ISDA SIMM® REMEDIATION ANNEX

to the ISDA SIMM Governance Framework

October 22, 2025

1 Introduction

The ISDA SIMM Governance Framework (the "Framework") sets out the principles under which the ISDA Standard Initial Margin Model ("SIMM") will operate and the process through which it will be reviewed and amended on a consistent and transparent basis. Specifically, the Framework provides for:

- Global SIMM governance and development in coordination with SIMM users and regulators; and
- Firm level portfolio monitoring including the adequacy of SIMM coverage at the counterparty level by each firm, the escalation of issues to ISDA, and remediation of associated risk coverage shortfalls of SIMM.

This annex contains the thresholds, procedures, and timelines to supplement the principles contained in the Framework.

Under the terms of the license agreements required by ISDA, SIMM users are required to implement SIMM pursuant to the documentation provided by ISDA. Such documentation includes, but is not limited to, the version of the ISDA SIMM Methodology currently in effect, the current version of the Risk Data Standards and the governance requirements provided in the Framework, as supplemented by this ISDA SIMM Remediation Annex.

2 Monitoring, reporting and remediation thresholds

The following thresholds apply in respect of section III.A. of the Framework:

2.1 The Portfolio Monitoring Threshold (for SIMM margin) is:
- an amount of EUR 0 for portfolios which have non-zero collected collateral by either party
- an amount of EUR 25 million for all other portfolios

2.2 The Reporting Threshold (for a SIMM shortfall amount) consists of two cases:
- The Red Reporting Threshold (for a SIMM shortfall amount) is the maximum of EUR 10 million and 15% of the portfolio SIMM margin amount.
- The Amber Reporting Threshold (for a SIMM shortfall amount) is EUR 100 million

2.3 The Remediation Threshold (for a SIMM shortfall amount) is the maximum of EUR 25 million and 15% of the SIMM margin amount.

2.4 The Portfolio Reporting Frequency is quarterly (every 3 months).

3 Remediation procedures

The following procedures supplement the Remediation principles specified in section III.D. of the Framework:

3.1 Firms must remediate any portfolio which, on a testing day, is either:
- 'Red' under the "1+3" test and has a "1+3" shortfall in excess of the remediation threshold, as specified in section 2.3 above; OR
- 'Red' and has an "Actual PnL" or a "1+3" shortfall in excess of the remediation threshold, as specified in section 2.3 above, that is caused by the absence of a Risk not in SIMM (see section 5 for details)

3.2 Firms may agree, but are not required, to remediate portfolios which are 'Amber' or have a shortfall less than the remediation threshold in section 2.3 above;

3.3 Remediation actions, as listed in section III.C. of the Framework, should make the portfolio go 'Green';

3.4 Changes to the portfolio's trade composition, whether managed or unmanaged, are not treated as remediation actions;

3.5 Remediation continues for as long as the un-remediated portfolio requires remediation. The remediation measure (such as the fixed add-on amount or the SIMM multiplier) may need to vary to ensure that the remediated portfolio is kept as 'Green';
3.6 The decision on whether or not to remediate a portfolio depends only on its current state and does not depend on its backtesting history;
3.7 Testing can take place more often than once a quarter if a firm wishes.

4 Remediation timelines

The following remediation timelines apply in respect of section III.E. of the Framework:

4.1 Issues should be communicated from one party to the other within 20 business days of the testing date; and
4.2 Counterparties should agree the issue and complete remediation actions within 40 business days of the testing date.

5 Governance of Risk not in SIMM

As part of the quarterly monitoring exercise, two tests, which are both capable of identifying risk not in SIMM (RNIS) are performed:

- The 1+3 backtest, which forms the basis for the exchange of additional initial margin if there is a SIMM 'shortfall' and the shortfall breaches a certain threshold. For the monitoring exercise, the recent period rolls with time, to provide a partially out-of-sample test which contains more up-to-date information.

- The Actual P&L test, which is used to check if there are risks not modelled in the SIMM that are driving any material and widespread under-margining in the SIMM.

This subsequent section summarises the process for the Forum to act on evidence that suggests there are RNIS issues in portfolios that use SIMM for initial margin calculations.

5.1 Principles for identifying RNIS issues

Firms should follow the same procedure that they currently do in the quarterly monitoring exercise for identifying the causes of exceptions. These procedures are summarised as follows:

- Firms should identify the single main cause of an exception
- Where there are multiple causes for an exception, firms should make a reasonable decision on which is the most significant driver for the exception

Here are examples that are **not** RNIS:

- Exceptions caused by market-observed risk weights being greater than those of SIMM risk factors
- Exceptions resulting from market-observed correlations being different than the SIMM correlations

Here are examples that **are** RNIS:

- Basis between Loan Credit Default Swap and Loan Credit Default Index
- Absence of cross currency basis swap term structure in SIMM
- Inflation index basis
- Absence of Inflation term structure in SIMM

- Higher order sensitivities of risk factors which are in SIMM e.g., third-order and higher-order sensitivities of SIMM risk factors.
- Movements in a market-observed price which is neither an existing SIMM risk factor nor mostly driven by existing SIMM risk factors.

5.2 Principles for taking action to address RNIS issues

Here are the principles for taking industry and firm-level action to address RNIS issues.

5.2.1 Principles for taking industry-wide action for RNIS issues

The principles for assessing issues in the quarterly monitoring exercise also applies to assessing issues due to RNIS. During each quarterly monitoring exercise, issues due to RNIS are assessed based on the following principles:

- Systemic – an issue occurs across the industry and is not just focused on a small number of firms
- Persistent – an issue occurs on more than one occasion
- Material – an issue has a significant size and impact

To be a **significant issue**, an issue due to RNIS should be categorised as systemic, persistent and material under either the 1+3 or Actual backtests. (This condition is deemed to hold if the issue is systemic under either backtest, and persistent under either backtest, and material under either backtest.)

5.2.2 Principles for taking bilateral action for RNIS issues

At a firm level, a portfolio requires bilateral remediation for RNIS, if the absence of a RNIS causes a Red exception with a shortfall that breaches the remediation threshold, under either the 1+3 or Actual backtests.

5.3 Actions to address identified RNIS issues

In the case where a RNIS is identified by a firm as the driver for an issue on a portfolio that is margined using SIMM, the firm would need to bilaterally remediate the portfolio if the conditions in section 5.2.2 are satisfied. Then the firm would need to remediate the portfolio in accordance with the SIMM Governance Framework and the timelines specified in **Error! Reference source not found.**.

In the case where the conditions in section 5.2.1 are satisfied, the Forum should consider incorporating the risk factor not in SIMM into the SIMM methodology if it is practical to do so. If the issue is not significant, then the Forum may or may not still take further action, as may seem desirable.

6 Definition of Standardised SIMM Shortfall

The SIMM shortfall is the additional initial margin that is required to bring the portfolio to Green. In assessing whether the outcome of the one-day Actual PnL test or the 1+3 Backtest breaches the early warning or remediation threshold, it is necessary that the shortfall computed from the different tests are standardised such that they reflect a shortfall over a 10-day horizon.

To calculate the standardised SIMM shortfall, the following quantities are required:

- **Raw SIMM amount:** This is the SIMM Margin calculated for the portfolio tested on the Portfolio Reference Date[1]. This should be on the same basis (e.g., 1-day or 10-day) as the test itself. The portfolio tested may not have all the trades that is in the portfolio. This may be due to operational or other issues that means there are difficulties in generating the PnL vectors for all the trades in the portfolio. Concentration Thresholds should be disabled.

- **SIMM Margin Amount:** SIMM Margin calculated for the complete portfolio on the Portfolio Reference Date. This should be the standard 10-day SIMM, even when using the 1-day PnL method. Concentration Thresholds should be disabled.

- **Raw Shortfall:** This should be on the same basis (e.g., 1-day or 10-day) as the test itself and is the smallest number, x, such that if the observed SIMM amount(s) are all increased by the additive constant of x, then a Green Basel traffic light results from the test. This number should be positive for Amber and Red results, and negative for Green results.

Using these quantities, the standardised shortfall amount i.e., the shortfall amount in standard 10-day terms is calculated as follows:

$$Standardised\ Shortfall\ Amount = \frac{Raw\ Shortfall\ \times SIMM\ Margin\ Amount}{Raw\ SIMM\ Amount}$$

Remediation should be based on the standardised SIMM shortfall.

Special cases where Raw SIMM Amount is equal to zero:

(1) To convert the Raw Shortfall on a 10-day basis to the Standardised Shortfall Amount when the Raw SIMM Amount is equal to zero, firms should make the Standardised Shortfall Amount equal to the Raw Shortfall Amount.

(2) To convert the Raw Shortfall on a 1-day basis to the Standardised Shortfall Amount when the Raw SIMM Amount is equal to zero, firms should make the Standardised Shortfall Amount equal to:
Sqrt (10) * Raw Shortfall Amount.

[1] For the 1-day Actual PnL test, the Portfolio Reference Date is the last observation date of the observation period; and for the 1+3 Backtest, the Portfolio Reference Date is the date that the portfolio is observed at, which should also be the date the SIMM Margin Amount is calculated.