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Non-Cleared Initial Margin: By the Numbers

Not only will the amount of collateral to be posted for regulatory initial margin (IM) increase globally with the September 2019 and 2020 implementation phases, but initial margin implementation requires assessing, monitoring, and documenting key figures related to non-cleared OTC derivatives activity.

This note looks at three key numbers:

- AANA – in-scope status depends on whether your "average aggregate notional amount" of non-cleared derivatives exceeds various regulatory regimes' thresholds
- IM Threshold – regulations require calculation of IM for all in-scope trades and require parties to exchange IM to the extent it exceeds the documented IM Threshold[1] which is capped at USD 50 mm (similar amounts in other currencies)
- MTA – regulations only require parties to make a transfer of margin if it exceeds the Minimum Transfer Amount (MTA). The combined MTA for IM and VM cannot exceed USD 500k (similar amounts in other currencies).

AANA

The first number to analyze is the Average Aggregate Notional Amount or AANA. This number measures the gross notional amount of non-cleared OTC derivatives. An entity is subject to IM requirements if its AANA exceeds the relevant regulatory regime's threshold level.

The AANA levels for various regulatory regimes are as follows:

Compliance Date	USA	Japan	Canada	Europe	Switzerland	Australia	Hong Kong	Singapore	Korea	Brazil
1-Sep-19	USD 0.75 trillion	JPY 105 trillion	CAD 1.25 trillion	EUR 0.75 trillion	CHF 0.75 trillion	AUD 1.125 trillion	HKD 6 trillion	SGD 1.2 trillion	KRW 1 quad-rillion	BRL 2.25 trillion
1-Sep-20	USD 8 billion	JPY 1.1 trillion	CAD 12 billion	EUR 8 billion	CHF 8 billion	AUD 12 billion	HKD 60 billion	SGD 13 billion	KRW 10 trillion	BRL 25 billion

[1] On March 5, 2019, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) published a statement highlighting that where a counterparty relationship is in scope of the initial margin requirements but the amount of IM to be exchanged falls below the €50 IM exchange threshold specified in the BCBS/IOSCO WGMR margin framework, the documentation, custodial or operational requirements will not apply to that relationship. This is intended to allow parties to apply the IM Threshold without needing to have documents in place. ISDA has published a separate note addressing this mode of compliance, see the reference at the end of this paper.

Regulatory regimes vary when it comes to the requirements for calculating AANA. For example, the US requires daily observations during the AANA observation period, whereas most other regimes require end of month observations. The observation period in the US for 2020 compliance is June, July, and August of 2019, while for most other regimes it is March, April, and May 2020 for 2020 compliance.

It is important to note that AANA is measured on a consolidated group basis. Therefore, the determination needs to be made across entities captured within a firm's consolidated financial statements, for example GAAP or STAT.

Once a party has calculated its AANA, it will need to disclose to counterparties if it is in scope. With separately managed accounts, where a legal entity has investments with more than one asset manager, this must be coordinated by the legal entity with each asset manager.

All entities are strongly encouraged to estimate their AANA long before the formal timeframes under the rules to determine if an entity is likely to be in or out of scope. It is very important to contact counterparties as soon as possible with self-disclosure details.

IM Thresholds

The IM amount required to be posted or collected can be determined using a quantitative model, such as the ISDA Standardized Initial Margin Model (ISDA SIMM™), or using a regulatory schedule.

Regardless of the calculation approach used, the non-cleared margin regulations only require parties to post IM to the extent that the total IM amount calculated for an entity pairing exceeds the IM Threshold amount documented in the CSA/CSD.

Like the AANA, the permitted IM Threshold amounts are based on local currency and thus vary by regulatory regime, as noted in the below chart:

USA	Japan	Canada	Europe	Switzerland	Australia	Hong Kong	Singapore	Korea	Brazil
USD 50 million	JPY 7 billion	CAD 75 million	EUR 50 million	CHF 50 million	AUD 75 million	HKD 375 million	SGD 80 million	KRW 65 billion	BRL 150 million

IM Threshold amounts apply at the consolidated group level, such as parent and affiliate entities, for each counterparty. Therefore within the CSA/CSD, parties must agree and document the allocation of the permitted IM Threshold amount among the relevant pairings such that the sum of the IM Threshold amounts remains under the regulatory cap. Parties may have asymmetrical IM Thresholds.

Two sample scenarios below:

- Two groups face each other on non-cleared derivatives through multiple legal entities within their respective consolidated groups.
- Two legal entities face each other through multiple accounts (e.g. through multiple asset managers).

MTA

To prevent the exchange of small amounts of collateral, the non-cleared margin regulations allow parties to agree to MTAs, which may be asymmetrical. The combined MTA for IM and VM, as documented between both counterparties, cannot exceed the relevant MTA level in the following chart:

USA	Japan	Canada	Europe	Switzerland	Australia	Hong Kong	Singapore	Korea	Brazil
USD 500,000	JPY 70 million	CAD 750,000	EUR 500,000	CHF 500,000	AUD 750,000	HKD 3.75 trillion	SGD 800,000	KRW 1 billion	BRL 150 million

Once a counterparty relationship is in scope for regulatory IM and the IM is calculated, a margin call will be issued to a counterparty for the IM amount which exceeds the IM Threshold, provided that amount is greater than the applicable MTA agreed in the IM documentation.

For two legal entities facing each other through multiple accounts (e.g. through multiple asset managers), the MTA of the legal entity needs to be allocated among the relevant accounts, so that the total does not exceed the amount permitted by applicable regulations.

Resources

- Compliance with Initial Margin Regulatory Requirements Following BCBS/IOSCO Guidance Statement
- US Phase 5 AANA calculation guidance
- Multi-lateral IM Self-Disclosure
- SIFMA Asset Management Group's (AMG) Non-Cleared Derivatives IM Questionnaire and Supporting Annex

For more Non-Cleared Margin Rule implementation information, go to: ISDA Margin InfoHub.