Launch of the Variation Margin Protocol

ISDA Amend Webcast
December 1st 2016

Speakers

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Agenda

- Working Group on Margin Requirements: Initiative Overview
- Variation Margin Protocol (VMP)
  - > Regulatory context and ISDA design
  - > ISDA Amend VMP walk-through
- CSA Generate Function
- Questions

Working Group on Margin Requirements: Initiative Overview

Introduction

- Margin regulations for uncleared derivatives have been adopted in the United States, Canada, Switzerland and Japan. The general market compliance date for the Variation Margin (VM) requirements of these margin regulations is March 1, 2017 (September 1, 2017 for Switzerland)
- The European regulations are expected to be finalized imminently with the same general March 1, 2017 compliance date for variation margin
- Australia adopted margin regulations in October (although the effective date has not yet been set). Hong Kong and Singapore are moving forward with the adoption of margin regulations.
- Compliance with the relevant margin regulations will, in many cases, require parties to update their existing ISDA collateral documentation or put in place new ISDA collateral documentation
- ISDA has developed industry tools for market participants to use when updating their documentation in response to the margin regulations for uncleared derivatives. These tools are available on ISDA Amend

Ongoing ISDA Documentation Efforts

- ISDA published the Self-Disclosure Letter (SDL) on June 30th for US, EU, Japan, Canada and Switzerland. The ISDA Amend SDL tool has been available on the IHS Markit site since October 28th
    - ISDA published a Self-Disclosure Letter Module for Australia on November 29th
    - Additional Self-Disclosure Letter Modules are in preparation for Singapore and Hong Kong
- ISDA published the Variation Margin Protocol on August 16th, and supplemental terms for EU rules on November 17th. The ISDA Amend Variation Margin Protocol tool was launched on the IHS Markit site on November 25th
    - Protocol supplements are in development for Australia and Switzerland margin rules, and for voluntary segregation terms for funds that are required to segregate VM
- Bilateral CSA template solutions for AEJ region

Margin Regulations for Uncleared Derivatives:

Variation Margin Protocol ("VMP")

ISDA Variation Margin Protocol: Overview

- The VMP is currently designed to assist market participants comply with the PR, CFTC, OSFI, Japanese and European margin regulations. The VMP will be supplemented to assist market participants to comply with the Swiss and Australian margin regulations and potentially others
- The VMP only addresses Variation Margin
- The VMP provides for three different "methods" for creating or upgrading CSAs and different versions of each method for different regulatory regimes or combinations of regulatory regimes
- The VMP covers NY-Law CSAs, English-Law CSAs and Japanese-Law CSAs
- The VMP allows parties to enter into a new 2002 ISDA Master Agreement (a "Protocol Master Agreement" or "PMA"), with a new VM CSA
- "Protocol Covered Agreements" are ISDA Master Agreements and non-ISDA Masters that use an ISDA CSA
  - > Does not include: (1) master agreements limited to single-transaction only and (2) master agreements that already includes multiple CSAs governing VM
- The VMP is a questionnaire style protocol

What is a Questionnaire Style Protocol?

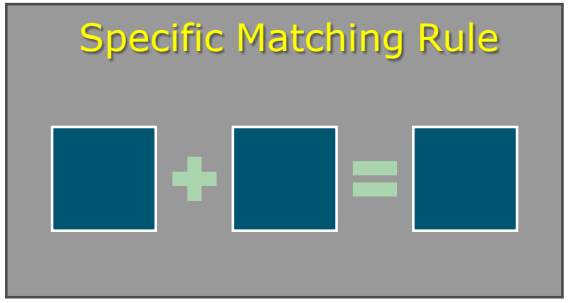
- A questionnaire style protocol is a protocol that requires market participants to both adhere and exchange protocol questionnaires in order to form an agreement
- Protocol questionnaires contain elections that enable protocol participants to customize their agreements with other protocol participants with whom they exchange questionnaires
- Questionnaires are designed to elicit specific pieces of information and guide participants through a series of possible representations and elections that produce a contractual result
- Questionnaire style protocols allow market participants to:
  > Control other adhering parties with whom they form an agreement via the Protocol;
  > Differentiate the information provided to other adhering parties;
  > Choose and vary the package of options/contractual terms offered to other adhering parties
- Questionnaire style protocols require market participants to “match” questionnaires to form an agreement via the protocol

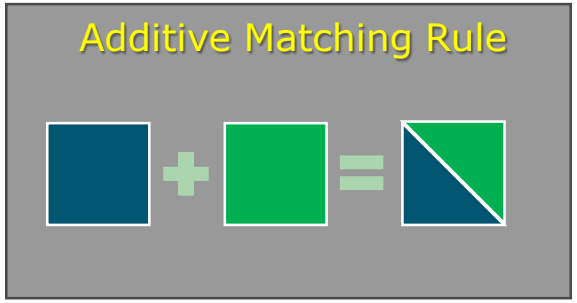
Questionnaire Matching

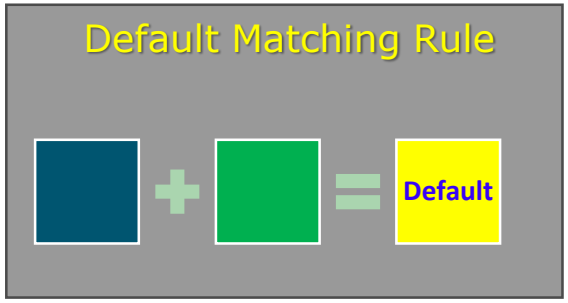
- Matching occurs through the exchange of questionnaires
- The protocol agreement provides specific procedures for exchanging questionnaires and allows market participants to specify how they would like to receive questionnaires
- Questionnaire matching is the process of comparing the elections in a pair of exchanged Questionnaires and determining what result, if any, such elections produce based on matching "rules" in the VMP
- The VMP contains different types of matching rules, which produce different results
- Questionnaire matching increases the functionality of an ISDA Protocol, but it also increases its complexity
- VMP questionnaires contain elections that are conditions precedent to producing "matched questionnaires" (i.e. forming an agreement via the VMP)
  > These are the so called "required-to-match" elections. If parties do NOT have "matched questionnaires" they have NOT updated their documentation via the ISDA VMP. Parties may continue to update and exchange their questionnaires until they have "matched questionnaires."

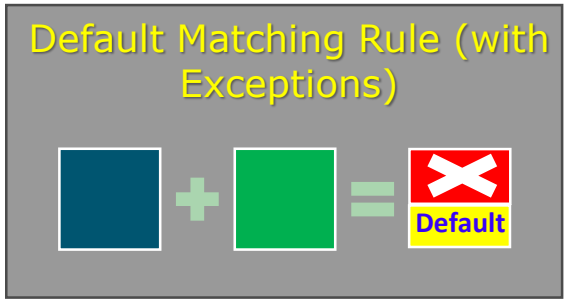
Types of Matching

The following matching rules are used to determine what result a specific pair of Questionnaire elections produce:





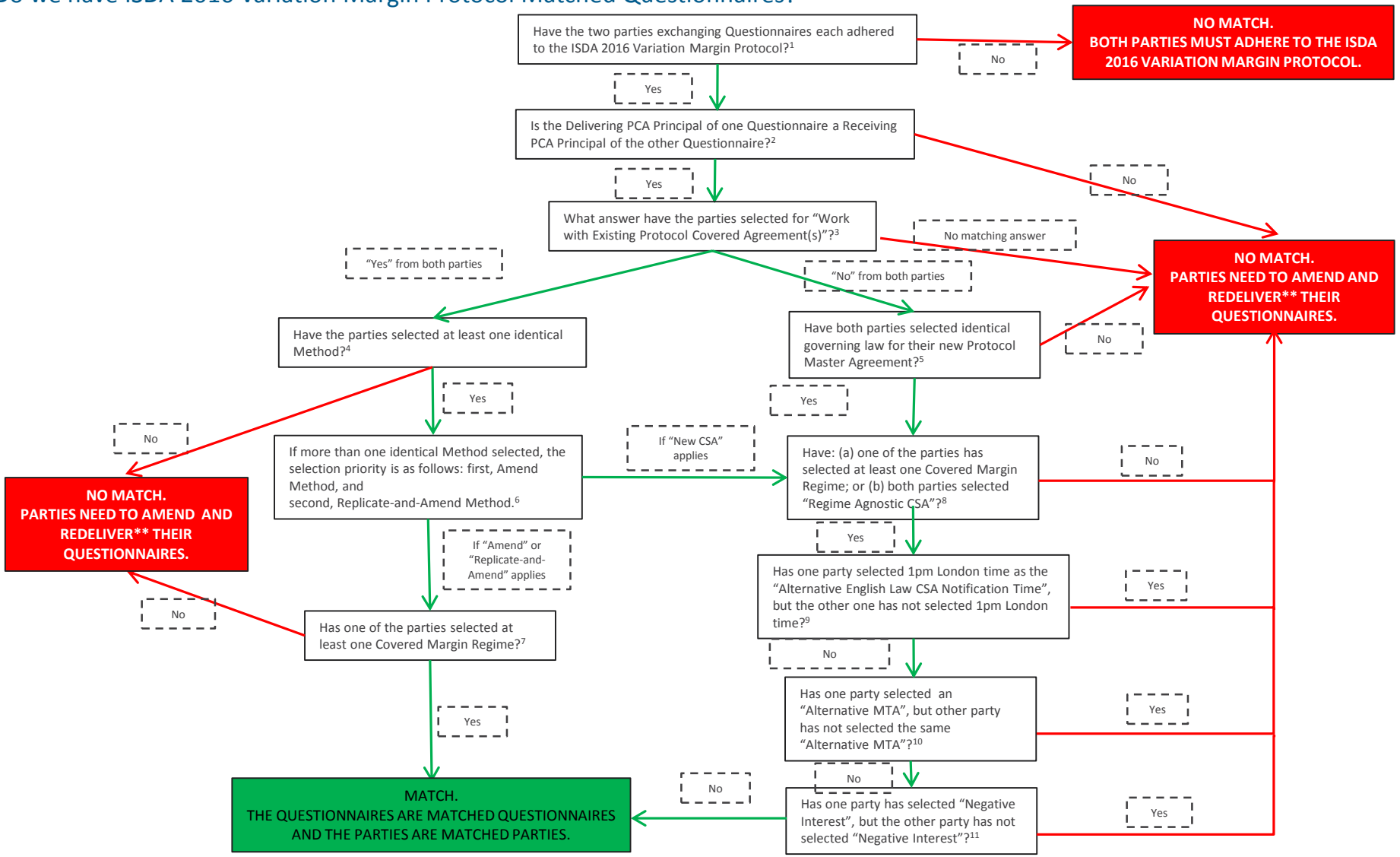




Variation Margin Protocol Process

- In order for any pair of market participants to update their documents using the VMP, the following must occur:
  - > First, each market participant must have delivered an adherence letter to ISDA in the manner prescribed in the VMP
  - > Second, the pair must have exchanged Questionnaires in the manner prescribed in the VMP
  - > Third, the pair must have matched on all of the “required-to-match” elections

Do we have ISDA 2016 Variation Margin Protocol Matched Questionnaires?*



Footnotes

[1] – Para 1(a) Protocol.
[2] – Para 4(b)(i) Protocol; Parts I and II Questionnaire.
[3] – Para 4(b)(ii) Protocol; Question 1, Part III Questionnaire.
[4] – Para 4(b)(iii) Protocol; Part IV Questionnaire.
[5] – Para 4(b)(v) Protocol; Question 2, Part III Questionnaire.
[6] – Para 4(a) Protocol; Part IV Questionnaire.
[7] – Para 4(b)(iv) and 7(b)(iv) Protocol; Part V Questionnaire.
[8] – Para 4(b)(vii) and 7(b)(iv) Protocol; Parts V and VI Questionnaire.
[9] – Para 4(b)(ix) Protocol; Question 2, Part VII Questionnaire.
[10] – Para 4(b)(viii) Protocol; Question 4, Part XI Questionnaire.
[11] – Para 4(b)(vi) Protocol; Question 11, Part XI Questionnaire.

* – This diagram is based on the ISDA 2016 Variation Margin Protocol published on August 16 August 2016.
** – Both parties are not required to redeliver.

Role of ISDA Amend

- Protocol questionnaires may be, and are expected to be predominantly, exchanged via ISDA Amend. There are over 60,000 LEIs on ISDA Amend
- The ISDA Amend questionnaires on a counterparty by counterparty basis;
  - > Use the embedded logic engine to determine election results;
  - > Identify failures to match on “required-to-match” elections;
  - > Download their matching election results; and
  - > Manage the inflow of information, including ongoing updates thereto
- ISDA Amend is a powerful tool to assist market participants with the exchange and reconciliation of a potentially large data set

Exchange of Draft Terms vs. Exchange of Questionnaires

- **Draft Terms:**
  - > The VMP tool on ISDA Amend allows users to deliver "draft terms" (i.e. draft responses to the questions in the questionnaire) to their counterparties. The purpose of this functionality is to provide ISDA Amend users with the ability to preview the terms that its counterparties are offering and use the ISDA Amend logic engine to determine the terms of the agreement that would be formed based on its and its counterparties draft terms
  - > **THE DELIVERY OF DRAFT TERMS DOES NOT CONSTITUTE THE DELIVERY OF A QUESTIONNAIRE UNDER THE VMP**
  - > ISDA Amend users may deliver draft terms to a counterparty by completing each of the following steps:
    - – Submit its draft terms on ISDA Amend
    - – Apply such draft terms to the counterparty relationship
  - > An ISDA Amend user may deliver its draft terms to its counterparties via ISDA Amend without adding its Protocol Adherence Letter ID to ISDA Amend
  - > Draft terms will be delivered without an Authorized Signatory (i.e. the draft terms are not executed)

Exchange of Draft Terms vs. Exchange of Questionnaires

- **Questionnaire:**
  - > ISDA Amend users may deliver a questionnaire to a counterparty by completing each of the following steps:
    - – Submit its questionnaire terms (i.e. its responses to the questions in the questionnaire) on ISDA Amend;
    - – Add its Protocol Adherence Letter ID to ISDA Amend;
    - – Add an authorized signatory to the questionnaire, and
    - – Apply such questionnaire to the counterparty relationship
- **Please note that:**
  - > 1. The exchange of draft terms will not form an agreement under the VMP. An agreement will only be formed under the VMP once the relevant parties have exchanged questionnaires that are deemed matched questionnaires under the terms of the VMP
  - > 2. The exchange of draft terms via ISDA Amend does not require the parties to exchange questionnaires via ISDA Amend at a later date

ISDA Amend 2.0: Product Delivery to Date

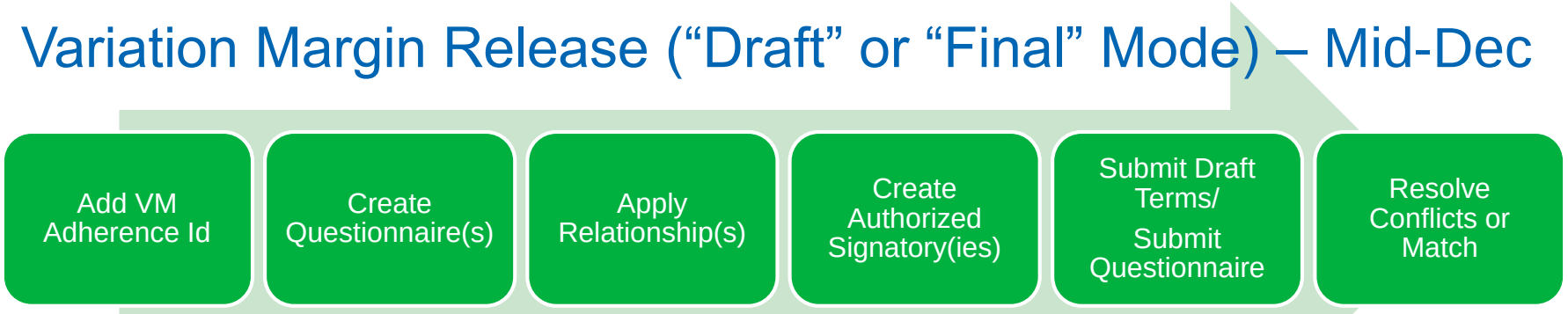
- Jurisdictional Modular Protocol
  - > UK (May 16, 2016)
  - > Germany (September 2, 2016)

- Self-Disclosure Letter (October 28, 2016)
  - > Canada, EU, Japan, Switzerland, US (CFTC, PR)
  - > Authorised Signatories
  - > On request SDL receiver data

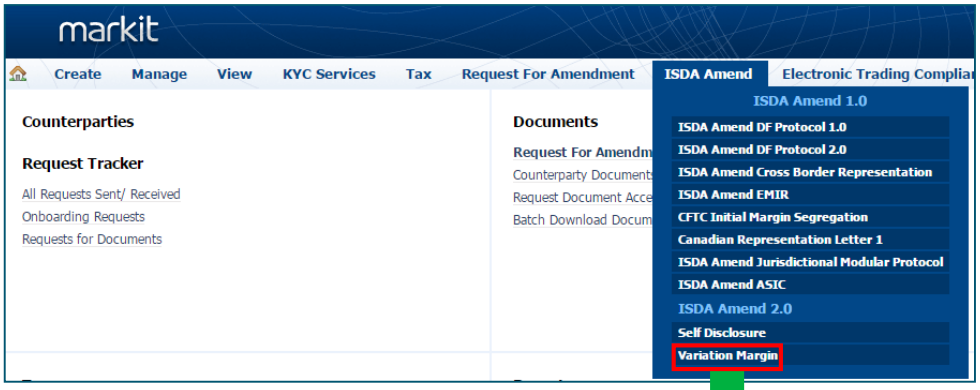
- Variation Margin Protocol (November 25, 2016)
  - > Canada, EU, Japan, US margin rules
  - > English, Japanese, and NY-law CSA

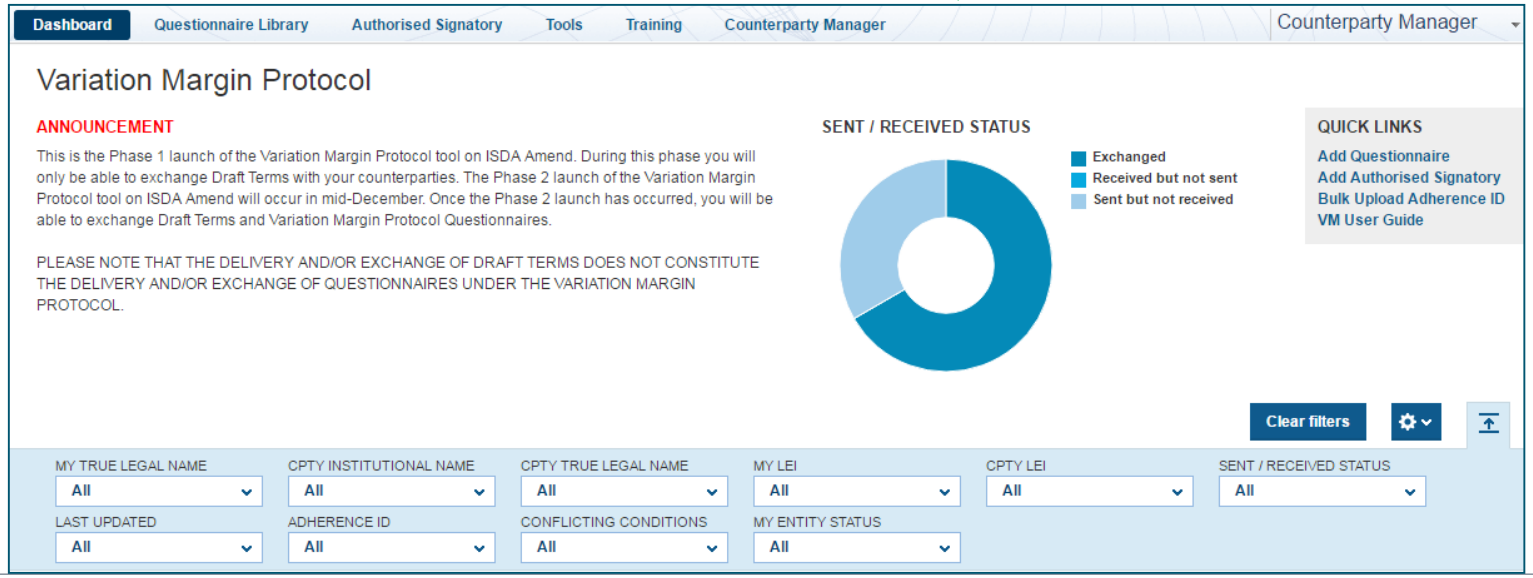
Variation Margin Release ("Draft" Mode) – Nov 25th

Variation Margin Release ("Draft" or "Final" Mode) – Mid-Dec

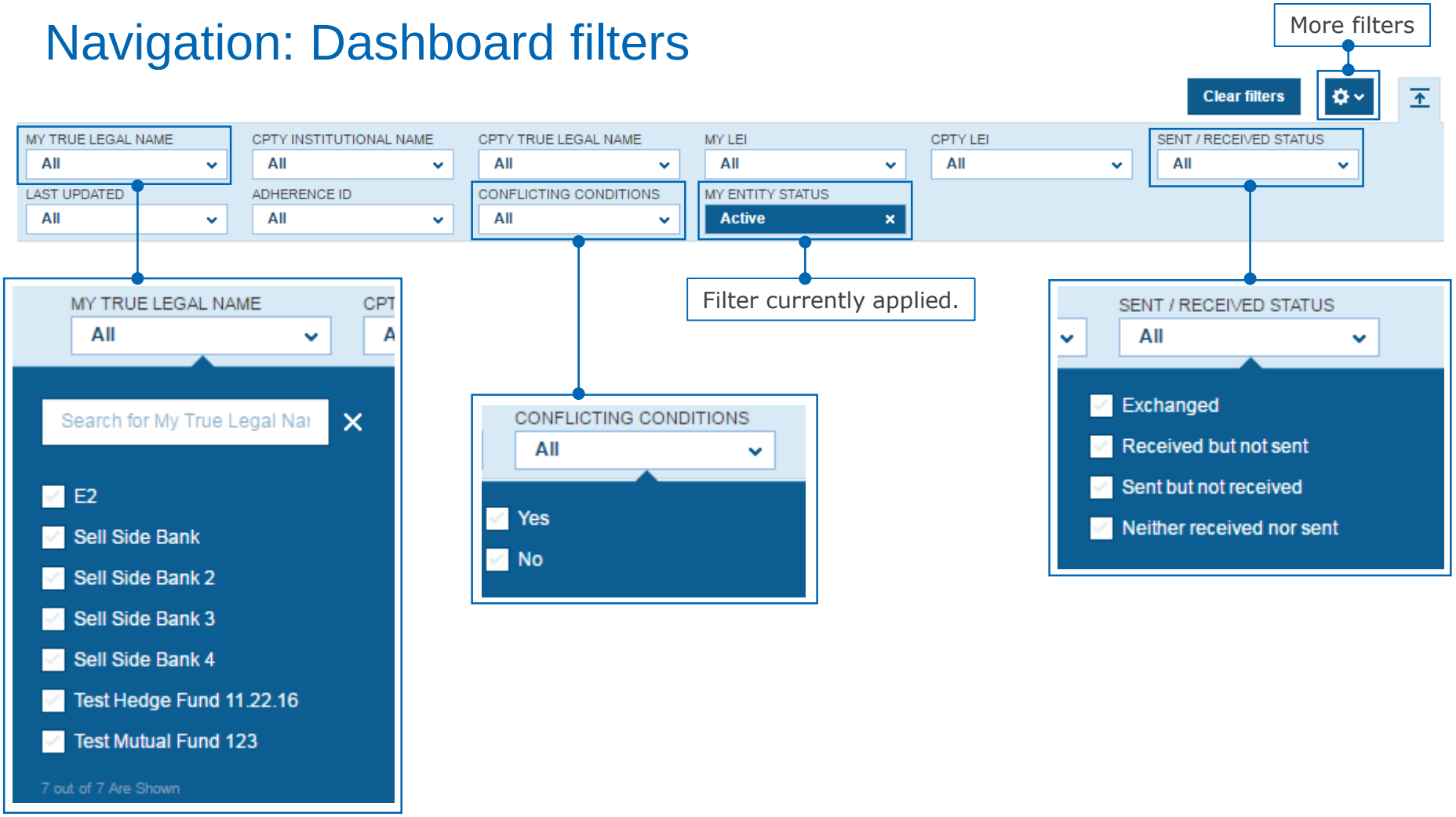


Navigation: VM Dashboard

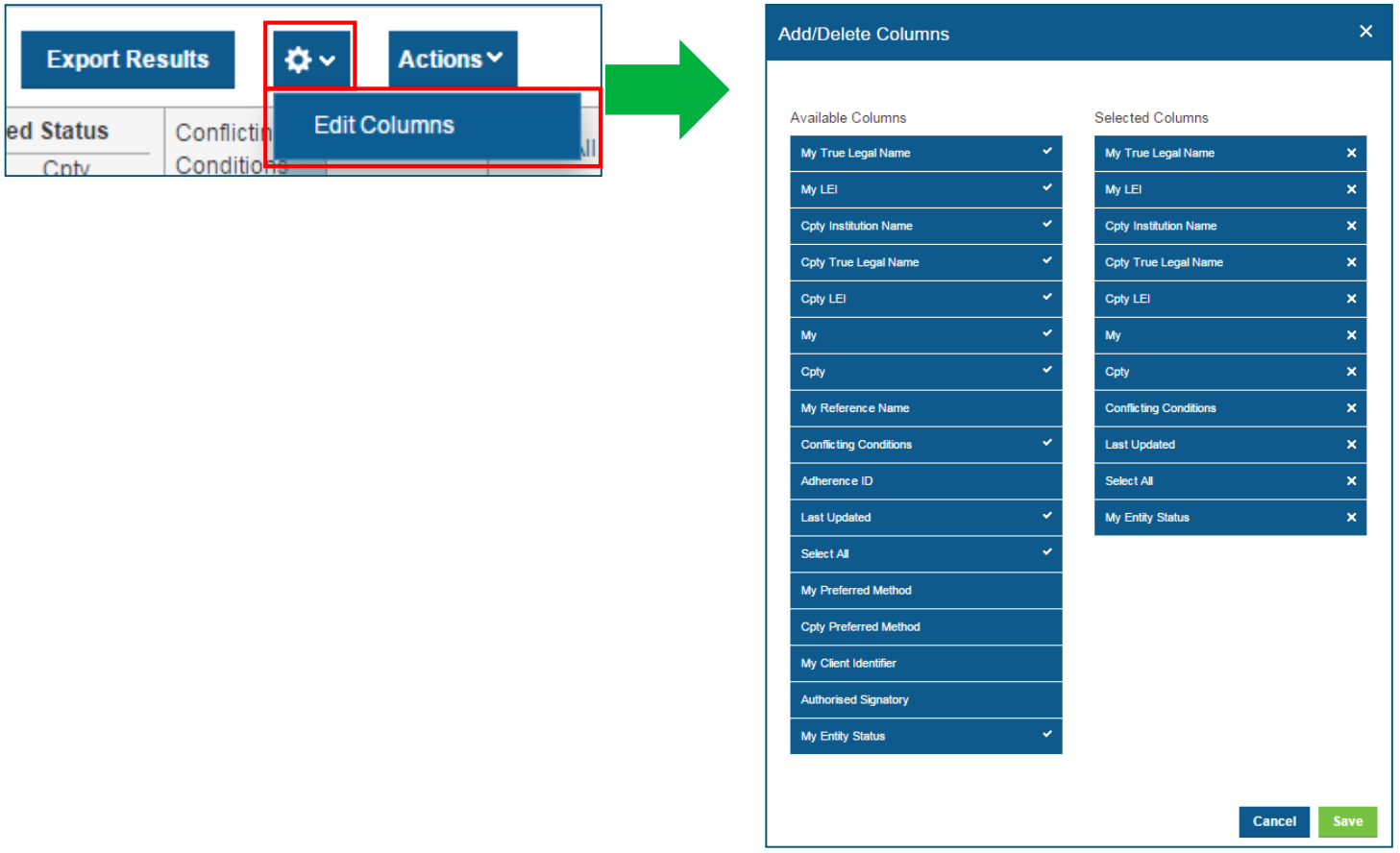




Navigation: Dashboard filters

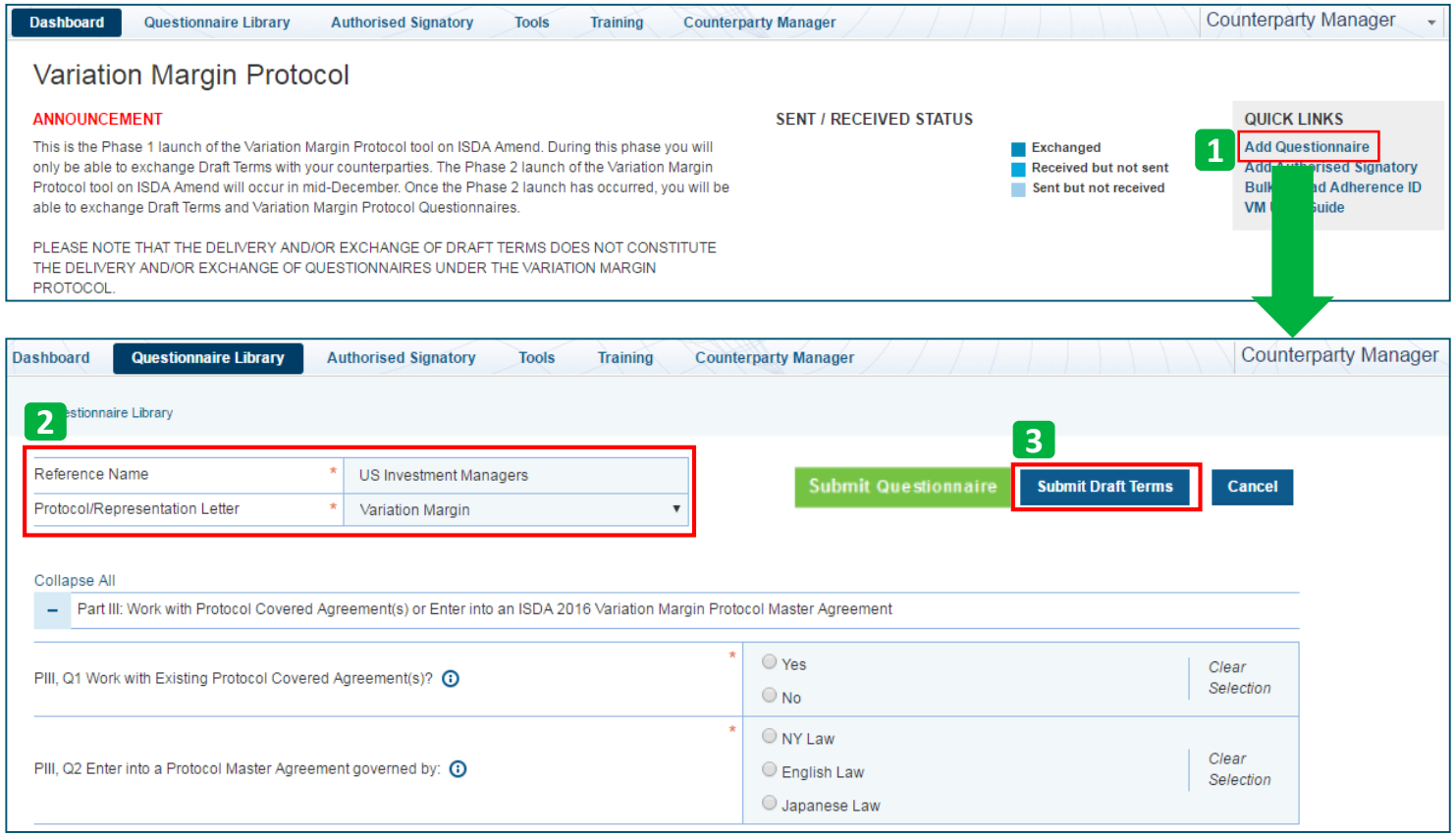


Navigation: Customize Columns in Dashboard



- Within the Dashboard users can create a personalized view

Create New Questionnaire



1. Click the **Add Questionnaire** button in the Quick Links section of the dashboard
2. Provide Questionnaire **Reference Name** and **Protocol** to view the list of relevant questions.
3. Click on **Submit Draft Terms** once complete

Note: The **Submit Questionnaire** button refers to a final submission and will be available in mid-December 2016

Completing the Questionnaire

Reference Name	*	
Protocol/Representation Letter	*	Variation Margin

Submit Draft Terms | Cancel

Collapse All

– Part III: Work with Protocol Covered Agreement(s) or Enter into an ISDA 2016 Variation Margin Protocol Master Agreement

PIII, Q1 Work with Existing Protocol Covered Agreement(s)?	*	○ Yes ○ No — *Clear Selection*
PIII, Q2 Enter into a Protocol Master Agreement governed by:	*	○ NY Law ○ English Law ○ Japanese Law — *Clear Selection*

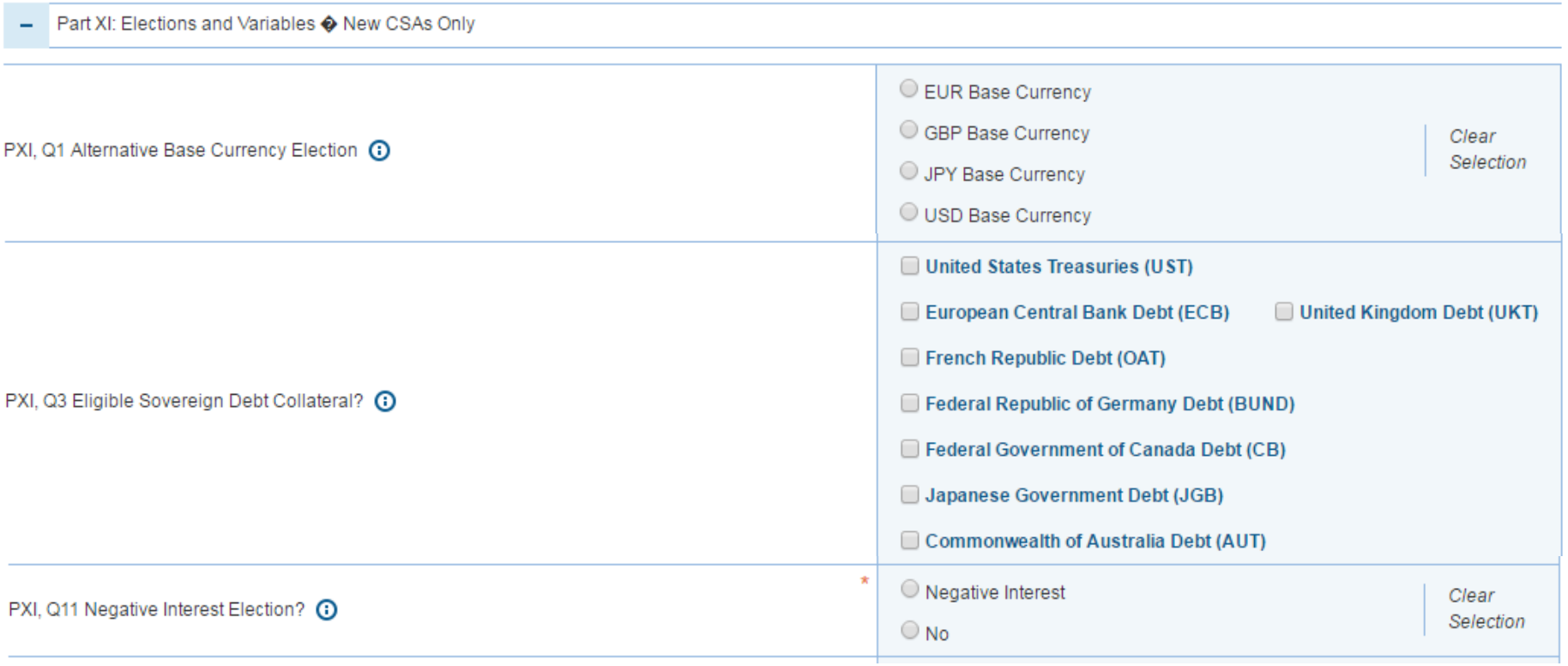
– Part IV: Method Elections

PIV, Q1 Preferred Method(s)?	*	☐ Amend Method ☐ Replicate-and-Amend Method ☐ New CSA Method

– Part V: Covered Margin Regime Election

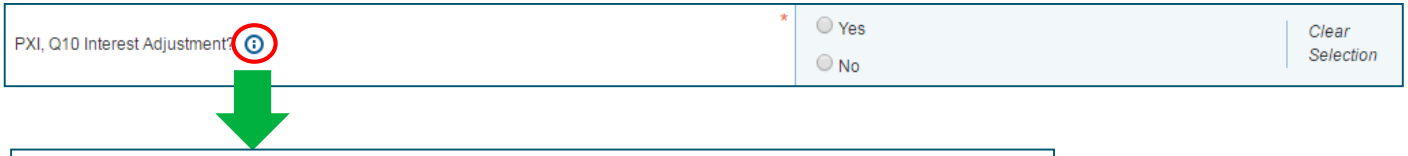
PV, Q1 Covered Margin Regimes?	*	☐ CFTC Rules ☐ Japan Rules ☐ OSFI Rules ☐ PR Rules ☐ EMIR Rules ☐ None of the Above

Completing the Questionnaire



- Some of the questions will be greyed out and available to answer depending on elections made in previous questions

Information Icons in the Questionnaire



For purposes of New CSAs, the Protocol provides that "Interest Transfer" is applicable and "Interest Adjustment" is not applicable, unless each party selects "Interest Adjustment" in its Matched Questionnaire.

Please Note: The default election that Interest Transfer is applicable is only replaced with Interest Adjustment being applicable if both Matched Parties elect Interest Adjustment in their Matched Questionnaires.

Specifying "Yes" indicates that Delivering Party wants "Interest Adjustment" (and not "Interest Transfer") to apply for purposes of relevant New CSA(s). Specifying "No" indicates that Delivering Party does not want "Interest Adjustment" to apply for purposes of such New CSA(s).

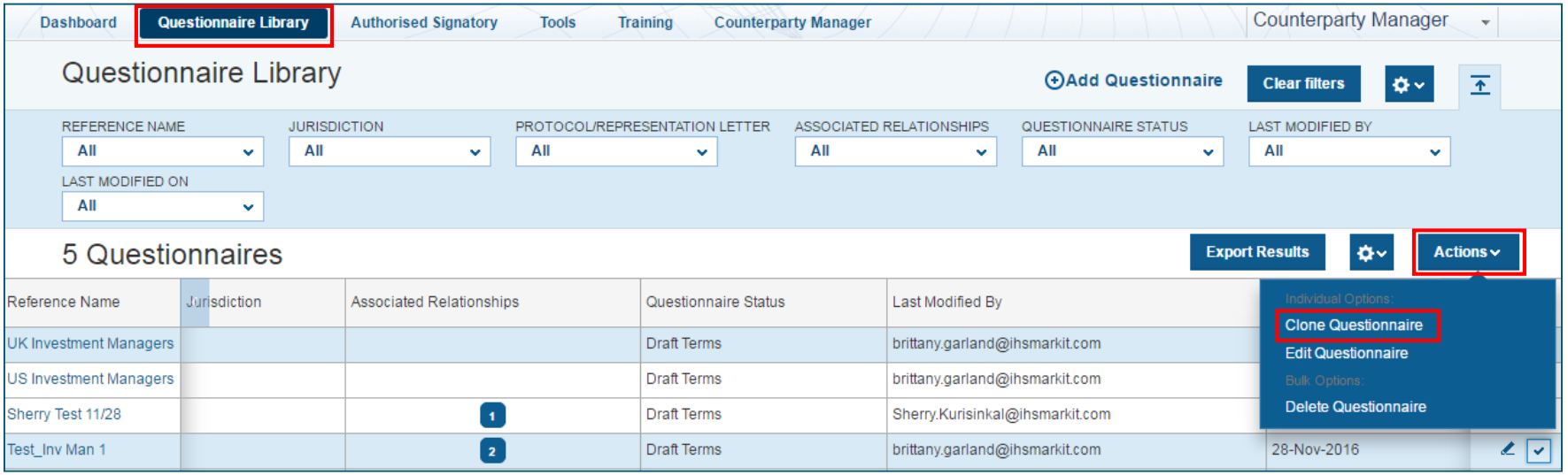
See Original Paper Questionnaire Part XI, Q10.

Helpful Hints:

1. If both parties select "Yes" in response to this Question, the "Interest Adjustment" provisions rather than the "Interest Transfer" provisions will apply for the purposes of the New CSA.

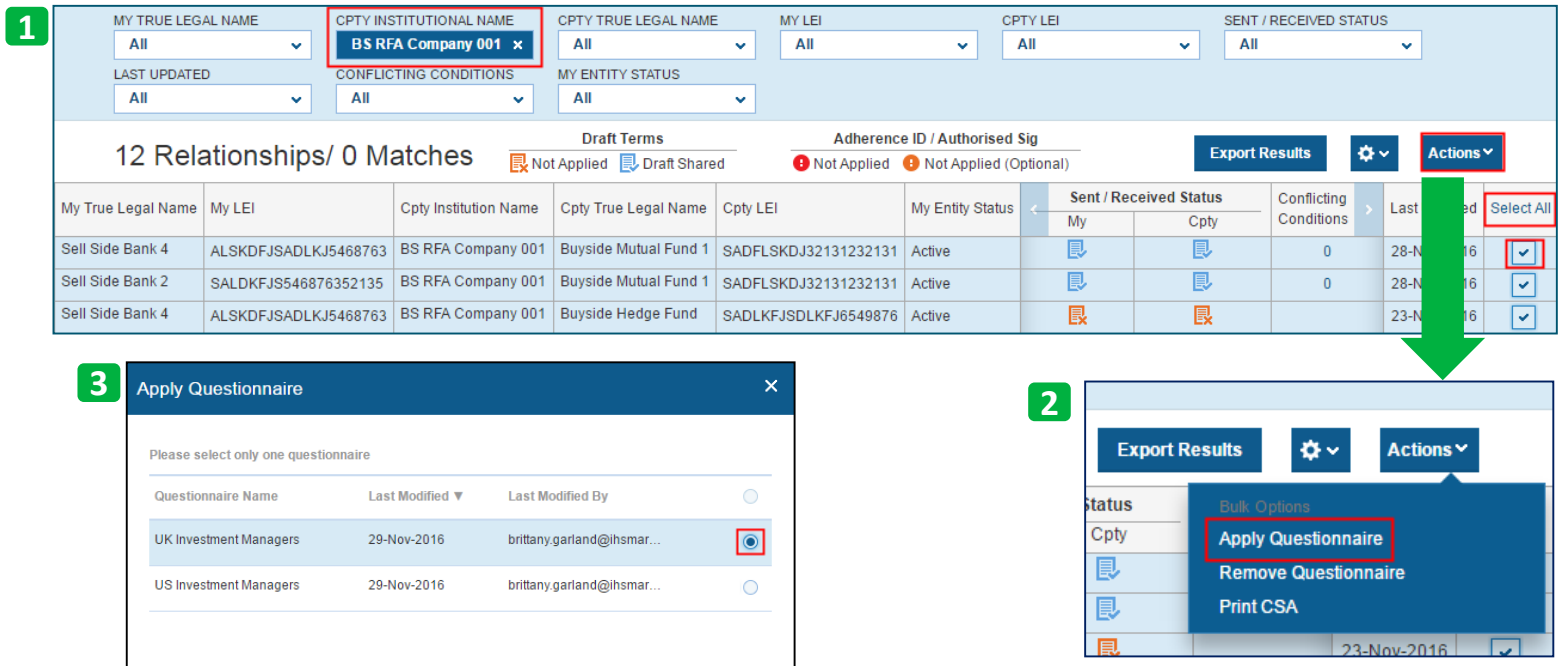
2. If either: (a) both parties select "No", or (b) one party selects "Yes" and the other party selects "No", the "Interest Transfer" provisions will apply for the purposes of the New CSA.

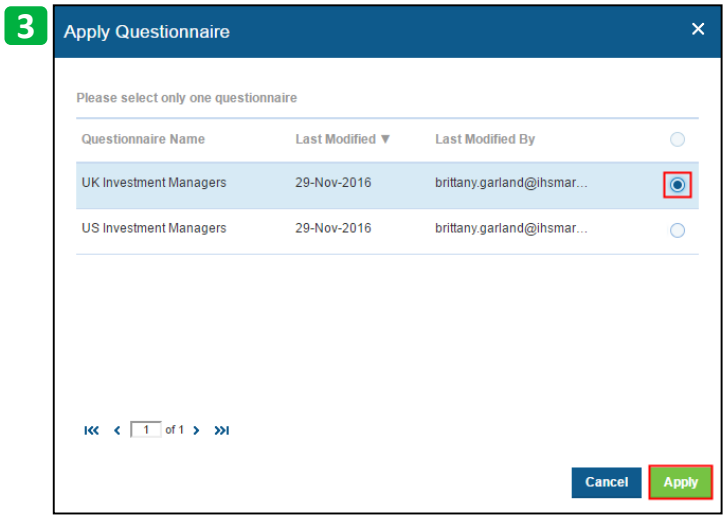
Clone a Questionnaire



- In the Questionnaire Library, select the questionnaire you wish to clone, click Actions, then Clone Questionnaire
- Input new Questionnaire Reference Name
- Adjust the answers as necessary and Submit
- **Note**: The newly created questionnaire will need to be applied to relationships separately

Apply Questionnaires to Relationships





1. Select the relationships you wish to apply a questionnaire to (use filters for ease of use)
2. Click **Actions**, and **Apply Questionnaire**
3. In the resulting pop-up, select the questionnaire you wish to Apply

Submit Draft Terms

144513 Relationships/ 0 Matches

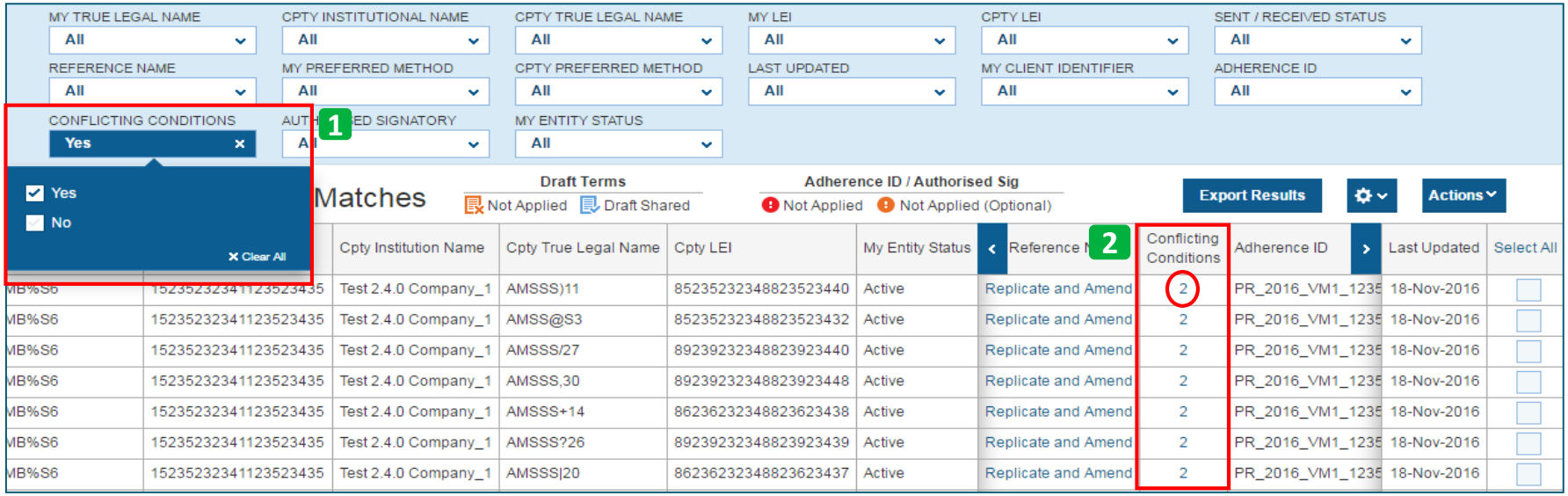
Draft Terms: Not Applied, Draft Shared

Adherence ID / Authorised Sig: Not Applied, Not Applied (Optional)

My True Legal Name	My LEI	Cpty Institution Name	Cpty True Legal Name	Cpty LEI	My Entity Status	Sent / Received Status		My Reference Name	Conflicting Conditions
						My	Cpty		
AVM001	42346237492342342342	Test 2.4.0 Company_1	AVM001_SS	42342356478239423423	Active			vm_bs_que_1	4
TESTST	36985719435668979441	20 oct ss	SDL_REG_SS_TEST_SS...	99898889988998989898	Active				
AMB!S2	15235232341123523431	Test 2.4.0 Company_1	AMSS!S2	85235232348823523438	Active			Replicate and Amend	2
AMB#S4	15235232341123523433	Test 2.4.0 Company_1	AMSS!S2	85235232348823523438	Active			Replicate and Amend	2
AMB#S4	15235232341123523433	Test 2.4.0 Company_1	AMSS@S3	85235232348823523432	Active			Replicate and Amend	2
AMB#S4	15235232341123523433	Test 2.4.0 Company_1	AMSS#S4	85235232348823523433	Active			Replicate and Amend	2
AMB%S6	15235232341123523435	Test 2.4.0 Company_1	AMSS!S2	85235232348823523438	Active			Replicate and Amend	2
AMB%S6	15235232341123523435	Test 2.4.0 Company_1	AMSS@S3	85235232348823523432	Active			Replicate and Amend	2
AMB%S6	15235232341123523435	Test 2.4.0 Company_1	AMSS#S4	85235232348823523433	Active			Replicate and Amend	2

- **Sent/Received Status**: status of relationship
- **Questionnaire** shared once draft terms are applied
- **Draft Terms Icons**: indicate which party has submitted its questionnaire.
- **Conflicting Conditions**: Once both parties have submitted questionnaires, the number of conflicting conditions for each relationship will appear

Review and Resolve Conflicting Conditions



1. Use the Conflicting Conditions filter
   a. Scroll right to see the Conflicting Conditions column
2. See the count of conflicting conditions for every relationship
   a. Click on the number in the Conflicting Conditions column to download a Questionnaire Match Status report for that relationship

- Once you review the Conflicting Conditions with your counterparty, you can edit the Questionnaire and resubmit

Conflicting Conditions Exported Results

Example 1: Broad Product Set

Question	My Answer	Counterparty Answer	Required to Match (i.e condition precedent to having a matched questionnaire)	Match Status	Result (only applicable for questions that are required to match or yields result. Blank indicates no result for such questions)
Part X Q1: Broad Product Set?	No	Yes	No		No

Result Logic
1) If the parties match status is Not Matched for one or more of the 'Required to Match' Questions, the result for this Q will be Pending. 2) If the parties match status is Matched for all of the 'Required to Match' Questions, the result for this Q will be as follows: i) If the result for PIV, Q1 is 'Amend Method', the result will be Not Applicable. ii) If both parties select 'Yes, ' the result will be Yes. iii) If both parties select 'No,' the result will be No. iv) If one party selects 'Yes' and the other party selects 'No,' the result will be No.

iv) If one party selects 'Yes' and the other party selects 'No,' the result will be No

[Note: Preferred method here was ‘New CSA’]

Conflicting Conditions Exported Results

Example 2: Eligible Sovereign Debt Collateral

Question	My Answer	Counterparty Answer	Required to Match (i.e condition precedent to having a matched questionnaire)	Match Status	Result (only applicable for questions that are required to match or yields result. Blank indicates no result for such questions)
PXI, Q3 Eligible Sovereign Debt Collateral?	European Central Bank Debt (ECB) Japanese Government Debt (JGB) Federal Government of Canada Debt (CB)	United States Treasuries (UST) Federal Republic of Germany Debt (BUND) European Central Bank Debt (ECB)	No		[European Central Bank Debt (ECB)]

Result Logic
1)If the parties match status is Not Matched for one or more of the 'Required to Match' Questions, the result for this Q will be Pending. 2) If the parties match status is Matched for all of the 'Required to Match' Questions, the result for this Q will be as follows: i) If the result for PIV, Q1 is 'Amend Method', the result will be Not Applicable. ii) If the result for PIV, Q1 is 'Replicate-and-Amend Method', the result will be Not Applicable. iii) If both parties (i) select one or more of the same currencies AND (ii) the result for PIII, Q2 is 'English Law', the result will be each item of Eligible Sovereign Debt Collateral both parties have selected. [For example, if one user selects UST, ECB and UKT and the other user selects UST, UKT, OAT, BUND and JGB, the result will be UST and UKT.] iv) If both parties (i) select one or more of the same currencies, AND (ii) the result for PIII, Q2 is 'NY Law' OR 'Japanese Law' AND (iii) the result for PXII, Q1 is 'Yes,' the result will be each item of Eligible Sovereign Debt Collateral both parties have selected. v) If both parties (i) select one or more of the same currencies AND (ii) the result for PIII, Q2 is 'I…eral both parties have se…the result for PXII, Q1 is 'Yes…r more of the same currencie…ible Sovereign Debt Collateral …Y Law' OR 'Japanese Law'…f (i) both parties select one or m…t Satisfied', the result will be Re…parties do not respond to the question), the result will be no items of Eligible Sovereign Debt Collateral.

2) vi) If both parties
- (i) select one or more of the same currencies AND
- (ii) the result for Q6 is 'New CSA Method' AND
- (iii) the result for PXII, Q1 is 'Yes,' (Consent to Substitution Required?)

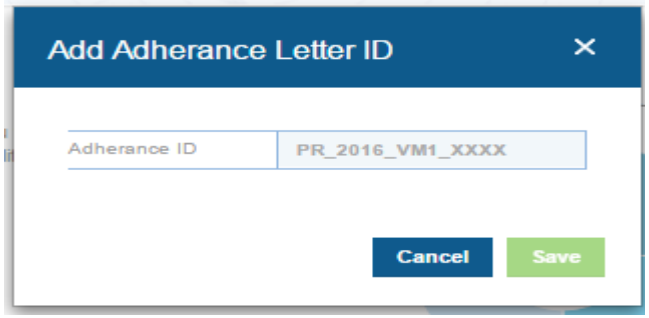
the result will be each item of Eligible Sovereign Debt Collateral both parties have selected.

Add Adherence Letter ID (optional in Draft mode)

My True Legal Name	My LEI	Cpty Institution Name	Cpty True Legal Name	Cpty LEI	My Entity Status	Received Status Cpty	Confi Conditions	Adherence ID	Last Updated	Select All
Sell Side Bank 4	ALSKDFJSADLKJ5468763	BS RFA Company 001	Buyside Mutual Fund 1	SADFLSKDJ32131232131	Active		0	Add	28-Nov-2016	
Sell Side Bank 2	SALDKFJS546876352135	BS RFA Company 001	Buyside Mutual Fund 1	SADFLSKDJ32131232131	Active		0	Add	28-Nov-2016	

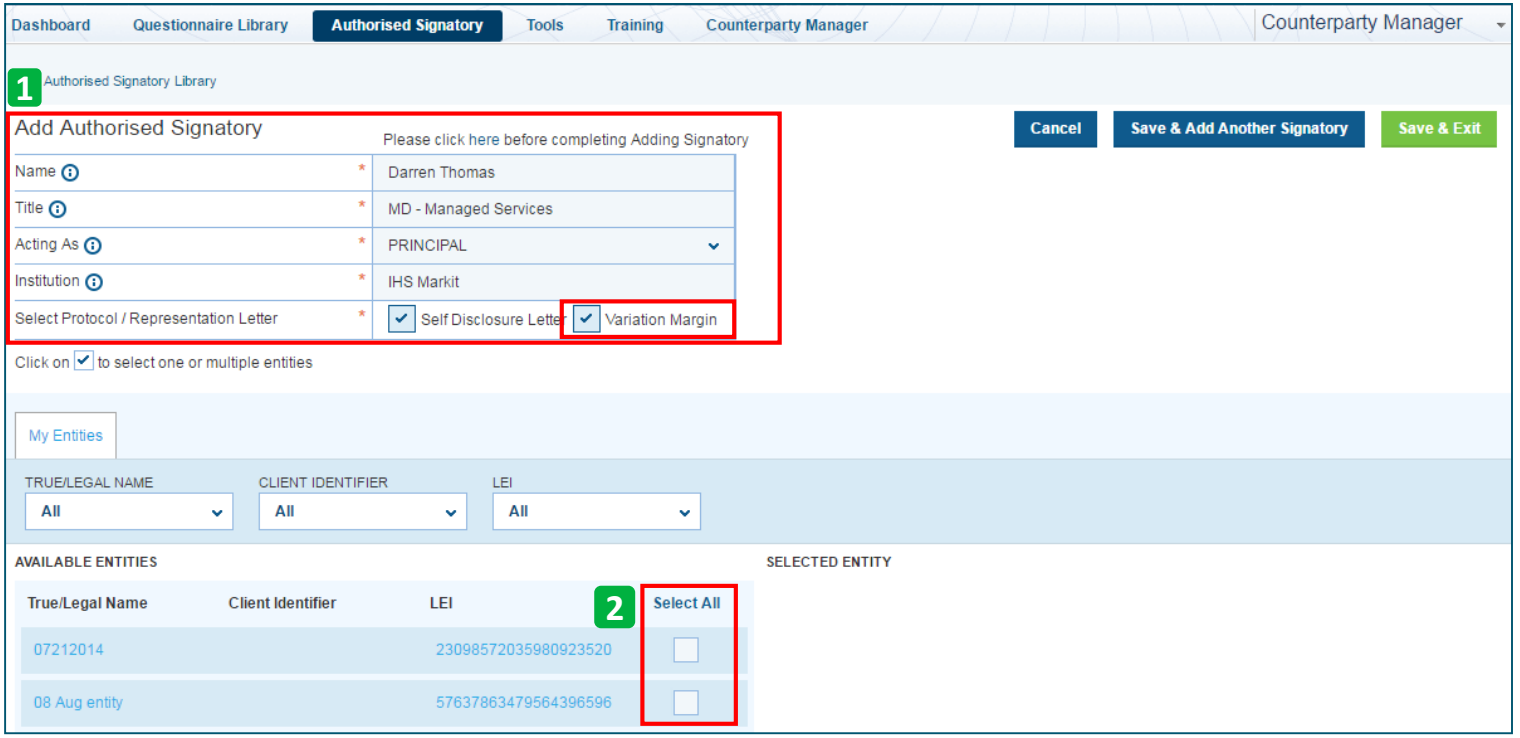
1

2



- Adherence Letter IDs are not required for submitting in draft mode
- In the Variation Margin Dashboard:
  1. Find your entity in the My True Legal Name column, and select Add in the Adherence ID Column
  2. Enter the Adherence ID in the pop-up box and click Save
- **Note**: Make sure you have the Adherence Letter ID column selected in your dashboard view (see slide 20)

Add and Apply New Authorized Signatory (optional in Draft mode)



1. In the Authorized Signatory page, create the Authorized Signatory profile by filling out the required fields
   - Ensure the Variation Margin checkbox is checked
2. Apply the Authorized signatory to the available entities in the section below.

- **Note**: you can use the filters to pick all of your entities
- Click **Save & Exit**. This will complete the process

CSA Generate: Printed Output

- PDF document generator for Exhibit to the ISDA 2016 Variation Margin Protocol (VMP); part of ISDA Amend 2.0
- Converts data points from VMP into a generated CSA Exhibit

- **Importance of a transferable copy**
  - > Transmits protocol data into appropriate ISDA CSA 2016 protocol template
  - > Record keeping and audit purposes
  - > Supports ongoing contract maintenance and future amendments to the CSA

- **Output**
  - > Prepopulates data from ISDA Amend into Paragraph 13
  - > Paragraphs 1 through 12 of the 2016 Credit Support Annex for Variation Margin are referenced
  - > Removes extraneous sections of the CSA that are not applicable
  - > Applicable CSA Laws covered (English, Japanese, New York)
  - > Separate CSAs for each preferred method below:
    - – New
    - – Amend
    - – Replicate-and-Amend

- Documents can be generated once submitted questionnaires reach a matched status

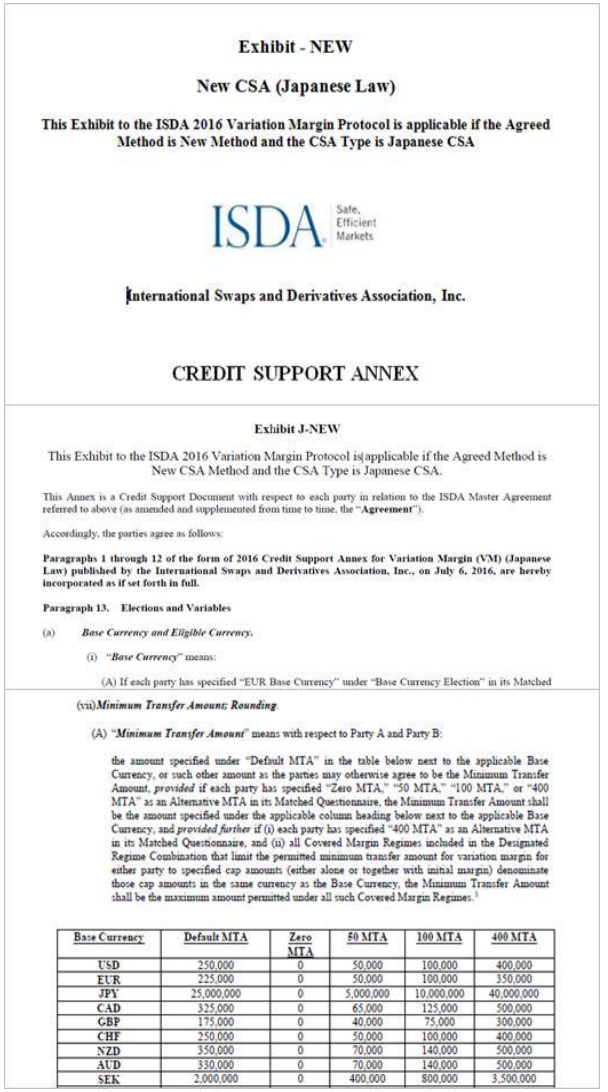


Exhibit - NEW

New CSA (Japanese Law)

This Exhibit to the ISDA 2016 Variation Margin Protocol is applicable if the Agreed Method is New Method and the CSA Type is Japanese CSA

ISDA Safe, Efficient Markets

International Swaps and Derivatives Association, Inc.

CREDIT SUPPORT ANNEX

Exhibit J-NEW

This Exhibit to the ISDA 2016 Variation Margin Protocol is applicable if the Agreed Method is New CSA Method and the CSA Type is Japanese CSA.

This Annex is a Credit Support Document with respect to each party in relation to the ISDA Master Agreement referred to above (as amended and supplemented from time to time, the "**Agreement**").

Accordingly, the parties agree as follows:

Paragraphs 1 through 12 of the form of 2016 Credit Support Annex for Variation Margin (VM) (Japanese Law) published by the International Swaps and Derivatives Association, Inc., on July 6, 2016, are hereby incorporated as if set forth in full.

Paragraph 13. Elections and Variables

(a) ***Base Currency and Eligible Currency.***

(i) "***Base Currency***" means:

(A) If each party has specified "EUR Base Currency" under "Base Currency Election" in its Matched

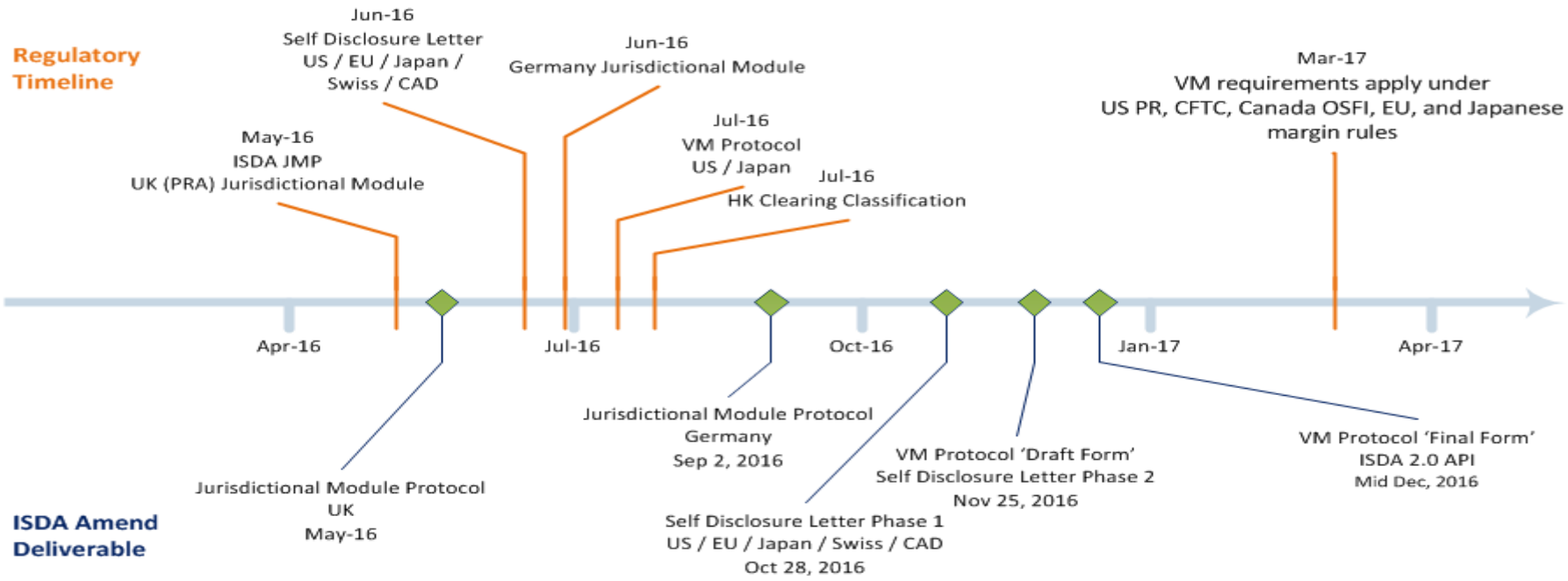
(vii) ***Minimum Transfer Amount; Rounding.***

(A) "***Minimum Transfer Amount***" means with respect to Party A and Party B:

the amount specified under "Default MTA" in the table below next to the applicable Base Currency, or such other amount as the parties may otherwise agree to be the Minimum Transfer Amount, *provided* if each party has specified "Zero MTA," "50 MTA," "100 MTA," or "400 MTA" as an Alternative MTA in its Matched Questionnaire, the Minimum Transfer Amount shall be the amount specified under the applicable column heading below next to the applicable Base Currency, and *provided further* if (i) each party has specified "400 MTA" as an Alternative MTA in its Matched Questionnaire, and (ii) all Covered Margin Regimes included in the Designated Regime Combination that limit the permitted minimum transfer amount for variation margin for either party to specified cap amounts (either alone or together with initial margin) denominate those cap amounts in the same currency as the Base Currency, the Minimum Transfer Amount shall be the maximum amount permitted under all such Covered Margin Regimes.[1]

Base Currency	Default MTA	Zero MTA	50 MTA	100 MTA	400 MTA
USD	250,000	0	50,000	100,000	400,000
EUR	225,000	0	50,000	100,000	350,000
JPY	25,000,000	0	5,000,000	10,000,000	40,000,000
CAD	325,000	0	65,000	125,000	500,000
GBP	175,000	0	40,000	75,000	300,000
CHF	250,000	0	50,000	100,000	400,000
NZD	350,000	0	70,000	140,000	500,000
AUD	330,000	0	70,000	140,000	500,000
SEK	2,000,000	0	400,000	800,000	3,500,000

ISDA 2.0 Estimated Timeline



Key Outstanding Documentation / Testing Dates

> Dec 12th 2016 API Testing Open: SDL, VM Protocol

Next Steps:

All buyside/corporates will be automatically activated to ISDA Amend 2.0

Contact us to learn more

ISDA Legal Department
ISDALegal@isda.org

ISDA Amend Onboarding & Questions

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