

ISDA WGMR Program M&CP Consensus List for Operational Implementation of Uncleared Margin Risk Monitoring: Concentration Limits, Wrong Way Risk, and Haircuts / Credit Quality	2/9/2021
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Purpose: The Concentration Limits / Wrong Way Risk / EU Haircuts Consensus List has been established and agreed by market participants through a series of discussions held within the corresponding sub-working groups of the ISDA WGMR Margin and Collateral Processing and Portfolio Integrity Workstreams, and finalized by the ISDA WGMR Margin and Collateral Processing Working Group. The workstreams are comprised of a wide array of market participants. The intention of this list is to provide an agreed market guide for firms to utilize in determining how to comply with certain aspects of the non cleared margin rules within their respective jurisdictions. No firm is legally bound or compelled in any way to follow any determinations made within this list. Please see the legal disclaimers below for further details.

#	Sub-Group	Question / Assumption/Process	Sub-Group Consensus View / Legal View	Consensus Reached
1	Concentration Limits	If an IM limit breach is detected when using a Triparty Custodian, what is the appropriate process for treatment of collateral (accounting for variability in time of day collateral is received)?	With a Triparty model, an asset causing an IM limit breach would not be allocated from the pledgor's longbox to meet IM requirements. An asset previously allocated which causes a breach due to mark to market changes will be valued up to the point of reaching a concentration limit. The Triparty agent would substitute out the amount of collateral causing the breach, and the rest of the collateral would remain eligible in the account.	Y
2	Concentration Limits	If an IM limit breach is detected when using a Third Party Custodian, what is the appropriate process for treatment of collateral (accounting for variability in time of day collateral is received)?	With the Third Party Custodian model, firms are split on collateral valuation. Some support maintaining value, while others support reducing value. Retention of value will mean replacement of the asset through a substitution process, whereas zeroing out value will mean replacement through a margin call. Furthermore firms are expected to follow their respective risk management procedures.	N

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3	Concentration Limits	How will securities values be reduced to reflect breaches associated with the relevant regulatory margin arrangement?	Equally across all asset classes, i.e. across the relevant pool of collateral where the breach has occurred.	Y
4	Concentration Limits	Will an additional substitution process be required or will replacement of collateral be managed within the margin call process?	Incorporate the substitution process into the margin call process, utilizing appropriate language to communicate breach of limits as stipulated in the regulations and corresponding assignment of zero value to collateral.	Y
5	Concentration Limits	How will breaches of both the 15% and 40% limits for assets p and q per Regulation (EU) No 575/2013 (can include assets in a group) be handled in a Triparty custodian/agent model?	Triparty custodians indicated taking a conservative approach to identify which limit is breached first. They will apply the lower of the 15% and 40% limits. Per the example in the supplemental worksheet, the Triparty agent would allocate 40 so as not to breach the 40% limit and then satisfy the remaining requirement of 20 with other assets not subject to that limit. If a breach is detected after the fact, the Triparty agent would substitute assets and if needed call for more collateral for the longbox. Majority of Triparty agents will monitor on a post haircut basis; we recommend firms confirm this with their respective Triparty agents. With the third party custodian structure and when counterparties monitor concentration limits, not triparty agents, the counterparties will monitor on a post haircut basis; we recommend firms confirm this with their respective counterparties.	Y

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6	Concentration Limits	Do firms need to incorporate the fixed 10MM limit under Article 8, paragraphs 1a and 1b, into their breach assessment model, or solely focus on monitoring the 15% and 40% limits?	With lower IM requirements, it may be advantageous to monitor the 10MM limit so as to not exceed the greater of the flat amount and percentage limits, per the regulations.	Y
7	Wrong Way Risk	Should Article 27 paragraph 1a own-issued and paragraph 1b group-issued WWR monitoring be done at point of pledge or post-acceptance of collateral?	For 1a own-issued and 1b group-issued WWR, monitoring is expected at point of pledge and as a reactionary check.	Y
8	Wrong Way Risk	Should we document 1a and 1b own-issued and group-issued WWR in the relevant regulatory CSA/CSD and stipulate which assets are ineligible?	It is sufficient to cross-reference within the CSA / CSD the WWR text in the regulations and convey that assets issued by the counterparty or a member of the counterparty group would constitute ineligible collateral.	Y
9	Wrong Way Risk	Can 1c general and specific WWR per Article 291 be monitored on a post-collection basis?	1c WWR can be monitored on a post-collection basis and as an ongoing check.	Y
10	Wrong Way Risk	If 1c general or specific WWR per Article 291 is detected on a post-collection basis, would that collateral continue to be eligible and therefore the collateral would not be assigned zero value?	Collateral would be deemed eligible and would not require assigning zero value. Broadly, the working group agrees on this approach but recommends that firms seek their internal legal input.	Y

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11	Wrong Way Risk	Assets will be excluded as causing WWR on the basis of the ultimate parent ID. With the Triparty model, an asset detected as causing 1a own-issued and 1b group-issued WWR and deemed ineligible would not be allocated from the pledgor's longbox to meet IM requirements. If WWR is detected post-allocation, it will be substituted right away by the Triparty agent, by the collateral management administrator, the asset manager responsible for collateral management, or the asset owner.	The group agreed that the grace period associated with the ineligibility notice provision within the CSA would only be relevant for dealing with WWR infractions when using a Third Party Custodian model for IM or their own infrastructure for VM. Therefore whether or not to zero out or maintain value of an asset detected as causing WWR and deemed ineligible will depend upon WWR monitoring capabilities.	Y
12	Haircuts	With the Triparty model, the Triparty agent will substitute collateral detected as not meeting credit quality requirements (i.e. detected as ineligible) and request additional collateral if the longbox is short.	The group agreed that when using a Third Party Custodian, whether or not to zero out or maintain value of an asset detected as not meeting credit quality requirements and deemed ineligible will depend upon firms' credit quality monitoring capabilities.	Y
13	Haircuts	For EU v. EU firms, can either party derive their own set of haircuts using different methodologies as prescribed in the RTS?	The ISDA Legal & Docs stream validated that for EU v. EU firms, two sets of differing haircuts based on different methodologies are permissible.	Y
14	Haircuts	For EU v. US firms, can EU haircut derivation methodologies be used in conjunction with US static haircuts?	The ISDA Legal & Docs Legal stream advised that, with respect to US v. EU haircuts, in the absence of substituted compliance, firms would need to comply with the strictest aspects of both sets of haircut rules. For example, firms would need to adhere to more punitive haircuts resulting from another methodology outside of the US standardized schedule.	Y

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15	Haircuts	What methodologies will firms use to assess Credit Quality and determine Haircuts?	For Credit Quality Assessment, firms intend to utilize a recognized ECAI (External Credit Agency Institution) for credit quality assessment and a Standard Schedule to determine Haircuts.	Y
16	Haircuts	8% FX Haircut	If an arrangement specifies a termination currency, the counterparties will apply a 8% haircut to the value of the eligible asset being posted as initial margin if it is denominated in a currency other than the termination currency of the collecting party. Where a termination currency is not specified within an agreement, the haircut will be applied to the market value of all collateral assets posted as initial margin. Please note: A different termination currency may be specified for each party.	Y

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