ISDA SIMM TM,1: Frequently Asked Questions

A. Interpreting the SIMM Methodology

A.1. [para 6] How is a trade's product class determined?

Firms should allocate trades to product classes according to the relevant regulatory requirements and their own best judgment, no further guidance is provided. ISDA will be monitoring whether this degree of freedom leads to material initial margin differences.

A.2. [para 11c] Could you please clarify the term $\frac{dV_i}{d\sigma}$ in the equation in paragraph 11c, $VR_{ik} = \sum_j \sigma_{kj} \frac{dV_i}{d\sigma}$?

$\frac{dV_i}{d\sigma}$ means the sensitivity of the market value of instrument i to the individual volatility with expiry k and maturity j. It is not a parallel shock.

A.3. [para 16] Does the disaggregation of delta for "Indexes, Funds and ETFs" need to be applied to all three types of underlying, when used?

Firms are free to agree bilaterally to disaggregate delta from all, some or none of the three categories: Indexes, Funds and ETFs. For example, two firms may choose to disaggregate Indexes only, but not Funds and ETFs. Any such election should apply portfolio-wide to all instances of the various categories and sub-categories.

A.4. [para 16] Under SIMM, all ETFs and Funds fall under the Equity Risk class. When the decomposition "back to individual equities" is not possible, what should the treatment be?

In this occasion, the respective ETFs and Funds should not be decomposed and, therefore, the risk weight of Equity Bucket 11 should be applied.

A.5. [para 16 and para 17] When decomposing an index that has constituents in currencies not in the SIMM Calculation Currency, should FX delta be accounted for?

Yes, when decomposing an index into its constituents the FX delta should be included as best practice. Please note, however, that in the case where the index is not decomposed then no additional FX delta from the index should be included in the SIMM calculation. The trade's natural FX delta is correct.

A.6. [para 19 and 20] When calculating Equity delta, how should firms treat dividends, which are otherwise excluded from the Common Risk Interchange Format (CRIF)?

Firms are free to model dividends in their own way. Specifically, when calculating equity delta, firms can hold dividend yields constant, discrete dividends constant or if using a mixed model a combination of both can be held constant. Firms should have some regard to market best practice.

A.7. [para 20] The SIMM methodology specifies that the sensitivity calculation can be performed by using a smaller shock size and scaling it up. Could a calculation be performed by using bigger shock sizes that are scaled down, or is this not permitted?

The intent of the SIMM methodology is not to be prescriptive on how the sensitivity calculation will be performed. Hence, the scaling down of bigger shock sizes is permissible. The drivers of SIMM margin discrepancies will be monitored in an on-going basis through the SIMM Governance process and any need for further standardization will be assessed.

A.8. [para 42] Is there any practical guidance on how to determine "more than 80% overlap in notional terms"?

A recommended approximation to resolve this uncertainty and facilitate implementation efforts is to assume that same instruments have more than 80% overlap in notional terms whilst different instruments have less than 80% overlap. If the qualifier is different then the instrument is different.

A.9. [para 54] How are metals classified as "Base" or "Precious"?

Gold, silver, palladium and platinum are the only "Precious" metals, all the rest should be classified as "Base".

A.10. [SIMM Methodology para 54 / Risk Data Standards Appendix 1] How should commodities that are not explicitly mentioned in the Risk Data Standards documents be treated from a SIMM bucketing perspective?

If the commodity risk can be mapped to the existing buckets/names this is the preferred approach. If the commodity risk cannot be mapped due to its very different characteristics, then:

- If it a material risk, it should be escalated to the ISDA SIMM Governance Committee to take a decision on whether to add it to the Risk Data Standards list. Until the ISDA SIMM Governance Committee adds this to the Risk Data Standards list, one should use the "Other" bucket;
- If it is not a material risk, use the "Other" bucket.

B. Interpreting the Risk Data Standards

B.1. How should the "Amount" and "AmountCurrency" columns be populated?

"AmountCurrency" indicates the units of "Amount", which can vary from line to line.

B.2. Why should the SIMM Calculation Currency FX Delta be provided in the CRIF file?

Although the SIMM ignores the SIMM Calculation Currency FX delta, its inclusion allows the conversion of the Risk Data Standards file into another currency. See Appendix 2 of the Risk Data Standards document for more information on the conversion.

B.3. Could you summarize how re-gridding should be performed?

Firms are allowed to calculate deltas and vegas internally on their own tenor ladder and expiry dates. But then re-gridding should be performed for IR Delta, Credit Delta and for all vegas to convert from firms' own gridding onto the standard SIMM gridding. This should generally be done using linear allocation. For example, if a non-standard grid point lies half-way between two standard grid points, then half of its risk should be given to each standard vertex.

The Risk Data Standards document contains details of re-gridding for IR Delta in section 2.2, for vega in section 2.8, and there is an example of IR Vega re-gridding in section 3.9.

C. Interpreting the Margin Rules for SIMM calculation (Recommended Practice)

C.1. Is there any guidance on how cross-currency swaps are treated in SIMM?

Please refer to the document "SIMM Cross-Currency Swap Treatment" at the ISDA website, link here

C.2. For cross-currency swaps where one leg is on a "unidade" currency (e.g. ISO currencies MXV, COU) should fixed principal exchanges be omitted or retained? Is the best practice to assign the "FX delta" risk to Inflation Delta?

These "unidad" inflation-adjusted currencies have an ISO code but they cannot be physically settled. That suggests that an FX forward on USD/MXV is not physically settled, so would not be exempt from IM. (Similarly, for cross-currency swaps of USD/MXV or MXN/MXV.) So the fixed principal exchanges need to be included into IM.