Minimum Considerations for Uncleared Margin Future State Workflow

Document Version: 2.0

The ISDA WGMR Margin and Collateral Processing Workstream has modified the title of this document to “Minimum Considerations for Uncleared Margin Future State Workflow” to better reflect the objective of the document.

MCD to be revised following the issuance of relevant final rules

This MCD should be considered a working document based on the industry’s interpretation of the WGMR final framework published by the BCBS/IOSCO on Margin Requirements for Non-Centrally Cleared Derivatives in September, 2013 and the subsequent draft rules issued by the European Supervisory Authorities (ESAs), the U.S. Commodities Futures Trading Commission (CFTC) and U.S. Prudential Regulators in 2014. This document currently does not reflect proposals from the U.S. Securities Exchange Commission (SEC).

Subsequent iterations of this document will be published to include additional considerations as the proposed rules become clearer and final across respective jurisdictions.

Important Note and Disclaimer:
This document does not constitute legal, accounting or financial advice and describes the market consensus among swap market participants (including both dealer and buy-side firms) who participated in the Working Group. As with other guidance and market practice statements that ISDA disseminates, parties are free to choose alternate means of addressing the specific facts of their situation. Nothing in this document is contractually binding on any parties or amends any ISDA Master Agreement or ISDA Credit Support Annex.

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1 Introduction

1.1 Executive Summary

The International Swaps & Derivatives Association, Inc. (ISDA) established the ISDA WGMR Margin & Collateral Processing Working Group (M&CPWG) to design and develop an operating framework to support the implementation of the WGMR final framework on margin requirements for non-centrally cleared derivatives published by the Working Group on Margining Requirements (WGMR) of the BCBS/IOSCO in September 2013. On March 18, 2015 the BCBS/IOSCO revised the implementation schedule for initial margin (IM) from December 1, 2015 to September 1, 2016 and adopted a six month phase-in of the requirement to exchange variation margin (VM) beginning September 1, 2016. Individual regulatory authorities across various jurisdictions are expected to proceed with margin rule finalization consistent with the WGMR final framework. Refer to Section 7, Appendices, for additional references.

The purpose of the Minimum Considerations for Uncleared Margin Future State Workflow is to define recommended business and technology considerations associated with implementation of the new margin rules. The document has been categorized based on five main components: 1) counterparty setup & client on-boarding, 2) trade execution, 3) IM & VM calculations, composite margin notifications & settlement provisions, 4) collateral eligibility, and 5) segregation, summarized below:

1) Counterparty setup & client onboarding – This section outlines the required information for counterparty identification and setup. It also covers related system enhancements required to support the new legal documentation (CSAs or other related documents), collateral calculations and collateral settlement provisions.

2) Trade execution – This section sets out the operations and technology requirements required to enhance trade capture systems, along with the methodology to track legacy trades. Additional data fields (such as asset class, relevant CSAs and settlement currency) for in-scope trades will be captured and reconciled. Several systems would thereby need to be enhanced to consume these new data fields and feed downstream systems accordingly.

3) IM & VM calculations, composite margin notifications & settlement provisions – Minimum considerations for IM and VM calculations, reconciliation, margin notifications and settlement processes are described within this section. It also covers the new data fields required to feed trade capture systems, collateral management/margin messaging platforms, exposure calculators, and other related downstream systems. Requirements identified in this section may also require enhancements to external/industry solutions and vendors applications.

4) Collateral eligibility – The section details the eligibility criteria of collateral assets and methods permissible to compute haircuts for collateral. It also outlines the treatment and application of the cross-currency haircuts to IM and VM collateral, where applicable, in the event of a currency mismatch between the trade and collateral currencies.

5) Segregation – Permissible segregation arrangements, along with corresponding considerations are laid out in this section. The main issues that have been identified in the MCD are defining the structure of custodial accounts with a third party or a tri-party, gauging custodians’ capacity to creating a standardized communication protocol with all custodians to automate the instruction of collateral movements/release, and ensuring continued protection for both parties subject to jurisdictionally-based legal and compliance requirements.

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1 The U.S. Prudential Regulator’s proposed rule, U.S. CFTC’s proposed rule, EU draft RTS and Japanese FSA’s proposed rule include variations for applying “cross-currency haircuts also known as the additional 8% haircut”. Note: Additional cross jurisdictional differences have been flagged in section 5 however should not be considered exhaustive. This document will be further revised based on regulatory guidance from the respective regulators on advocacy points raised by ISDA and its members in its comment letters.
The M&CPWG has also identified key challenges that firms would need to consider as they are preparing for the implementation of the requirements proposed in this document, such as:

- Supporting multiple collateral agreements per counterparty relationship across relevant regulatory frameworks
- Ability to capture all the new regulatory data fields within their internal legal, collateral, trade capture platforms and related systems
- Ambiguity of regulatory margin jurisdiction when the local regulation applies different considerations for in/out scope determination, margin calculation, eligible collateral, etc.
- Unclear dispute resolution process for different IM calculations due to lack of transparency around internal models between the counterparties
- Additional source of collateral disputes resulting from the adoption of eligible collateral haircuts computed using 1) standardized haircuts, or 2) proprietary models
- Implementing a framework to facilitate compliance with the cross-currency haircuts
- Additional computational time due to complexity of IM calculation
- Dependency on custodians partnering with the industry on required development
- Written or electronic documentation of margin process terms between counterparties prior to trade execution

In summary, the M&CPWG has outlined the key minimum considerations that should be considered by business, technology and operations groups in order to comply with the Minimum Considerations for Uncleared Margin Future State Workflow. Understanding the complexity of the changes, ISDA’s WGMR M&CPWG developed this document after detailed analysis of related issues from various perspectives including input from ISDA Legal and industry experts from various institutions. This document should be used as a baseline reference and should not be considered exhaustive.

1.2 Overview

The baseline regulatory references for the development of this MCD include: 1) the WGMR final framework published by the BCBS/IOSCO on Margin Requirements for Non-Centrally Cleared Derivatives, 2) the proposed European Regulatory Technical Standards (EU RTS) on Risk-Mitigation Techniques for OTC-Derivatives Contracts not Cleared by a CCP, 3) the U.S. Prudential Regulators (FRB, FDIC, OCC, FHFA, and FCA) re-proposed draft rule on Margin Requirements for Covered Swap Entities, and 4) the Commodity Futures Trading Commission (Commission or CFTC) re-proposal on Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants. The purpose of this document is to define the business and technology requirements associated with implementation of margin rules which are scheduled to come into effect in September 2016. Individual regulatory authorities across various jurisdictions are expected to proceed with margin rule finalization consistent with the WGMR final framework.

As specified in the executive summary, the WGMR recommends IM and VM requirements for non-centrally cleared derivatives subject to certain exceptions. All covered entities must exchange both IM and VM on a bilateral basis. This margin exchange would not apply to end users or other non-covered entities (e.g. sovereigns, central banks, multilateral development banks, etc.) as determined by each national regulator. A quantitative model or standard schedule may be used to calculate IM. The collateral posted and collected is subject to haircuts and must be segregated. Rehypothecation is prohibited.

The revisions published by the BCBS/IOSCO in March 2015 require the exchange of VM with covered entities belonging to a group whose aggregate month-end average notional amount of non-centrally cleared derivatives exceeds EURO 3 trillion (provided that it also meets that condition) to begin on September 1,
This requirement applies only to new contracts entered into after September 1, 2016. Beginning March 1, 2017, all other covered entities will be required to exchange VM. The requirement to exchange two-way IM will begin on September 1, 2016 for covered entities belonging to a group whose aggregate month-end average notional amount of non-centrally cleared derivatives exceeds EURO 3 trillion. Between September 1, 2017 and September 1, 2020, the requirement to exchange two-way IM will be phased in based on aggregate month-end average notional amounts of non-centrally cleared derivatives ranging from EURO 2.25 trillion down to EURO 8 billion. National regulators are expected to revise their proposals to be consistent with the BCBS/IOSCO March 2015 revisions. Refer to Section 7.2 (Local Jurisdictional Rule References) of this document for the applicable IM phase-in schedules by jurisdiction.
2 Scope

The MCD has been categorized based on the main components of the collateral management lifecycle necessary to comply with the WGMR final framework as specified below.

Counterparty Setup/Client On-boarding
- Capture and consume counterparty legal entity information
- Enhance legal documentation system to incorporate additional data fields
- Enhance collateral calculation system to incorporate additional data fields
- Enhance downstream data feeds to include counterparty information

Trade Execution
- Enhance trade capture systems to support IM calculations, reconciliations, and distinction of new CSAs
- Develop mechanisms to track legacy trades

IM & VM Calculations, Composite Margin Notifications & Settlement Provisions
- Enhance upstream systems to feed risk calculations down to the collateral management system
- Establish and maintain documentation of margin terms and any exemptions
- Reconcile trade populations, IM amounts and IM calculation inputs
- Develop capabilities to calculate IM and VM amounts
- Develop the ability to issue IM calls and validate counterparties’ IM calls
- Deliver collateral movement instructions to custodians based on counterparty preferences

Collateral Eligibility
- Accommodate expanded list of eligible collateral for IM and VM
- Derive appropriate collateral haircuts using prescribed methods for each jurisdiction
- Monitor concentration limits and wrong-way risk limits. Only relevant for entities subject to the EMIR regulation
- Develop enhanced capability to calculate exposure and collateral in “currency portfolios” to incorporate currency mismatch haircuts

Segregation
- Prepare for establishing additional custodian accounts including connectivity to custodians
- Assess the feasibility of implementing segregation arrangements (e.g. affiliate entity, third party)
- Develop capabilities to consume collateral data provided by custodians for reconciliation
- Custodians may need to develop capability to conduct eligibility checks for IM
## 3 Minimum Considerations Timetable

The table below reflects expected iterations of the MCD. Dates shown below are subject to periodic revisions.

**Note:** The Draft MCD will be further updated once final rules are issued.

<table>
<thead>
<tr>
<th>Activity Description</th>
<th>Date</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISDA published DRAFT MCD Version 1.0</td>
<td>November 7, 2014</td>
<td>First draft. Minimum considerations based on review of the WGMR final framework and the draft EU RTS with some cross-jurisdictional consideration of US and JFSA rules.</td>
</tr>
<tr>
<td>ISDA to publish FINAL MCD</td>
<td>TBD &lt;Subsequent to final rules issuance&gt;</td>
<td>Final version. Minimum considerations will be inclusive of all final rules available across jurisdictions.</td>
</tr>
</tbody>
</table>
4 Assumptions & Dependencies

Relevant assumptions and dependencies related to each minimum consideration have been categorized below along with the description of the minimum consideration in Section 5 of the MCD. The assumptions listed in this document are subject to change and periodic revision based on rule finalization.

Regulators
- ISDA advocates for national regulators to achieve as much consistency as possible across their final rules. To achieve consistency, regulators in the United States, Europe, and Japan must resolve discrepancies in critical areas such as definitions, compliance dates, and scope of coverage.

ISDA
- ISDA is supporting the development of an standard initial margin model (ISDA SIMM) that is widely adopted by the industry.
- ISDA will revise, as appropriate, its form of ISDA 2013 Account Control Agreement to account for final margin rules in the United States. In Europe, ISDA will look at whether it could publish a form of Account Control Agreement that parties may use to facilitate a rule compliant custodian account structure.
- ISDA may provide a collateral taxonomy as a post-compliance date reference tool to the extent that regulators can provide standards for producing definitions, post-compliance legal agreements will contain definitions reflecting industry consensus (e.g. what constitutes “significant wrong way risk”).

Counterparties
- Counterparties will self-disclose information necessary for compliance.

Custodians
- Custodians will support the account arrangements needed to comply with the WGMR final framework.
- Custodians can accept pledge/release instructions from dealers now required to post IM.
- Custodians adopt a market standard messaging infrastructure and can provide required information for intraday management of cross-currency settlement risk.
5 Minimum Considerations Table Sections

5.1 Counterparty Setup/On-boarding
5.2 Trade Execution
5.3 IM & VM Calculations, Composite Margin Notifications & Settlement Provisions
5.4 Collateral Eligibility
5.5 Segregation

Definitions of Minimum Considerations Tables:

<table>
<thead>
<tr>
<th>MC#</th>
<th>Unique reference number assigned to each consideration in the MCD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process or Background</td>
<td>High level description of each minimum consideration</td>
</tr>
<tr>
<td>Minimum Consideration Description</td>
<td>Recommended business and technology considerations required to comply with new margin rules</td>
</tr>
<tr>
<td>Assumptions &amp; Dependencies</td>
<td>Description of key assumptions and dependencies related to each minimum consideration</td>
</tr>
<tr>
<td>Open Questions &amp; Outstanding Issues</td>
<td>Open questions and outstanding issues raised by the M&amp;CPWG. Some may require further clarity from the regulators</td>
</tr>
<tr>
<td>Cross-Jurisdictional Regulatory Differences</td>
<td>Key regulatory differences observed that can change or have an impact to the prescribed minimum consideration. <strong>Important Note: This should not be considered an exhaustive list of the regulatory differences</strong></td>
</tr>
<tr>
<td>Regulatory References</td>
<td>Related rule references from the WGMR final framework and the proposed rules by the EU and US regulators</td>
</tr>
</tbody>
</table>

Assumptions in the Minimum Considerations Tables:

All the assumptions listed in section 5 of this document are consistent with recent comment letters submitted by ISDA to relevant regulators. Assumptions are subject to change and periodic revision based on rule finalization.
MC 2: Enhance legal documentation system

EU and US:
- Enhance the legal documentation system with the following data:
  - **Identification** of relevant collateral agreement
  - **Capture** in scope/covered products for requirements vary by jurisdiction
  - **Capture** IM calculation type: Standard Grid or IM model calculation: method or both
  - **Capture** and track changes to ISD and VM eligible collateral or future to capture credit deterioration and other credit events that may cause changes to collateral eligibility
  - **Capture** collateral concentration limit requirements (supplies only under EUR RTS)
  - **Capture** IM & VM margin valuation frequency
  - **Choose** in house (internal) supplies under EUR RTS or third-party (external) segregation supplies where applicable supplies under US rules
  - **Capture** counterparty name(s) if segregating at a third-party
  - **Firms will need to include affiliate and FX swaps activity to covered scope/products for phase in determinations** supplies under US rules

- **Impact applications:** Reference data system, documentation system, downstream and internal collateral calculation system

EU and US:
- **Dependability:** Documentation system to feed appropriate legal agreement criteria to the collateral calculation system
- **Dependability:** Capture relevant credit criteria from CSA, Account Control Agreement (ACA) or other relevant margin agreement
- **Assumption:** Credit criteria will include:
  - Cross-currency barrier for FX conversion requirement
  - IM threshold group level threshold requirements
  - Phase-in by jurisdiction (refer to Section 7.3)
  - **Capture of concentration limit requirements**
- **Assumption:** Concentration limits may be captured in the new CSA/Protocol. Subject to change based on commercial decisions or how to comply with new documentation; subject to rule finalization

US:
- **Dependency:** Threshold calculation reflect exemptions for inter-affiliate and FX swaps; subject to revision tool final rule publications

EU and US:
- **Assumption:** Counterparties will bilaterally agree how the group-level MIMM IM threshold will be allocated across CSAs

EU and US:
- **Further clarity is required if group IM threshold are negotiable and allocated via CSAs**
- **Funding regulator guidance on exemption of inter-affiliate swaps from the IM requirements:** »ISDA Common Letter to US PRs and CFTC
  - **US:
  - **EU:**

- **Dependency:** Documentation system to feed appropriate legal agreement criteria to the collateral calculation system

EU and US:
- **Assumption:** Firms will self-disclose Legal Entity Information, Consolidated Group Information and provide Confirmation as described in ISDA's "Self Disclosure Template" and summarized below:
  - Legal entity self-disclosure
  - Legal entity status for each applicable jurisdiction
  - Consolidated Group Information
  - Group membership
  - Aggregate Notional Amount (AANAs) Information
  - Name, Email and Electronic Signature

**MC 3: Enhance collateral calculation system**

EU and US:
- **Dependability:** Collateral system to consume appropriate CSA and/or currency back CSA credit criteria and provide the mapping of trades to appropriate CSA (see 3rd point above under MC2, Open Questions and Outstanding Issues regarding separate IM and VM CSAs

US:
- **How firms will handle willow risk and collateral concentration requirements which are in scope for EU rules but not required under US rules**
- **Collaborate/standing of differences in scope products**

**MC 4: Enhance collateral calculation (feeds to downstream)**

EU and US:
- **Dependability:** Collateral downstream tools to consume relevant fields
- **Impact applications:** RWA, Basel, credit risk valuation models, liquidity, reporting, collateral optimizer, settlement systems

US and US:
- **Dependability:** Firms will self-disclose Legal Entity Information, Consolidated Group Information and provide Confirmation as described in ISDA's "Self Disclosure Template" and summarized below:
  - Legal entity self-disclosure
  - Legal entity status for each applicable jurisdiction
  - Consolidated Group Information
  - Group membership
  - Aggregate Notional Amount (AANAs) Information
  - Name, Email and Electronic Signature

**MC 1: Counterparty Legal**

EU and US:
- **Dependability:** Firms may self-disclose the legal entity information, consolidated group information and provide Confirmation as described in ISDA's "Self Disclosure Template" and summarized below:

EU and US:
- **Estimate of go-live compliance dates may not be required for compliance**
- **Firms will independently assess level of integration required to ISDA Amend**
## MC5 Enhance trade capture systems

**EU and US:** Enhance trade processing systems to capture the following fields for all trades:

- **Risk factors:**
  - **Assumption:** A counterparty can have multiple post-compliance date CSAs/MNAs and can choose which CSA/MNA is used for a specific trade.
  - **Dependancy:** Vendors to support the trade capture enhancements.
  - **Assumption:** Trades will be assigned to specific asset classes and currencies; subject to change based on advocacy with the regulators regarding the use of risk factors for categorization and subsequent rule finalization. If the requirement persists, the Asset Class and Currency will be captured and reconciled. The CSA and/or MNA will be captured and reconciled.
  - **Assumption:** The use of separate CSAs will be sufficient to distinguish pre and post compliance date trades. Counterparties will continue use of existing ISDA MNAs for the purposes of compliance with the non cleared margin rules.<br><br>
  - **Dependency:** Reliance on vendors to support the trade capture enhancements and new reconciliation requirements (i.e. risk factors) which could arise from the new two way IM requirement (see MC11).<br><br>
**EU and US:** No enhancements will be necessary to trade confirmation systems for compliance with the non cleared margin rules on day 1 (September, 2016). The M&CPWG may reassess if changes are necessary at a later time based on complexities arising from the dispute resolution process.

## MC6 Enhance confirmation systems

**EU and US:** Enhance reconciliation systems to include the applicable fields in MC5

**EU and US:**

- **Risk factors:**
  - **Assumption:** A counterparty can have multiple post-compliance date CSAs/MNAs and can choose which CSA/MNA is used for a specific trade.
  - **Dependancy:** Vendors to support the trade capture enhancements.
  - **Assumption:** Trades will be assigned to specific asset classes and currencies; subject to change based on advocacy with the regulators regarding the use of risk factors for categorization and subsequent rule finalization. If the requirement persists, the Asset Class and Currency will be captured and reconciled. The CSA and/or MNA will be captured and reconciled.
  - **Assumption:** The use of separate CSAs will be sufficient to distinguish pre and post compliance date trades. Counterparties will continue use of existing ISDA MNAs for the purposes of compliance with the non cleared margin rules.<br><br>
  - **Dependency:** Reliance on vendors to support the trade capture enhancements and new reconciliation requirements (i.e. risk factors) which could arise from the new two way IM requirement (see MC11).<br><br>
## MC7 Enhance reconciliation systems

**EU and US:** Develop a criteria to distinguish legacy trades from regulatory compliant trades:

- **Assumption:** Use trade date as an indicator on the regulatory mandated trades.
- **Assumption:** Make the trade date a reconcilable field and consume downstream to collateral systems.

**EU and US:**

- **Assumption:** A counterparty can have multiple post-compliance date CSAs/MNAs and can choose which CSA/MNA is used for a specific trade.
- **Dependancy:** Vendors to support the trade capture enhancements.
- **Assumption:** Trades will be assigned to specific asset classes and currencies; subject to change based on advocacy with the regulators regarding the use of risk factors for categorization and subsequent rule finalization. If the requirement persists, the Asset Class and Currency will be captured and reconciled. The CSA and/or MNA will be captured and reconciled.
- **Assumption:** The use of separate CSAs will be sufficient to distinguish pre and post compliance date trades. Counterparties will continue use of existing ISDA MNAs for the purposes of compliance with the non cleared margin rules.<br><br>
- **Dependency:** Commercial design decisions related to MC6 and MC7.
- **Assumption:** It is possible that identification of product types will be required if regulations across jurisdictions have varying margin requirements.
In the context of derivative transactions that will affect both regulatory required and IM required RM under the proposed margin rules for uncleared derivative transactions:

EU: Assumption: From a legal perspective, the required RM would be documented under the English law title transfer CSA and, due to the segregation requirements, the required RM would be documented under the English line security interest Credit Support Deed

US: Assumption: From an operational perspective it is preferable for all derivative transactions to be allocated to a single agreed support document for RM and IM. The two credit support agreement documents outlined for (EU) is under review from a commercial and operational feasibility perspective

Assumption: Counterparties may mutually agree to migrate legacy positions into post-compliance date agreements. Systems and procedures will be flexible to support both a bilateral IM/VM documentation and a single agreement documentation structure

Assumption: Counterparties will continue use of existing ISDA CSA’s and execute new ISDA CSA’s to distinguish pre and post compliance date trades

Both EU and US:

Assumption: Beginning September 1, 2016, it is estimated that 17-25 counterparties groups will be required to exchange two-way RM and VM. From March 1, 2017, all covered entities will be required to exchange RM. The requirements to exchange VMs apply to new contracts

Assumption: Industry participants will rely on electronic means or protocols to maintain manual transmission of ISDAs for VM. Firms will use standard industry solutions, where possible, to confirm existing legal documents to new risk requirements

Assumption: Counterparties can require 2 CSA’s under an ISDA Master (e.g. pre and post compliance dates) to reduce the volume of colligated payments. Practicable netting would be dependent on overlapping colligated sets for the new and old CSAs, subject to change based on risk materialization
<table>
<thead>
<tr>
<th>MC#</th>
<th>Process or Background</th>
<th>Minimum Consideration Description</th>
<th>Assumptions &amp; Dependencies</th>
<th>Open Questions &amp; Outstanding Issues</th>
<th>Cross-Jurisdictional Regulatory Differences</th>
<th>Regulatory References</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC 13</td>
<td>VM calculations</td>
<td>EU and US: New VM requirement must be calculated</td>
<td>EU and US: Depository &amp; Assumption: Population of in-scope entities will be known (e.g. entities will self-disclose information to each other)</td>
<td>EU and US: Will the 5% haircut on VM be added to the VM requirement or will it be added to the IM? Where firms are required to exchange post compliance date VM and IM, it is expected that if firms are required to pay an 8% additional haircut on its first occurrence – this will be accrued into IM. Where firms are exchanging post compliance date VM only, it is expected that firms will simply add the 8% additional haircut onto the delivery of collateral at the time collateral is agreed with their counterparty.</td>
<td>CFTC: Is practicable, for remote transactions, reliance on third party valuation or other objective criteria?</td>
<td>CFTC: Calculation of hypothetical VM for non-financial end user with material swap exposure for each business day</td>
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<td></td>
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<td>- VM to be called for and agreed on a daily basis</td>
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<td>BCBS/IOSCO: Scope of Coverage (2.1, 2.3) Methodology (5.14)</td>
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<td>- US firm trading with US firm likely to be settled in single CCY (USD)</td>
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<td>ESA: Chp 1 Article 1 Def (para 3), Article 2 Gen (para 5), Article 1 VM (para 1-2) Chp 3 Article 1 LEC (para 1), Article 3 IMM (para 1-7) EC: US PR: §__.4 VM CFTC: 23.152</td>
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<td>- EU firm trading with EU firm likely to be settled in currency (number of CCYs to be negotiated between the parties)</td>
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<td>BCBS/IOSCO: Product Scope (2.1-2.3) Methodology (5.13) Treatment of IM (5.1)</td>
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<td>- For MTA considerations please refer to MC 15</td>
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<td>ESA: Chp 1 Article 1 Def (para 3), Article 2 Gen (para 5, 6) EC: US PR: §__.3 IM CFTC: 23.152</td>
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<td>- For collateral eligibility and associated haircuts (see assumptions in MC 13, 3rd bullet)</td>
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<td>- As per MTA requirements please refer to MC 15</td>
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<td>- Note: Firms would need to develop their systems in consideration of the following additional inputs:</td>
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<td>- Cross-currency haircuts to be applied to IM or VM depending on outcome of advocacy with regulators. (See Open Questions &amp; Outstanding Issues in MC 13, 2nd bullet)</td>
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<tr>
<td>MC 14</td>
<td>IM margin calls</td>
<td>EU and US: IM calls will be issued daily in a single currency. The timing for the IM call and settlement cycle may likely differ from the VM cycle with IM calls expected to be processed faster than VM in the same day due to additional processing requirements. In-scope firms to exchange IM on a gross two-way basis. IM cannot be netted with other VM requirements, nor can it be netted with the corresponding IM requirement between the counterparties. IM margin call outcomes to include the relevant firms customary standard settlement instructions. Considerations for MTA (refer to MC 15) and threshold.</td>
<td>EU: Assumption: Both parties use ISDA SIMM model, where possible</td>
<td>EU: Assumption: Industry participants will not be able to settle IM the same day as the IM call when securities with greater than T+1 settlement cycles are posted.</td>
<td>CFTC &amp; PR: IM margin calls must be issued on or before the business day following the day the transaction is executed and daily thereafter.</td>
<td>CFTC &amp; PR: IM margin calls must be issued on or before the business day following the day the transaction is executed and daily thereafter.</td>
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<td>ESA: Chp 1 Article 1 Def (para 3, para 5)</td>
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<td>EC: US PR: §__.4 VM CFTC: 23.152</td>
</tr>
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<td></td>
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<td></td>
<td>BCBS/IOSCO: Scope of Coverage (2.1, 2.3) Methodology (5.13) Treatment of IM (5.1)</td>
</tr>
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<td></td>
<td>ESA: Chp 1 Article 1 Def (para 3, para 5)</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>EC: US PR: §__.3 IM CFTC: 23.152</td>
</tr>
<tr>
<td>MC#</td>
<td>Previous Background</td>
<td>Minimum Consideration Description</td>
<td>Assumptions &amp; Dependencies</td>
<td>Open Questions &amp; Outstanding Issues</td>
<td>Cross-Jurisdictional Regulatory Differences</td>
<td>Regulatory References</td>
</tr>
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</tr>
<tr>
<td>MC 15</td>
<td>Minimum transfer amount (MTA)</td>
<td>EU and US: MTA values for IM and VM would both be defined in the legal arrangement and subsequently applied, as today, during the IM and VM margin calculations.</td>
<td>• Application of MTA when firms margin in-currency (see Open Questions; and Outstanding Items, 1st Bullet)</td>
<td>EU and US: It is expected that MTA would be margined in a single currency. In the event that VM is performed in the currency of the derivative exposure it is expected that the regulatory defined MTA would be allocated across the applicable currency buckets in aggregate, subject to change based on rule finalization.</td>
<td>Funding regulatory clarity to advocacy requesting that the MTA amount applies separately to IM and VM &lt;ISDA Comment Letter to US Regulators submitted on November, 24&gt;</td>
<td>BCBS/IOSCO: Scope of Coverage (2.5)</td>
</tr>
<tr>
<td>MC 16</td>
<td>VM settlement</td>
<td>EU: Firms should be operationally prepared to support a range of multi currency VM collateral movements that might be required when firms margin VM in-currency (see MC13 VM Calculations for additional detail)</td>
<td>• For dealer to non-dealer transactions with no regulatory IM requirement, firms need to operationally prepare for the possibility of factoring the additional 8% haircut into the process where firms agree what collateral will be paid to meet the daily VM margin requirements.</td>
<td>None identified</td>
<td>None identified</td>
<td>BCBS/IOSCO: Treatment of IM (5.1)</td>
</tr>
<tr>
<td>MC 17</td>
<td>IM settlement</td>
<td>EU: IM cash and securities movements will be delivered to an affiliate custodian or other permissible legal structure.</td>
<td>• IM cash and securities movement instructions delivered to third party custodians of each party’s choice.</td>
<td>None identified</td>
<td>None identified</td>
<td>BCBS/IOSCO: Chp 4 Article 1 OPU (para 1-3); Article 1 SEG (1-5)</td>
</tr>
</tbody>
</table>
5.4 Collateral Eligibility

On a pre-acceptance basis for proposed collateral, eligibility check must be done:

- Concentration limits (applies only under EU RTS)
- Wrong way risk (applies only under EU RTS)
- Credit quality assessments
- Eligible asset types (vary by jurisdiction)
- Accurate of eligible collateral (as defined by each regulator) that are applicable to both IM and VM
- Haircuts on eligible collateral for IM should be determined according to the standardized schedule.

Haircuts on eligible collateral for IM may be determined by the use of model-based haircuts or a standard haircut schedule.

Assumption: The rules will allow the use of a model for haircuts on IM collateral as well as a standardized haircut schedule. Consistent with recent advocacy and subject to revision post final rules publication.

6.Collateral Haircut Calculations

- Derive collateral haircuts for eligible collateral based on the prescribed universally standard approach (e.g. Credit Quality Step or CQS) of the relevant collateral based on External Credit Assessment Institution (ECAI) ratings.
- The ability to calculate haircut collateral based on the standard method using external ratings is recommended as a minimum consideration that can be implemented unilaterally while minimizing the potential for disputes. Refer to the appendix for a brief description of the alternative approaches (Not permissible under US).
- haircut on eligible collateral for IM should be determined according to the standardized schedule.
- Firms are not required to assess credit quality of collateral to determine standard haircuts.

Assumption: Eligible haircut approach may not likely be adapted and ECAI will most likely be prevalent.

- Depositary EEA publishing definitive mappings between ECAI ratings, PDs and CQ. No such mappings exist today

Assumption: As of yet, there is no definition of a haircut that can be used to derive the haircut.

- In order to adapt the IRB approach, firms would have to establish a framework to obtain the ratings and assign a PD to each one of them. No such framework exists today.

Assumption: CQS assessment to be done pre-acceptance of collateral

- No CQS eligibility check for asset types (C, D, E) where in the domestic currency. No CQS eligibility check for securities (b, c, q, r) and

Assumption: EEA mappings between ECAI ratings and CQs will be conducted based on joint consultations

- Paper published by EBA, EMIR and ESMA in mapping of ECDs; Dec. 2014

Assumption: EEA is likely to use ‘Own Estimates of Volatility’ i.e. proprietary models to determine eligible collateral haircuts.

Assumption: The rules will allow the use of a model for haircuts on IM collateral as well as a standardized haircut schedule. Consistent with recent advocacy and subject to revision post final rules publication.

Assumption: With respect to asset class (c), (d), (e), the rule refers to “net funded” and requires clarification.

- Under the IRB approach, where collateral falls below the eligible CQS level, what remedial actions must the collateral holder implement to meet the CQS breach on collateral already held? (Sanctions are only specified for EACI breaches in para. 8.)

- An industry source of volatility for haircut could be defined to address this.

- In order to adapt the IRB approach, firms would have to establish a framework to obtain the ratings and assign a PD to each one of them. No such framework exists today.

- Assumption: As of yet, there is no definition of a haircut that can be used to derive the haircut.

- No CQS eligibility check for asset types (C, D, E) where in the domestic currency. No CQS eligibility check for securities (b, c, q, r) and

Assumption: EEA mappings between ECAI ratings and CQs will be conducted based on joint consultations

Paper published by EBA, EMIR and ESMA in mapping of ECDs; Dec. 2014

Assumption: EEA is likely to use ‘Own Estimates of Volatility’ i.e. proprietary models to determine eligible collateral haircuts.

Assumption: The rules will allow the use of a model for haircuts on IM collateral as well as a standardized haircut schedule. Consistent with recent advocacy and subject to revision post final rules publication.
**MC 20: Concentration limits**

<table>
<thead>
<tr>
<th>Description</th>
<th>EU</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration limits for specific asset classes, issuers, and issuer types</td>
<td>- Monitor concentration limits for specific asset classes, issuers, and issuer types</td>
<td>- Monitor concentration limits for specific asset classes, issuers, and issuer types</td>
</tr>
<tr>
<td>Concentration risk must be measured by comparing the total amount of an asset collected as either IM or VM against the total regulatory margin requirement for IM and VM</td>
<td>- Concentration risk must be measured by comparing the total amount of an asset collected as either IM or VM against the total regulatory margin requirement for IM and VM</td>
<td>- Concentration risk must be measured by comparing the total amount of an asset collected as either IM or VM against the total regulatory margin requirement for IM and VM</td>
</tr>
<tr>
<td>- Monitor WWR on a periodic basis</td>
<td>- Monitor WWR on a periodic basis</td>
<td>- Monitor WWR on a periodic basis</td>
</tr>
<tr>
<td>US:</td>
<td>- Monitor concentration limits for specific asset classes, issuers, and issuer types</td>
<td>- Monitor concentration limits for specific asset classes, issuers, and issuer types</td>
</tr>
<tr>
<td>- Monitor concentration limits for specific asset classes, issuers, and issuer types</td>
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<tr>
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</tr>
<tr>
<td>EU:</td>
<td>- Monitor concentration limits for specific asset classes, issuers, and issuer types</td>
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</tr>
<tr>
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</tr>
<tr>
<td>- Monitor WWR on a periodic basis</td>
<td>- Monitor WWR on a periodic basis</td>
<td>- Monitor WWR on a periodic basis</td>
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</table>

**Open Questions & Outstanding Issues**

- Where entities might currently source eligibility checkings to the custodian, concentration monitoring (one of the three eligibility checks) by the custodian will no longer be a practical proposition for the following reasons:
  - Custodians may not want to assume responsibility for ensuring regulatory compliance
  - A single custodian may not have all the relevant collateral holdings data as collateral may be held across multiple custodians
  - Can we base concentration limits on a single issuer for phase 1 (de-scoping related entities or those that have close links)? For future phases, could further clarify on what constitutes “related entities” and entities deemed to have “close links”?
  - Are there dual requirements on categories o, p, and q across 1(b) and 1(c) on page 39? If a party is in breach of both requirements simultaneously, how would you determine what to do as a structured deterministic way?

**Cross-Jurisdictional Regulatory Differences**

<table>
<thead>
<tr>
<th>Regulatory References</th>
<th>EU</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>US PR: § __.6 Eligible collateral (4.4)</td>
<td>TBD</td>
<td>N/A</td>
</tr>
<tr>
<td>BCBS/IOSCO: No requirement for monitoring concentration limits</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**MC 21: Wrong way risk monitoring**

<table>
<thead>
<tr>
<th>Description</th>
<th>EU</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wrong Way Risk (WWR): to be monitored only for a specific list of asset classes</td>
<td>- Wrong Way Risk (WWR): to be monitored only for a specific list of asset classes</td>
<td>- Wrong Way Risk (WWR): to be monitored only for a specific list of asset classes</td>
</tr>
<tr>
<td>Counterparties will implement risk management procedures that shall only include securities (b), (c), (d), and (e) that fulfill the following criteria</td>
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<td>- Counterparties will implement risk management procedures that shall only include securities (b), (c), (d), and (e) that fulfill the following criteria</td>
</tr>
<tr>
<td>The industry is unlikely to succeed in enforcing a standard on counterparties without a regulatory basis</td>
<td>- The industry is unlikely to succeed in enforcing a standard on counterparties without a regulatory basis</td>
<td>- The industry is unlikely to succeed in enforcing a standard on counterparties without a regulatory basis</td>
</tr>
<tr>
<td>EU:</td>
<td>- Wrong Way Risk (WWR): to be monitored only for a specific list of asset classes</td>
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</tr>
<tr>
<td>- Wrong Way Risk (WWR): to be monitored only for a specific list of asset classes</td>
<td>- The industry is unlikely to succeed in enforcing a standard on counterparties without a regulatory basis</td>
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</tr>
<tr>
<td>EU:</td>
<td>- Wrong Way Risk (WWR): to be monitored only for a specific list of asset classes</td>
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</tr>
<tr>
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<td>- The industry is unlikely to succeed in enforcing a standard on counterparties without a regulatory basis</td>
<td>- The industry is unlikely to succeed in enforcing a standard on counterparties without a regulatory basis</td>
</tr>
</tbody>
</table>

**Open Questions & Outstanding Issues**

- How does one determine related entities within a group or that have close links?
- To what extent can custodians be expected to support parties’ ability to monitor WWR as part of eligibility checking where this function is outsourced to the custodian?
- What constitutes “significant wrong way risk”?
- Can we monitor specific WWR to the posting counterparty alone for phase 1 (de-scoping related entities or those that have close links)?

**Cross-Jurisdictional Regulatory Differences**

<table>
<thead>
<tr>
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<th>US</th>
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<tbody>
<tr>
<td>US PR: § __.6 Eligible collateral (4.4)</td>
<td>TBD</td>
<td>N/A</td>
</tr>
<tr>
<td>BCBS/IOSCO: No requirement for monitoring concentration limits</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**MC 22: Cross-currency haircut calculations**

<table>
<thead>
<tr>
<th>Description</th>
<th>EU</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-currency haircut (CCY mismatch) calculations</td>
<td>- Members of the M&amp;CPWG have submitted proposals outlining principles, assumptions and details examples in response to the advocacy points regarding the proposed haircut for parity maturities. The M&amp;CPWG has reviewed the proposals and decided to seek further regulatory guidance before developing the minimum considerations necessary to meet the regulatory requirements</td>
<td>- Members of the M&amp;CPWG have submitted proposals outlining principles, assumptions and details examples in response to the advocacy points regarding the proposed haircut for parity maturities. The M&amp;CPWG has reviewed the proposals and decided to seek further regulatory guidance before developing the minimum considerations necessary to meet the regulatory requirements</td>
</tr>
<tr>
<td>EU and US: THD</td>
<td>EU and US: THD</td>
<td>EU and US: THD</td>
</tr>
</tbody>
</table>

**Open Questions & Outstanding Issues**

- What constitutes “significant wrong way risk”? Can we monitor specific WWR to the posting counterparty alone for phase 1 (de-scoping related entities or those that have close links)?
- Can we base concentration limits on a single issuer for phase 1 (de-scoping related entities or those that have close links)?

**Cross-Jurisdictional Regulatory Differences**

<table>
<thead>
<tr>
<th>Regulatory References</th>
<th>EU</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>US PR: § __.6 Eligible collateral (4.4)</td>
<td>TBD</td>
<td>N/A</td>
</tr>
<tr>
<td>BCBS/IOSCO: Only standardized features terminal, including an 8% cross-currency haircut for THD</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>MC1</td>
<td>Potential Regulatory References</td>
<td>US PR: § __.7 Segregation of collateral</td>
</tr>
<tr>
<td>-----</td>
<td>---------------------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td>MC2</td>
<td>Minimum Considerations: EU and US</td>
<td>None identified</td>
</tr>
<tr>
<td></td>
<td>- Market participants are clear on which segregation structures can be used between counterparties in particular jurisdictions. Updates of opinions must meet local regulatory requirements of different jurisdictions.</td>
<td>- Proprietary maintaining or enter into a custodial relationship, an unaffiliated bank or other party (other than custodians) provides a third party custodian for the particular jurisdiction.</td>
</tr>
</tbody>
</table>
6. Future State Process Flow

Overview of the future state margin and collateral process flow is shown below. It should be noted that firms may procedurally manage certain aspects of the workflow within different functional groups than the ones outlined in the flow.

**Working Assumptions:**

1) Trade capture systems will provide trade characteristics sufficient to determine legacy trade vs. post compliance date trade

2) Custodians may not be in a position to carry out eligibility checking of posted collateral on behalf of the receiving party as they will likely not maintain a firm’s entire collateral inventory. Valuation and eligibility checks may be performed by individual firms

3) Segregation structures may vary by region based on WGMR final framework (e.g. affiliate entity, third party)

4) Disputes will be managed according to an industry agreed dispute resolution procedure (currently being developed by ISDA). This will include a series of required actions for the disputing parties, including exchange of relevant portfolio and risk factor information, an obligation to consult with each other to investigate and seek resolution, and appropriate escalation procedures
7 Appendices

7.1 Appendix A: WGMR Final Framework References

On September 2, 2013, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) in consultation with the Committee on Payment and Settlement Systems (CPSS) and the Committee on the Global Financial System (CGFS) published the final framework for margin requirements for non-centrally cleared derivatives. The framework is available on the websites of the Bank for International Settlements and IOSCO.

7.2 Appendix B: Local Jurisdictional Rules References

Europe

On April 14, 2014 the European Supervisory Authorities (ESAs) published a Consultation Paper on Draft Regulatory Technical Standards (RTS) on Risk Mitigation Techniques for Non Cleared OTC Derivatives introducing a requirement to exchange a margin on non-centrally cleared OTC derivatives.

Following the Consultation Paper, and on the basis of the relevant input received, the ESAs will finalize their jointly developed draft RTS and submit them to the Commission.

Japan

On July 3, 2014 Japan’s Financial Services Agency (FSA) published their proposed margin rule.

United States

Commodities Futures Trading Commission

On October 3, 2014, the Commodity Futures Trading Commission (CFTC) published a proposed rule to establish IM and VM requirements for certain swap dealers and major swap participants. In the same release, the CFTC also issued an Advance Notice of Proposed Rulemaking requesting public comment on the cross-border application of such margin requirements.

US Prudential Regulators

On September 24, 2014, the US Prudential Regulators (FRB, FDIC, OCC, FHFA, and FCA) published a re-proposed rule establishing minimum margin and capital a requirement for registered swap dealers, major swap participants, security-based swap dealers, and major security-based swap dealers for which one of the Agencies is the prudential regulator. Such entities and their counterparties shall apply these requirements to all uncleared swaps and uncleared security-based swaps.

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2 http://www.bis.org/publ/bcbs261.pdf
### 7.3 Appendix C: Phase-in Schedule

Below is the revised phase-in schedule for IM and VM issued by the BCBS/IOSCO\(^6\) on March 18, 2015:

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>BCBS/IOSCO Threshold for IM Phase In</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 1, 2016</td>
<td>AMEANA(^8) &gt; € 3T</td>
</tr>
<tr>
<td>September 1, 2017</td>
<td>AMEANA &gt; € 2.25T</td>
</tr>
<tr>
<td>September 1, 2018</td>
<td>AMEANA &gt; € 1.5 T</td>
</tr>
<tr>
<td>September 1, 2019</td>
<td>AMEANA &gt; € 0.75 T</td>
</tr>
<tr>
<td>September 1, 2020</td>
<td>AMEANA &gt; € 8 B</td>
</tr>
</tbody>
</table>

National regulators are expected to revise their proposals to be consistent with the BCBS/IOSCO revisions.

[Placeholder – Pending revisions from national regulators]

### 7.4 Appendix D: IM Margin Call Timeline [Placeholder]