Margin Approaches - The Relationship between Independent Amount and Regulatory IM

This document is intended as an information resource only; it does not contain legal advice and should not be considered a guide to or explanation of all relevant issues or considerations in connection with the impact of margin rules on derivative transactions. You should consult your legal advisors and any other advisor you deem appropriate in considering the issues discussed herein. ISDA assumes no responsibility for any use to which any of these materials may be put.

How to Determine Margin Call amounts when considering Independent Amounts and Regulatory Initial Margin

This overview details the considerations to document and determine margin calls for independent amounts (“IA”) and segregated regulatory initial margin (“Reg IM”). It explains the three standard approaches included in the “next generation” initial margin documents published by ISDA in 2018 and 2019. In some cases the approach can reduce the amount of IA to be posted to reflect Reg IM.

Definitions of key considerations

**Reg IM Trades**: Transactions that are in scope for the regimes applicable to the parties trading relationship, entered into on or after the applicable Reg IM compliance date. *(Full list of in scope products can be found here)*

**Life Cycle Events**: Transactions that are in scope for the applicable regimes, entered into before the applicable Reg IM compliance date, but brought into scope for Reg IM compliance due to a trade lifecycle event after that date. *(Trade life cycle event guidance can be found here)*

**VM**: (Variation Margin) Variable margin payment collected to cover daily mark to market exposure on trades defined under documentation, but these will likely include trades entered into before and after the applicable Reg IM compliance date.

**IA**: Independent Amount. This is bilaterally agreed between the parties and can be determined in several ways (e.g. percentage of notional amount, fixed IA amount, or any other methodology or approach).

- Segregation not necessary but may apply if agreed bilaterally
- If IA is determined by reference to trades, then the documentation will define in-scope trades, but these will likely include trades entered into before and after the applicable Reg IM compliance date

**Reg IM**: Regulatory calculation (SIMM/GRID)

- Collateral must be segregated as per uncleared margin rules.
- Trades in scope: Reg IM Trades, including Lifecycle Events

**Reg IM Threshold**: Maximum permitted regulatory IM threshold (USD 50 million or equivalent in other currencies). For simplicity, we assume in this paper that the parties always specify the maximum allowed threshold, but there could be reasons why the parties might specify a smaller threshold, in particular if the maximum permitted threshold needs to be shared among multiple accounts or affiliates. For a fuller discussion, see “Non-Cleared Initial Margin: By the Numbers”, available here.
There are three standard approaches to consider which elections are made within the following documents:

- ISDA 2018 Credit Support Annex for Initial Margin (IM)
- ISDA 2018 Credit Support Deed for Initial Margin (IM)
- ISDA 2019 Bank Custodian Collateral Transfer Agreement for Initial Margin
- ISDA Clearstream Collateral Transfer Agreement (2019)
- ISDA Euroclear Collateral Transfer Agreement (2019)

A full summary of ISDA Initial margin documentation can be found here.

1. **Distinct Approach**
   Post two distinct independent flows with no offsets:
   - IA required as defined in existing documentation between the parties
   - Reg IM required under IM document in respect of the Reg IM trades

   Result: Two separate margin flows under their two respective agreements without offsetting.

2. **Allocated Approach**
   Posting two flows allocated across IA and Reg IM with offsetting opportunity for IA only:
   - The amount of IA required can be reduced by the amount due under the Reg IM document (if any), floored at zero.
   - This is achieved by an agreement in the Reg IM document to amend the existing documentation so that the IA can be reduced by the Reg IM posted.

   Result: If the total amount of IA is larger than the Reg IM, then the IA will be reduced by the amount of Reg IM to be posted. Any IA still required to be transferred will be governed by the terms of the existing documentation. This will result in two separate flows where both IA and Reg IM are required to be posted.

3. **Greater of Approach**
   Posting one flow combined for both IA and Reg IM, which is the larger of either amount.
   - The IA amount is defined under existing documentation.
   - The Reg IM amount is defined under new Reg IM document in respect of new trades subject to regulatory IM.
   - One margin flow being the greater of the two amounts above, is posted under the Reg IM document. The Reg IM document amends the IA documentation to achieve this outcome.

   Result: Obligations for both IA and Reg IM will be satisfied by delivery under the terms of the Reg IM document. This means that all IA and Reg IM will be subject to terms that comply with the IM regulations applicable to the parties’ relationship, including segregation requirements, eligible collateral and haircuts.
Margin call calculation

Distinct Approach - Post two distinct independent flows with no offsets:
- Segregated Margin Call: Max (0, Reg IM-Reg IM Threshold)
- Non-segregated Margin Call: VM + IA

Allocated Approach – Assuming IA is not segregated and Reg IM is segregated
- Segregated Margin Call: Max (0, Reg IM-Reg IM Threshold)
- Non-segregated Margin Call: VM + Excess IA
  - Excess IA = Max (0, IA – Max (0, Reg IM – Reg IM Threshold))

Greater of Approach - IA and Reg IM segregated in the same account
- Segregated Margin Call: Max (0, IA, Reg IM-Reg IM Threshold)
- Non-segregated Margin Call: VM

The following tables provide four examples of the various margin approaches:

Please note: The examples for the Distinct Approach and Allocated Approach below assume that IA is not segregated and is netted with VM.
### DISTINCT MARGIN APPROACH

**Example 1**
- VM
- IA
- Reg IM
- Reg IM Threshold

**Segregated margin call (45 minus 50 floored at 0)**
(No call not breaching Reg IM Threshold)

**Non segregated margin call (55 plus 95)**
(Net of VM and IA)

**Example 2**
- 55 VM
- 95 IA
- 45 Reg IM
- 50 Reg IM Threshold

**Segregated margin call (65 minus 50 floored at 0)**
(Amount above Reg IM Threshold)

**Non segregated margin call (55 plus 95)**
(Net of VM and IA)

*Note: IA is a fixed amount for these usecases*

### ALLOCATED MARGIN APPROACH

**Example 1**
- VM
- IA
- Reg IM
- Reg IM Threshold

**Segregated margin call (45 minus 50 floored at 0)**
(No call not breaching Reg IM Threshold)

**Non segregated margin call (55 plus the greater of 95-0 and 0)**
(Net of VM and IA)

**Example 2**
- VM
- IA
- Reg IM
- Reg IM Threshold

**Segregated margin call (65 minus 50 floored at 0)**
(Amount above Reg IM Threshold)

**Non segregated margin call (55 plus the greater of 95-15 and 0)**
(Net of VM and IA reduced by Reg IM)

### GREATER OF MARGIN APPROACH

**Example 1**
- VM
- IA
- Reg IM
- Reg IM Threshold

**Segregated margin call (greater of 95 and 45-50 floored at 0)**
(IA is larger than the amount of Reg IM to be posted)

**Non segregated margin call (55)**
(VM only)

**Example 2**
- VM
- IA
- Reg IM
- Reg IM Threshold

**Segregated margin call (greater of 95 and 65-50 floored at 0)**
(IA is larger than the amount of Reg IM to be posted)

**Non segregated margin call (55)**
(VM only)
**DISTINCT MARGIN APPROACH**

Post two distinct independent flows with no offsets.

*Note: IA is a fixed amount for these usecases*

<table>
<thead>
<tr>
<th>Example 3</th>
<th>Example 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>VM</td>
<td>Demonstrates a negative VM</td>
</tr>
<tr>
<td>IA</td>
<td>55 VM</td>
</tr>
<tr>
<td>Reg IM</td>
<td>-55</td>
</tr>
<tr>
<td>Reg IM Threshold</td>
<td>95 IA</td>
</tr>
<tr>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>

**Example 3**

- Segregated margin call (185 minus 50 floored at 0)
  - (Amount above Reg IM Threshold)
- Non segregated margin call (55 plus 95)
  - (Net of VM and IA)

<table>
<thead>
<tr>
<th>Example 4</th>
<th>Example 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>VM</td>
<td>Demonstrates a negative VM</td>
</tr>
<tr>
<td>IA</td>
<td>55 VM</td>
</tr>
<tr>
<td>Reg IM</td>
<td>-55</td>
</tr>
<tr>
<td>Reg IM Threshold</td>
<td>95 IA</td>
</tr>
<tr>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>

**Example 4**

- Segregated margin call (70 minus 50 floored at 0)
  - (Amount above Reg IM Threshold)
- Non segregated margin call (-55 plus 95)
  - (Net of VM and IA)

**ALLOCATED MARGIN APPROACH**

Posting two flows allocated across IA and Reg IM with potential reduction in IA.

<table>
<thead>
<tr>
<th>Example 3</th>
<th>Example 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>VM</td>
<td>Demonstrates a negative VM</td>
</tr>
<tr>
<td>IA</td>
<td>55 VM</td>
</tr>
<tr>
<td>Reg IM</td>
<td>-55</td>
</tr>
<tr>
<td>Reg IM Threshold</td>
<td>95 IA</td>
</tr>
<tr>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>

**Example 3**

- Segregated margin call (185 minus 50 floored at 0)
  - (Amount above Reg IM Threshold)
- Non segregated margin call (55 plus the greater of 95-135 and 0)
  - (Net of VM and IA reduced by Reg IM)

<table>
<thead>
<tr>
<th>Example 4</th>
<th>Example 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>VM</td>
<td>Demonstrates a negative VM</td>
</tr>
<tr>
<td>IA</td>
<td>55 VM</td>
</tr>
<tr>
<td>Reg IM</td>
<td>-55</td>
</tr>
<tr>
<td>Reg IM Threshold</td>
<td>95 IA</td>
</tr>
<tr>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>

**Example 4**

- Segregated margin call (70 minus 50 floored at 0)
  - (Amount above Reg IM Threshold)
- Non segregated margin call (-55 plus the greater of 95-20 and 0)
  - (Net of VM and IA reduced by Reg IM)

**GREATER OF MARGIN APPROACH**

Posting one flow combined for both IA and Reg IM which is the larger of either amount.

<table>
<thead>
<tr>
<th>Example 3</th>
<th>Example 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>VM</td>
<td>Demonstrates a negative VM</td>
</tr>
<tr>
<td>IA</td>
<td>55 VM</td>
</tr>
<tr>
<td>Reg IM</td>
<td>-55</td>
</tr>
<tr>
<td>Reg IM Threshold</td>
<td>95 IA</td>
</tr>
<tr>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>

**Example 3**

- Segregated margin call (greater of 95 and 185-50 floored at 0)
  - (The amount of Reg IM to be posted is larger than IA)
- Non segregated margin call (55)
  - (VM only)

<table>
<thead>
<tr>
<th>Example 4</th>
<th>Example 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>VM</td>
<td>Demonstrates a negative VM</td>
</tr>
<tr>
<td>IA</td>
<td>55 VM</td>
</tr>
<tr>
<td>Reg IM</td>
<td>-55</td>
</tr>
<tr>
<td>Reg IM Threshold</td>
<td>95 IA</td>
</tr>
<tr>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>

**Example 4**

- Segregated margin call (greater of 95 and 70-50 floored at 0)
  - (IA is larger than the amount of Reg IM to be posted)
- Non segregated margin call (-55)
  - (VM only)