USED AS COLLATERAL

Table 3.1 shows the amounts and proportions of assets used as collateral. Cash continues to dominate, at over 75 percent of collateral received and nearly 80 percent of collateral delivered. Notably, government agency securities, which had doubled in last year's Survey from 2 to over 4 percent of collateral received, has fallen back this year to its more customary level. But equities, which had increased from negligible in 2005 to over 4 percent of collateral received in 2006, increased again in 2007 to almost 5 percent, although survey respondents still tend not to deliver equities as collateral. Table 3.2 shows percentage composition of collateral received and delivered by program size.

3.3 POLICIES REGARDING ASSETS USED AS COLLATERAL

Chart 3.2 compares policies regarding allowable collateral assets with actual use of the assets. A firm might, for example, allow a given asset to be used as collateral but might not in practice use it or might use different assets at different times. The chart suggests that policies regarding allowable collateral are not a binding constraint for most firms.

Chart 3.2 Collateral policy versus collateral practice, 2007 Survey
Percent of respondents



3.4 COLLATERAL RE-USE

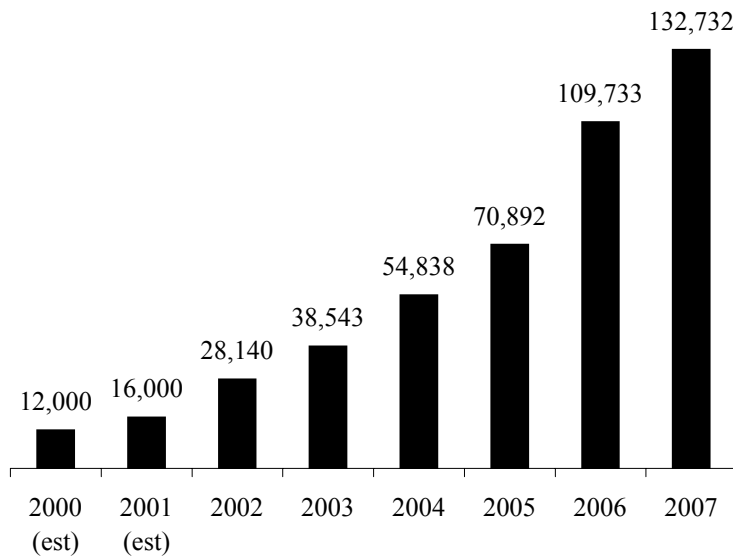
Collateral re-use is a decreasing function of program size. All of the 18 large firms report that they re-hypothecate collateral. Moving down the size scale, 24 of 40 medium programs (60 percent) report that they re-use collateral while only 7 of 39 small programs (19 percent) report that they do so.

4. EXTENT OF COLLATERAL USE

4.1 NUMBER AND TYPES OF COLLATERAL AGREEMENTS

Respondents report 132,732 collateral agreements in place (Table 4.1 and Chart 4.1), compared with 109,733 in the 2006 Survey. Adjusting for sample growth by restricting the sample to those firms that responded in both years, agreements in place grew 34 percent, lower than the 57 percent reported in the 2006 Survey but more in line with results from earlier surveys (33 percent in 2005 and 29 percent in 2003). Respondents that provided a forecast expect, on average, a growth rate in new agreements of 26 percent in 2007.

Chart 4.1 Growth of collateral agreements reported by respondents, 2000-2007 Surveys



The Survey also collects data on types of agreements used. Table 4.1 shows that ISDA credit support documentation is the most frequent choice among practitioners, at 78 percent of all agreements compared with 76 percent last year. Respondents report a continuing industry trend toward bilateral agreements, at approximately 76 percent of ISDA credit support agreements compared with 74 percent last year. Only 36 percent of non-ISDA agreements, in contrast, are reported as bilateral; such agreements comprise bespoke margin agreements, long-form confirmations with collateral terms, master margining agreements, commodity specific margining agreements, and jurisdiction-specific agreements such as French AFB and German Rahmenvertrag.

