



WGMR Implementation Program
WGMR Margin & Collateral Processing Workstream
MINIMUM STANDARDS DOCUMENT (MSD)

Minimum Standards for the Future State Margin Workflow
Document Version: 1.0

MSD to be revised following the issuance of relevant final rules

This MSD should be considered a working document based on the industry's interpretation of the BCBS-IOSCO Margin Requirements for Non-Centrally Cleared Derivatives and the European Draft Regulatory Technical Standards on Risk-Mitigation Techniques for OTC-Derivatives Contracts not Cleared by a CCP. This document currently does not reflect proposals from U.S. Commodities Futures Trading Commission (CFTC), U.S. Securities Exchange Commission (SEC) and U.S. Prudential Regulators. Subsequent iterations of this document will be published to include additional considerations as they become clearer.

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.

Last Updated: November 7, 2014

Creation Date: May 21, 2014

Table of Contents

1	Introduction	3
1.1	Executive Summary	3
1.2	Overview	4
2	Scope	5
3	Minimum Standards Timetable.....	6
4	Assumptions & Dependencies	7
5	Minimum Standards Table Sections	8
5.1	Counterparty Setup / On-boarding	9-11
5.2	Trade Execution.....	12-13
5.3	IM & VM Calculations, Composite Margin Notifications & Settlement Provisions	13-16
5.4	Collateral Eligibility	17-20
5.5	Segregation	21-22
6	Future State Process Flows	23
7	Appendices	24
7.1	Appendix A: WGMR Final Policy Framework References	24
7.2	Appendix B: Local Jurisdictional Rules References	24
7.3	Appendix C: Initial Margin Phase-in Schedule by Jurisdiction	25

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 final policy on margin requirements for non-centrally cleared derivatives published by the Working Group on Margining Requirements (WGMR) of the BCBS/IOSCO in September 2013. Individual regulatory authorities across various jurisdictions are expected to proceed with margin rule finalization consistent with the final framework. Refer to Section 8, Appendices for additional references.

The purpose of the “MSD for the Future State Margin Workflow” is to define recommended business and technology standards associated with implementation of the new margin rules which are scheduled to come into effect in December 2015 for certain counterparties. The document has been categorized based on five main components: 1) counterparty setup and client on-boarding, 2) trade execution, 3) initial margin (IM) & variation margin (VM) calculations, composite margin notifications & settlement provisions, 4) collateral eligibility, and 5) segregation, summarized below:

- 1) Counterparty setup and 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 and settlement provisions – minimum standards 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, outlines the approach to derive inputs for determining standardized haircuts, addresses the dynamic haircut model, and defines minimum monitoring standards for concentration limits and wrong way risk. It also outlines the treatment and application of the cross-currency haircuts¹ 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 standards are laid out in this section. The main issues that have been identified in the MSD 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.

¹ The U.S. Prudential Regulator’s proposed rule, U.S. CFTC’s proposed rule, and Japanese FSA’s proposed rule include variations of applying “cross-currency haircuts”. The Business Requirements Document will be further developed pending regulatory guidance from the respective regulators on advocacy points including the application of the 8% currency mismatch haircut.

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 standards 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) internal credit assessments as inputs to 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 standards that should be considered by business, technology & operations groups in order to comply with the future state margin workflow for non-cleared OTC derivatives. 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 BCBS-IOSCO Margin Requirements for Non-Centrally Cleared Derivatives (BCBS-IOSCO) and the proposed European Regulatory Technical Standards (EU RTS) on Risk-Mitigation Techniques for OTC-Derivatives Contracts not Cleared by a CCP serve as the baseline regulatory references for the development of this MSD. 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 December 2015.

As specified in the executive summary, the WGMR recommends initial and variation margin requirements for non-centrally cleared derivatives subject to certain exceptions. In addition, 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. Re-hypothecation is prohibited in the EU RTS. The requirement to exchange VM will become effective on December 1, 2015 for covered entities relating to new contracts entered into after this date. The two-way IM exchange for all new contracts between covered entities is subject to a phased approach as determined by each national regulator. Refer to Section 8.2 (Local Jurisdictional Rule References) of this document for the applicable IM phase-in schedules by jurisdiction.

2 Scope

The MSD has been categorized based on the main components of the collateral management lifecycle specified below and are necessary to comply with the WGMR final framework for bilateral OTC Derivatives.

5.1 Counterparty setup and 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

5.2 Trade execution

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

5.3 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

5.4 Collateral eligibility

- Accommodate expanded list of eligible collateral for IM and VM
- Derive appropriate collateral haircuts using prescribed methods for each jurisdiction (e.g. standardized approach, reliance on model or external credit ratings)
- Monitor concentration limits and wrong-way risk limits as applicable for each jurisdiction
- Develop capability to calculate exposure and collateral in “currency portfolios” to incorporate currency mismatch haircuts

5.5 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 Standards Timetable

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

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

Activity Description	Date	Comments
ISDA to publish DRAFT MSD Version 1.0	November 7, 2014	First draft. Minimum standards specific to the final BCBS / IOSCO framework and the draft EU RTS with some cross-jurisdictional consideration of US and JFSA rules.
ISDA to publish DRAFT MSD Version 2.0	December 22, 2014	Second draft. Minimum standards will be inclusive of draft U.S. CFTC, Prudential Regulator and SEC draft rules.
ISDA to publish FINAL MSD	April 2, 2015	Final version. Minimum standards will be inclusive of all final rules available (EU RTS, US CFTC, Prudential Regulator, SEC and JFSA final rules).

4 Assumptions & Dependencies

Relevant assumptions and dependencies related to each minimum standard have been provided along with the description of the minimum standard in Section 5 of the MSD. Additionally, a number of key assumptions and dependencies have been categorized below:

Regulators

- Regulators in each national jurisdiction US Prudential Regulators, CFTC and SEC, European Supervisory Authorities (ESAs), and the Japanese FSA, will engage in more active dialogue with the industry and each other to resolve critical issues prior to the relevant compliance dates
- National regulators will review and resolve critical issues identified in the proposed rules as submitted in industry comment letters to achieve as much global consistency, as possible
- Definitions of terms in regulatory proposals will be well-defined by each national regulator to enable interpretation of rulemaking and facilitate regulatory compliant collateral processing
- National regulators are expected to publish clear and consistent final margin rules across jurisdictions by February, 2015. Delay of expected issuance of final rules will impact implementation timelines

ISDA

- ISDA will develop a standard initial margin model (SIMM) that is widely adopted by the industry
- ISDA will define a 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 (e.g. estimated aggregate month-end average notional amount, expected phase-in date, consolidated group, applicable jurisdictions)

Custodians

- Custodians will support the account arrangements needed to comply with the WGMR requirements
- Custodians can accept pledge/release instructions from dealers now required to post IM
- Custodians adopt SWIFT standards and can provide required information for intraday management of cross-currency settlement risk

5 Minimum Standards 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 Standards Tables:

MS#	Unique ID assigned to each minimum standard in the MSD
Process or Background	High level description of each minimum standard
Minimum Standard Description	Recommended business and technology minimum standard required to comply with the proposed margin rules
Assumptions & Dependencies	Description of key assumptions and dependencies related to each minimum standard
Open Questions & Outstanding Issues	Open questions and outstanding issues raised by the M&CPWG. Some may be pending further regulatory clarity
Cross-Jurisdictional Regulatory Differences	Key regulatory differences observed (across EU, US and JFSA proposals) that can change or have an impact to the prescribed minimum standard. Important Note: This should not be considered an exhaustive list of the regulatory differences.
Regulatory Reference	Unique regulatory references (as contained in the Federal Register version of the relevant rules) related to each minimum standard

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
5.1 Counterparty Setup / On-boarding						
MS 1	Counterparty legal entity information	<p>Counterparties will need to self-disclose the following:</p> <p>Status data:</p> <ul style="list-style-type: none"> • Legal Name and Address • Entity Identifier: LEI/GEI • Multi Branch Party information including branch jurisdiction • Covered entity status, including: <ul style="list-style-type: none"> • Whether a party is subject to a particular jurisdiction • The type of entity it is under the jurisdiction’s system for categorizing financial and non-financial entities • Estimated average uncleared notional amounts required to determine IM phase-in determinations • Contact information <p>Relational data:</p> <ul style="list-style-type: none"> • Guarantors, Obligations, Other <p>Impacted applications: Reference data systems / documentation systems</p>	<ul style="list-style-type: none"> • Dependency on firms to provide estimated Go Live compliance date at on boarding • Dependency on firms to provide whether or not they are part of a consolidated group and what jurisdictional group each entity is covered by • Dependency on entity to provide estimated average uncleared notional amounts required to determine IM phase-in at on-boarding. As described in the Self-Disclosure template. Counterparty should provide an estimated Go-Live compliance date 	<ul style="list-style-type: none"> • Estimate of go-live compliance dates may not be required for compliance but would be useful for assessing compliance 	<ul style="list-style-type: none"> • CFTC & PR: Group level IM threshold caps vary by margin jurisdiction: <ul style="list-style-type: none"> • BCBS/IOSCO: €50 M • US PR: \$65 M • US CFTC: \$65 M • ESA: €50 M • JFSA: ¥ 7 BN • CFTC & PR: Include affiliate swaps activity for phase-in determinations • Japan: Excludes affiliate swaps activity for phase-in determinations 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> • Scope of Coverage (2.4, 2.6) • Phase-In (8.1) <p>ESA:</p> <ul style="list-style-type: none"> • Chp 5, Article 1 FP (para 2, 3, 7) <p>JFSA:</p> <ul style="list-style-type: none"> • Covered Entities • Phase-In

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
MS 2	Enhance Legal Documentation System	<p>Enhance the Legal Documentation System with following data:</p> <ul style="list-style-type: none"> • Identification of relevant collateral agreement; CSA or SCSA (Currency Silo) • Capture in scope/covered products • Capture IM calculation type <ul style="list-style-type: none"> • Standard Grid or IM model calculation method or both • Capture and track changes to IM & VM Eligible collateral & haircuts to capture credit downgrades and other credit events that may cause changes to collateral eligibility • Capture Collateral Concentration limit requirement • Capture IM & VM margin valuation frequency • Choose in-house (internal) or third-party (external) segregation (where applicable) • Capture Custodian Name(s) if segregating at a third-party <p>Impacted applications: Reference data system, documentation system, downstream end users, collateral calculation system</p>	<ul style="list-style-type: none"> • Dependency on the documentation system to feed appropriate legal agreement criteria to the collateral calculation system. • Dependency on capturing relevant credit criteria from CSA, SCSA or Account Control Agreement (ACA) <p>Assumption that the Credit criteria should include:</p> <ul style="list-style-type: none"> • Cross-currency haircut for FX mismatch requirement • IM threshold group level threshold requirements • Refer to Section 8.2 Initial Margin Phase-In Schedule by Jurisdiction • capture of concentration limit requirements 	<ul style="list-style-type: none"> • Further clarity is required if group IM thresholds are negotiated and allocated via CSAs 	<ul style="list-style-type: none"> • Scope of entities and scope of covered products varies by regulatory jurisdiction • CFTC & PR: no exemptions for inter-affiliate trades • CFTC & PR: Group level IM threshold caps vary by margin jurisdiction: <ul style="list-style-type: none"> • BCBS/IOSCO: €50 M • US PR: \$65 M • US CFTC: \$65 M • ESA: €50 M • JFSA: ¥ 7 BN 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> • Scope of Coverage (2.1 - 2.3) • Methodology (3.1, 3.7, 3.8, 3.14) • Eligible Collateral (4.1-4.4) • IM Treatment (5.1) • Phase-In (8.8) <p>ESA:</p> <ul style="list-style-type: none"> • Chp 1: Article 1 Def (para 3); Article 2 Gen (para 3-6) • Chp 3 Article 1 LEC (para 1); Article 7 LEC (para 1); Article 1 HC (para 1); Article 2 HC (para 1-7) • Chp 4: Article 1 OPE (para 1, 3) • Chp 5: Article 1 FP (para 3) <p>JFSA:</p> <ul style="list-style-type: none"> • Minimum Transfer Amount • Standardized IM or Model Methods • VM Frequency, Collateral Eligibility, Haircuts, Segregation, and Re-hypothecation

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
MS 3	Enhance Collateral Calculation System	<ul style="list-style-type: none"> • Enhance the collateral calculation system to consume MS 2 • Enhance the collateral system to consume counterparty reference data: <ul style="list-style-type: none"> • Capture in scope/ covered entities • Capture relevant margin jurisdiction • Capture counterparty domicile • Capture if counterparty is internal/external • Impacted applications: Reference data system, documentation system, downstream end users, collateral calculation system 	<ul style="list-style-type: none"> • Dependency on the collateral system to consume appropriate CSA and/or currency Silo CSA credit criteria and provide the mapping of trades to appropriate CSA • Dependent on the collateral system to consume counterparty reference data. • Assumption that the capturing and development of static data systems will be at firm’s discretion • Assumption that the development of collateral concentration limits and threshold requirements will be left at firm’s discretion. In some cases the collateral calculation system determines margin calculations based on credit criteria fed from upstream. <p>Assumption that firms will develop an upstream calculation model that will perform the calculation and feed a daily requirement to the margin calculation system</p>		<ul style="list-style-type: none"> • Scope of entities and scope of covered products varies by regulatory jurisdiction 	<ul style="list-style-type: none"> • See MS 1
MS 4	Enhance Collateral Calculation feeds to downstream	<ul style="list-style-type: none"> • Enhance collateral downstream feeds to include MS 3 • Impacted applications: RWA, Basel, Credit risk valuation models, liquidity, reporting, collateral optimizer, settlement systems 				<ul style="list-style-type: none"> • See MS 1

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
5.2 Trade Execution						
MS 5	Enhanced Trade Capture Systems	<p>Enhance trade capture systems to include the following fields for all trades:</p> <p>IM product taxonomy:</p> <ul style="list-style-type: none"> The Asset Class to which this trade is assigned for the purpose of IM calculations, selected from a defined list of values provided by ISDA. Default value is [Rates] if no entry is made <p>Relevant CSAs and/or Master Netting Agreement (MNA):</p> <ul style="list-style-type: none"> The CSAs which governs the VM and IM calculations applicable to this transaction. Default values are: (i) for trades executed pre-December 1, 2015, the legacy CSA and/or related MNA in force at the time of trade; (ii) for trades executed on or after December 1, 2015, the post compliance CSAs and/or related MNA in force at the time <p>Relevant CCY Bucket:</p> <ul style="list-style-type: none"> The Bucket within the Relevant CSAs to which this trade is to be assigned for VM calculation purposes. Default values are: (i) for all trades with settlements in more than one currency then USD; (ii) for all trades with settlements in a single currency that is one of BGN, HRK, EUR, ISK, LVL, LTL, MAD, RON, RSD, TRY then EUR; (iii) else then USD 	<ul style="list-style-type: none"> Assumption that a counterparty can have multiple post-compliance date CSAs/MNAs and can choose which CSA(s)/MNA is used for a specific trade Dependency on vendors to support the trade capture enhancements The fields for (i) IM product taxonomy, (ii) relevant CSA and / or MNA, and (iii) relevant currency bucket are assumed to be captured and reconciled 	<ul style="list-style-type: none"> Need to follow-up with SIMM Methodology team regarding the necessity of a Product Taxonomy “Relevant CCY Bucket” may be beneficial for adopters of the SCSA (which can be used to avoid the “Cross-Currency Haircuts”). However, SCSA does not cover all currency silos that may be traded and therefore further analysis is required. Require Legal guidance to define “currency” as the definition varies across regulatory regimes Relevant currency bucket (currency silos) will be finalized based on direction from the SIMM Sensitivities Based Approach and subsequent rule finalizations. 	<ul style="list-style-type: none"> CFTC & PR: Margin requirements will not apply to transactions entered into before compliance dates. However, if transactions before and after the compliance date use the same master netting agreement, then the pre-compliance date transactions will be subject to the margin requirements CFTC & PR: Proposed rules do not permit counterparties to be out-of-scope for the purposes of margin requirements once they are deemed to be in-scope counterparties 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> Scope of Coverage (1.1- 1.2) Phase-In (8.1) <p>ESA:</p> <ul style="list-style-type: none"> Chp 1 Article 2 GEN (para 1-4) Chp 5 Article 1 FP (para 3-5, 6) <p>JFSA:</p> <ul style="list-style-type: none"> Covered Products IM and VM Phase-In
MS 6	Enhance Confirmation Systems	<ul style="list-style-type: none"> The enhancement of confirmation systems to consume and confirm new data fields in MS 5 is a future state implementation consideration. The M&CPWG will consider changes to confirmations after the compliance date of non-cleared margin rules and based on complexities arising from the dispute resolution process. 	<ul style="list-style-type: none"> Dependency on final legal documentation for IM and VM to finalize the confirmable fields. Legal efforts are underway 	<ul style="list-style-type: none"> The fields for (i) IM product taxonomy, (ii) relevant CSA and / or MNA, and (iii) relevant currency bucket may be captured and confirmed as an ideal future state implementation plan. These changes will require to be executed in coordination with vendors (e.g. DTCC, Bloomberg) and other relevant ISDA working groups responsible for trade confirmations 		<ul style="list-style-type: none"> See MS 5

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
MS 7	Enhance Reconciliation Systems	<ul style="list-style-type: none"> Enhance reconciliation systems to include the fields in MS5 Collateral management system should consume new fields from trade capture systems and feed the new fields to a reporting system for reconciliation. 	<ul style="list-style-type: none"> Dependency on vendors to support the trade capture enhancements 			<ul style="list-style-type: none"> See MS 5
MS 8	Develop Legacy Trade Logic	Develop a criteria to distinguish legacy trades from regulatory compliant trades: <ul style="list-style-type: none"> Use trade date as an indicator on the regulatory mandated trades Make the trade date a reconcilable field and consume downstream to collateral systems 		<ul style="list-style-type: none"> It is possible that identification of product types will be required if regulations across jurisdictions have varying margin requirements 		<ul style="list-style-type: none"> See MS 5
5.3 IM & VM Calculations, Composite Margin Notifications & Settlement Provisions						
MS 9	Trade Booking & Confirmation	<ul style="list-style-type: none"> Trade is booked in Risk Management System based on criteria in Section 5.1 and fed downstream to Collateral Management system(s) 	<ul style="list-style-type: none"> Assumption that new confirmable fields are captured and confirmed or captured and reconciled 	<ul style="list-style-type: none"> Need to finalize what fields will be confirmed and captured Need to define alternative solution for confirmation changes that may not be implemented by December, 2015 		<ul style="list-style-type: none"> See MS 1
MS 10	Documentation (New CSA and Related Documents)	<ul style="list-style-type: none"> Need for more than one active CSA under an ISDA Master Agreement requires trade allocated to correct CSA Written or electronic documentation of margin process terms between counterparties prior to trade execution Formal application to request exemption of intragroup trades from margin requirements 	<ul style="list-style-type: none"> It is estimated that 18 counterparty groups will be required to exchange IM in December 2015 but thousands would be required to comply with the VM requirement Assumption that the industry will rely on electronic means, mechanism or Protocol to avoid manual execution of CSAs for VM 	<ul style="list-style-type: none"> Can counterparties net 2 CSAs under a ISDA Master (e.g. Pre and Post Compliance Date CSAs) to reduce the volume of collateral payments? Will this treatment also be consistent with Capital calculations? How will firms conform to the thousands of legal documents for new VM requirements in time for December, 2015 rule rollout? (Protocol or bilateral)? Will the multiple CSA concept work if ISDA Legal recommends modifying the existing CSA instead of putting in place new CSA? 	<ul style="list-style-type: none"> CFTC & PR: Margin requirements will not apply to transactions entered into before compliance dates. However, if transactions before and after the compliance date use the same master netting agreement, then the pre-compliance date transactions will be subject to the margin requirements PR: Counterparty agreements must specify methods and inputs for determining swap values for VM and related dispute resolution procedures CFTC: Documentation must show variation methodology so that counterparties and regulators can approximate VM calculation 	<ul style="list-style-type: none"> BCBS / IOSCO: <ul style="list-style-type: none"> Methodology (3.13) Treatment of IM (5.1) Affiliate Transactions (6.1) ESA: <ul style="list-style-type: none"> Chp 4, Art 1 OPE 1. (d) & (e) Chp 5, Art 1 - 3 IGT, Art 1 FP JFSA: <ul style="list-style-type: none"> Intragroup transactions

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
MS 11	IM Reconciliation	<ul style="list-style-type: none"> Daily issuance of IM calls Daily reconciliation of pre- and post- compliance date trades will be conducted following issuance of a margin call and likely only if IM amount is disputed. It will include new IM model inputs and parameters provided by source risk management systems. IM Reconciliation results are consumed by each firm 	<ul style="list-style-type: none"> Dependent that new fields will be added to Exposure Reconciliation for new post- compliance portfolios Assumption that reconciliation prior to margin call may not be possible if daily IM calls are mandated by regulations 	<ul style="list-style-type: none"> Definition of what would be considered a break (dispute or discrepancy) and tolerance levels will be required Need further clarity on the process to resolve IM disputes based on clarifications of methodology inputs 		<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> Methodology (3.10, 3.12, 3.15) <p>ESA:</p> <ul style="list-style-type: none"> Chp 1 Article 1 EIM (para 3-4); Chp 3 Article 2 LEC (para 1); Chp 4 Article 1 OPE (para 1d) <p>JFSA:</p> <ul style="list-style-type: none"> Disputes
MS 12	IM Calculations	<ul style="list-style-type: none"> Front office systems are used to calculate the gross IM required Collateral systems are then used to calculate the amount to be called and posted (gross requirement less collateral held + in-transit) New IM requirement must be calculated using: Risk-Based Model and / or Standard Schedule depending on the product type Firms should have the ability to calculate IM from its own perspective and its counterparty's perspective based on each firms own data and its own calculations. Netting restrictions vary by jurisdiction 	<ul style="list-style-type: none"> Assumption that firms will adopt ISDA SIMM and employ the risk-based model and/or the standard schedule independently depending on the product type Assumption that IM calculation may remain daily but IM will not settle daily Assumption that IM and VM calls would be split Dependency on knowing which CSA a new trade is booked to Assumption that parties will disclose to each other what model (e.g. SIMM) will be used in the Legal Agreement 	<ul style="list-style-type: none"> Need to define target SLAs Will each firm consume blended rates or each other's data? Where will firms create IM calculation engine? In existing system or separate infrastructure? Regulatory approval process for SIMM is pending regulatory guidance 	<ul style="list-style-type: none"> CFTC: Calculation of hypothetical IM for non-financial end user with material swaps exposure for each business day CFTC & PR: Model may net within broad risk categories but not across broad risk categories, if an eligible master netting agreement is used CFTC & PR: Historical data set used for performing the IM calculation varies across jurisdiction 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> Methodology (3.1-3.6) <p>ESA:</p> <ul style="list-style-type: none"> Chp 1 Article 1 EIM (para 1-2) Chp 2 Article 1 SMI; Article 1 MRM <p>JFSA:</p> <ul style="list-style-type: none"> IM Model Standardized IM Disputes

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
MS 13	VM Calculations	<p>New VM requirement must be calculated:</p> <ul style="list-style-type: none"> • VM to be called for and agreed on a daily basis • Include considerations for MTA (refer to MS 15) • Standardize the collateral eligibility list and associated haircuts (see assumptions in bullet 3) <p>Note: Firms would need to develop systems in consideration of additional inputs including:</p> <ul style="list-style-type: none"> • Cross-currency haircuts to be applied to IM or VM depending on negotiations with counterparty and ISDA advocacy points with regulators • U.S. proposals would require agreement between the parties for both methodologies and data sources to be used in valuing Exposure. The extent to which this requires new agreement that would need to be captured by operational systems is currently unclear 	<ul style="list-style-type: none"> • Dependency & assumption –Population of in-scope entities will be known (e.g. Entities will self-disclose information to each other) • Assumption that new prudential regulator rules will conform to sufficient degree to “fit” within each firms existing derivative collateral management infrastructure • Assumption that ISDA will publish a list of eligible collateral and associated standard haircuts similar to the ISDA Collateral Asset Definitions produced by ISDA (for relevant jurisdictions on a periodic basis) • Assumption is that cross-currency haircuts (e.g. 8% requirement) potentially reflects additional exposure and therefore needs to be added to Exposure Calculations 	<ul style="list-style-type: none"> • ISDA Legal is investigating netting of new VM with old IM and VM. Operational feasibility also needs to be investigated • Will the 8% Haircut on VM be added to the VM requirement or will be it added to the IM? • Is a new CSA with a counterparty needed if terms of the old CSA match the new guidelines? • New VM requirement may be netted with pre-compliance date IM and VM requirement. Open for discussion: There is a possibility that you can bilaterally agree. Pending Legal confirmation • Require US regulatory clarity on agreements required between parties for methodologies and data sources to be used in valuing Exposure • Regulators to clarify separate MTA for IM and VM 	<ul style="list-style-type: none"> • CFTC: If practicable, for recent transactions, reliance on third party valuation or other objective criteria • CFTC: Calculation of hypothetical VM for non-financial end user with material swaps exposure for each business day 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> • Scope of Coverage (2.1, 2.3) • Methodology(3.14) <p>ESA:</p> <ul style="list-style-type: none"> • Chp 1 Article 1 Def (para 3); Article 2 GEN (para 4); Article 1 VM (para 1-2) • Chp 3 Article 1 LEC (para 1); Article 1 HC (para 1); Article 2 HC (para 1-7) <p>JFSA:</p> <ul style="list-style-type: none"> • Minimum Transfer Amount, Standardized IM, Model Methods, VM frequency, Collateral Eligibility, Haircuts, Segregation, and Re-hypothecation
MS 14	IM Margin Calls	<ul style="list-style-type: none"> • IM calls will be issued daily and will be settled in a single currency • In-scope firms to exchange initial margin 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 • Margin call statements to include the relevant Firm's Custodian Standard Settlement Instructions • Considerations for MTA (refer to MS 15) and Threshold 	<ul style="list-style-type: none"> • Assumption is that both parties use SIMM model, where possible • Assumption that the industry 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 • Assumption that in-transit IM would be treated like in-transit VM, i.e. assumed to be settled with respect to the margin call calculation 	<ul style="list-style-type: none"> • Firms using different models would result in increased number of IM disputes • Will firms be able to calculate IM requirement daily given processing cycle envisioned. It's not possible to settle IM on T+1 basis • Will the calculations and issuance of IM calls happen less frequently than daily? Open: Advocacy letter requested weekly • Regulators to clarify separate MTA for IM and VM 	<ul style="list-style-type: none"> • CFTC & PR: IM margin calls must be issued on or before the business day following the day the transaction is executed and daily thereafter 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> • Product Scope (2.1–2.3) • Methodology (3.13) • Treatment of IM (5.1) <p>ESA:</p> <ul style="list-style-type: none"> • Chp 1 Article 1 Def (para 3), Article 2 Gen (para 3, 5, 6) <p>JFSA:</p> <ul style="list-style-type: none"> • Minimum Transfer Amount IM and VM Thresholds

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
MS 15	Minimum Transfer Amount (MTA)	<ul style="list-style-type: none"> Agreed-upon currencies for representing MTAs will be documented in CSAs. Requirement to independently impose the MTA to IM and VM separately: <ul style="list-style-type: none"> MTA and consolidated group Threshold to IM Calculations MTA only to VM Calculations <p>Note: The working assumption is that the MTA values for IM and VM would both be defined in the legal arrangement in a single currency, and subsequently applied as such during the IM and VM margin calculations.</p>		<ul style="list-style-type: none"> In the event that initial or variation margining is performed in the underlying currency of the derivative, it is still to be confirmed how a single currency MTA value would be allocated across multiple currency silos (in calculating either the IM or VM requirement). Regulators to clarify separate MTA for IM and VM 	<p>CFTC & PR:</p> <ul style="list-style-type: none"> MTA amounts vary by margin jurisdiction: <ul style="list-style-type: none"> BCBS/IOSCO: €500 K (both IM and VM) US PR: \$650 K (both IM and VM) US CFTC: \$650 K (both IM and VM) ESA: €500 K JFSA: ¥ 70 M (separately between IM and VM) 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> Scope of Coverage (2.3) <p>ESA:</p> <ul style="list-style-type: none"> Chp 1 Article 2 GEN (para 4) <p>JFSA:</p> <ul style="list-style-type: none"> Minimum Transfer Amount
MS 16	VM Settlement	<ul style="list-style-type: none"> VM collateral movements booked as required by new terms of CSA and other related documents (require further clarity on the spirit of this minimum standard) Also see section 5.5 	<ul style="list-style-type: none"> Assumption that significantly increased number of payments due to non-netting, settlement in underlying currency and daily movements Assumption is that firms may choose to adopt a framework to facilitate management of intraday risk arising from settling collateral in multiple currencies 	<ul style="list-style-type: none"> Availability of CLS settlement facility and /or other PPV solution on regulatory go-live date 		<ul style="list-style-type: none"> See MS 10
MS 17	IM Settlement	<ul style="list-style-type: none"> IM cash and securities movement instructions delivered to third party custodians of each party's choice. Also see section 5.5 	<ul style="list-style-type: none"> Assumption that custodians can accept pledge/release instructions from dealers now required to post IM in an automated form 	<ul style="list-style-type: none"> Type of messaging to use between dealers and custodians to automate pledge and release process 		<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> Treatment of IM (5.1) <p>ESA:</p> <ul style="list-style-type: none"> Chp 4 Article 1 OPE (para 1-3); Article 1 SEG (1-5) <p>JFSA:</p> <ul style="list-style-type: none"> Segregation

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
5.4 Collateral Eligibility						
MS 18	Eligible list of collateral assets	<ul style="list-style-type: none"> Accommodate eligible collateral schedules (as defined by each regulator) that are applicable to both IM and VM Eligibility checking spans: <ul style="list-style-type: none"> Eligible asset types Credit quality assessments Wrong way risk Concentration limits Eligibility check must be done: <ul style="list-style-type: none"> On a pre-acceptance basis for proposed collateral Daily for collateral already held 	<ul style="list-style-type: none"> Custodians will not be in a position to carry out eligibility checking of posted collateral on behalf of the receiving party. Eligible collateral taxonomy may be developed by ISDA as a post-compliance date (December, 2015) activity and shared across the industry. It would contain a subset of the eligible collateral to be referenced in new CSAs and will map the EU RTS collateral buckets to the agreed upon eligible collateral taxonomy Assumption that eligible collateral is sufficiently diverse to meet diversification requirements Assumption that counterparties will need to bilaterally agree their appetite and ability to manage this wider set of asset types. Parties must document related agreements within the CSA Assumption that while the degree of collateral scarcity is expected to grow over time this is not expected to be an issue for the first year, potentially even second year of the regulations, thereby negating the pressure to accept all asset classes from Dec '15 Assumption that firms will be able to meet all regulatory collateral demands with the asset classes in play at present and will be able to gradually gear up to new asset classes as and when scarcity issues take effect or when funding costs are more favorable: <ul style="list-style-type: none"> Assumption that expectation for VM is that most parties will post government bonds, corporate bonds, cash and equities on an ongoing basis Assumption that expectation for IM is that most parties will post government bonds, corporate bonds, cash and equities on an ongoing basis Assumption that individual firms would need to determine and agree with their respective counterparties what they will be willing to accept and pledge for IM and VM and extend the CSA agreements to cover just these assets and not the full list as set out by the RTS <p>Further clarity on eligible collateral:</p> <ul style="list-style-type: none"> Dependency on Equities, as constituent of a main index (collateral asset - ESMA will develop draft implementing technical standards (ITS) to specify main indices Dependency on EBA shall maintain a publicly available database of all regional governments and local authorities within the Union – this is related to collateral asset (d) 	<p>Posting and collecting of UCITS eligible collateral is only recognized under EU RTS:</p> <ul style="list-style-type: none"> To what extent do UCITS funds display a look through to the underlying assets to allow assessment of eligibility? And to what extent is this needed? Due to lack of look through eligibility checking of UCITS funds, they are deemed to be impractical based on current bilateral eligibility schedules & feasibility of settlement Advocate removal of UCITS as eligible collateral due to the highlighted challenges What is the timeline for ESMA to develop draft implementing technical standards (ITS) to specify the main equity indices? What is the timeline for EBA to publish a publicly available database of all regional governments and local authorities within the Union? Certain contractually agreed collateral will only qualify as “eligible” for purposes of meeting regulatory margin requirements if it is above a certain credit threshold. Therefore it seems most likely that documentation will include lists of collateral that is agreed as “good” collateral but that is subject to a condition that it is eligible collateral under applicable law. This would in turn require monitoring and communication, which is not clearly reflected in the draft 	<ul style="list-style-type: none"> CFTC & PR: VM can be posted in cash only (must be USD or swap settlement currency) CFTC & PR: IM can be posted in certain major currencies and other specific assets as prescribed by the regulations 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> Eligible Collateral (4.1-4.2) <p>ESA:</p> <ul style="list-style-type: none"> Chp 1 Article 1 DEF (para 2) Chp 3 Article 1 LEC (para 1); Article 5 LEC (para 1-6) <p>JFSA:</p> <ul style="list-style-type: none"> Eligible Collateral

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
MS 19	Collateral haircut calculations	<ul style="list-style-type: none"> Derive collateral haircuts for eligible collateral based on the prescribed universally standard approach (e.g. CQS (Credit Quality Step) of the relevant collateral based on External Credit Assessment Institution (ECAI) ratings) The ability to calculate collateral haircuts based on the standard method using external ratings is recommended as a minimum standard that can be implemented universally while minimizing the potential for disputes. Refer to the appendix for a brief description of the alternative approaches 	<ul style="list-style-type: none"> Assumption that IRB approach may not likely be adopted and ECAI will most likely be prevalent Dependency on EBA publishing definitive mappings between ECAI ratings, PDs and CQ. No such mappings exist today. (Page 35 alludes to it – the mappings, per Article 136 and 270 in EU 575/2013, are meant to be published by 1st July 2014 by the EBA) Assumption that assets are correctly categorized in the correct RTS buckets to ensure CQS eligibility check, concentration limit check and WWR checks are all correctly carried out. Assumption is that an industry asset class taxonomy would be defined to address this Assumption that collateral takers would need to manage both external and IRB rating models to support the approaches acceptable by their counterparties Assumption that counterparties to bilaterally agree upon use of IRB approach or ECAI for determining the CQS Assumption that in order to adopt the IRB approach, firms would have to establish a framework to rate securities and assign a PD to each one of them. No such framework exists today Assumption that CQS assessment to be done pre- acceptance of collateral Assumption that no CQS eligibility check for asset types (C, D, E) where in the domestic currency Assumption that no CQS eligibility check for securities h, i, p, q and r 	<ul style="list-style-type: none"> With respect to asset classes (c), (d), (e) the rule refers to “or funded” that requires clarification Under the IRB approach, where collateral falls below the eligible CQS level, what remedial actions must the collateral taker implement to remedy the CQS breach on collateral already held? (Sanctions are only specified for ECAI breaches in para. 8.) Where using the ECAI approach, when collateral falls below the eligible CQS level, the collateral taker is allowed to increase the HC. To what level can the haircut be increased to? Point (c) of para 8 on pg. 35 Article 3 LEC EU RTS requires clarification Unclear what EU RTS Article 2 HC para 3 means – “no correlation of collateral to exposures” Unclear what EU RTS Article 2 HC para 4 means – “in determining relevant categories...”? A series of negative impacts are expected to be realized where IRB models are used: <ul style="list-style-type: none"> (i) Increase in disputes due to difference in internal models; (ii) no CP transparency of the internal rating computation; Disagreement over eligibility of collateral based on dealer “blackbox” computation of the CQS or subsequently where CQS is changed; (iii) “Negative rating” by dealer on issuer where CQS is lower than ECAI CQS or where two counterparties using internal models. If one dealer deems an asset ineligible based on a lower internal rating, one can deduce the dealer’s view of the issuer; (iv) Internal model may not extend to all asset lines or underlying data may not be readily available; (v) Requires reg. approval IRB prevents outsourcing of eligibility checking as custodians will not be able to replicate the internal models! Means that custodian would be assuming regulatory compliance risk. Inherently contradicts the mandatory segregation requirement for IA as these rules apply to collateral assets posted as both VM and IM. Note that U.S. proposals do not tie haircuts to credit ratings. 	<p>CFTC & PR:</p> <ul style="list-style-type: none"> Only standardized haircuts permitted, including an 8% cross-currency haircut Japan: May use model or prescribed haircut schedule; model must be approved by the Commissioner of JFSA 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> Eligible Collateral (4.2-4.4) <p>ESA:</p> <ul style="list-style-type: none"> Chp 3 Article 1 HC (para 1); Article 2 HC (para 1-7) <p>JFSA:</p> <ul style="list-style-type: none"> Haircuts

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
MS 20	Concentration limits	<ul style="list-style-type: none"> • Monitor concentration limits for specific asset classes, issuers, and issuer types • 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 • Ensure ability to flag issuer and related entities which are part of the same group or have close links 	<ul style="list-style-type: none"> • Assume the definition of “groups” and “links” are well defined by the regulations • Assumption that default valuation of zero for collateral in excess of limit • Assumption that computations for concentration risk are likely to be carried out (a) as part of the eligibility checking process and (b) on a T+1 post acceptance basis • Assumption that the new master agreement/CSA should contain appropriate drafting language covering concentration limits • Assumption that potential use of collateral definitions taxonomy of collateral assets to simplify monitoring of concentration limits and assume daily calculation of concentration limits • Dependency that entities would need to ensure daily custodian connectivity is in place to enable the calculation of the required concentration checks • Assuming that interpreting the concentration limits across the 3 categories each of these categories is not meant to exceed 50% of all IM and VM collateral. How does one interpret the concentration limits across the 3 categories? E.g. in 1(a) on page 39, is it a sum of all securities issued by Germany and US (assuming the client is posting US treasuries and German debt) is not meant to exceed 50 % of all collateral? Or is it meant to say that individually each of these categories is not meant to exceed 50% of the collateral? 	<ul style="list-style-type: none"> • Where entities might currently outsource eligibility checking 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: <ul style="list-style-type: none"> • 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, need further clarity on what constitutes “related entities” and entities deemed to have “close links” • Are there dual requirements on categories o,p,q, and r 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 in a structured deterministic way? • Collateral held against non-regulatory CSAs will not impact the concentration limits. Pending discussion with Legal 	<ul style="list-style-type: none"> • CFTC & PR: No requirement for monitoring concentration limits 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> • Eligible collateral (4.4) <p>ESA:</p> <ul style="list-style-type: none"> • Chp 3 Article 7 LEC (para 1) <p>JFSA:</p> <ul style="list-style-type: none"> • n/a

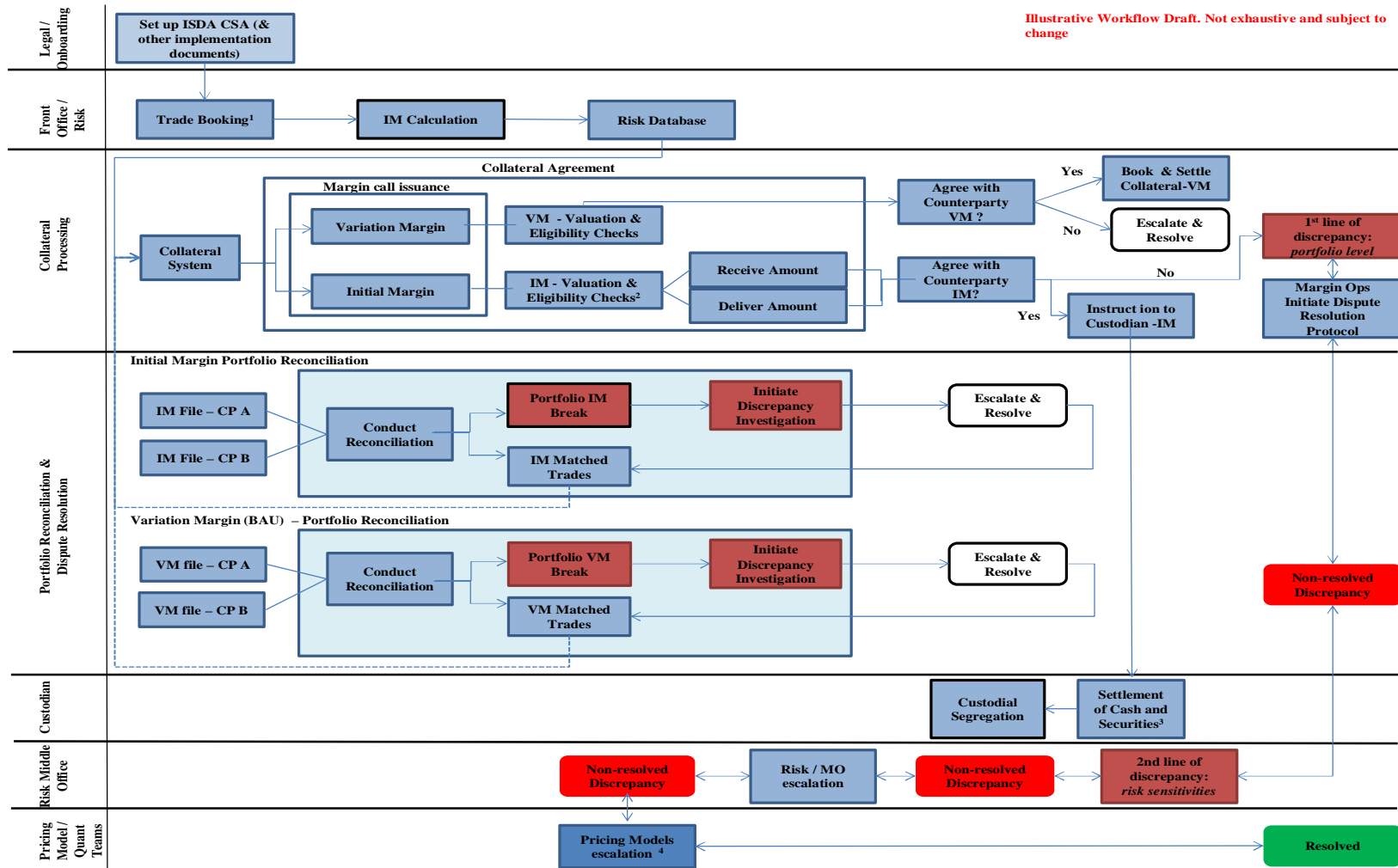
MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
MS 21	Wrong Way Risk Monitoring	<ul style="list-style-type: none"> Wrong Way risk (WWR) to be monitored only for a specific list of asset classes Counterparties will implement risk management procedures that shall only include securities (f), (g), from (k) to (r) that fulfill the following criteria: <ul style="list-style-type: none"> They are not issued by the posting counterparty; They are not issued by entities which are part of the same group of the posting counterparty or entities which have close links They are not otherwise subject to significant wrong way risk. Maintain capabilities to monitor WWR on a periodic basis 	<ul style="list-style-type: none"> Assume that the groups are the same for WWR purposes Except for accepting collateral issued directly by the secured party, collateral takers will meet regulatory compliance where they are able to demonstrate that WWR monitoring is being carried out on a best efforts basis, regardless of the existence of WWR within the collateral set Assume that Industry standard master agreement/CSA to draft language that addresses what constitutes “significant wrong way risk”. The European regulators will either provide a metric defining “significant wrong way risk” or drop the concept in order to conform to the U.S. approach. Pragmatically, the industry is unlikely to succeed in enforcing a standard on counterparties without a regulatory basis Assume that the concept of counterparty groups and links are well defined by the regulators 	<ul style="list-style-type: none"> 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 by collateral takers? 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)? 	<ul style="list-style-type: none"> CFTC & PR: less restrictive guidance on wrong-way risk 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> Eligible Collateral (4.0-4.5) <p>ESA:</p> <ul style="list-style-type: none"> Chp 3 Article 6 LEC (para 1) <p>JFSA:</p> <ul style="list-style-type: none"> Collateral Eligibility
MS 22	Cross-Currency Haircut – “Ccy Mismatch”: Calculations	<ul style="list-style-type: none"> The Margin and Collateral Processing Working Group (M&CPWG) participating members have submitted proposals outlining principles, assumptions and details examples in response to the advocacy points regarding the proposed 8% haircut for currency mismatch. The M&CPWG has reviewed the proposals and elected to await further regulatory guidance before developing the minimum standards necessary to meet the regulatory requirements 	<ul style="list-style-type: none"> See guiding principles and detailed worked example in Appendix D 	<ul style="list-style-type: none"> The working group has received 4 proposals addressing the application of 8% FX Mis-match in the following respects: <ul style="list-style-type: none"> Guiding principles, assumptions, and open questions 8% calculation for VM purposes only (e.g. single currency margining using USD as base, multi-currency margining using USD as base currency, and matching by currency (i) 8% on deficits, (ii) 8% on excess mismatches, and (iii) 8% on excess & deficit balances) 8% calculation for IM + VM purposes Agreed upon sequencing for applying collateral to meet the VM requirement and related considerations for industry standard that cash be applied first followed by assets in order of their relative risk Coverage of different risks across the collateral management process Reporting details for IM and VM calculations to the counterparty Segregation issues related to add-on collateral 	<ul style="list-style-type: none"> CFTC & PR: additional 8% haircut for cross-currency collateral (IM only) 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> Eligible Collateral (4.2 – 4.4) <p>ESA:</p> <ul style="list-style-type: none"> Chp 3 Article 1 HC (para 1); Article 2 HC (para 1-7) <p>JFSA:</p> <ul style="list-style-type: none"> Haircuts

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
5.5 Segregation						
MS 23	Meet the segregation requirements under applicable law	<p>Definitions :</p> <ul style="list-style-type: none"> • In a Third Party custodial relationship, an unaffiliated bank, broker dealer or other party operates under agreement with one of the two counterparties and simply provides typical custody and safekeeping services • In a Tri-Party custodial relationship, an unaffiliated bank or other party operates under a three-way contract between it and the two derivative counterparties. Among other duties, the tri-party agent releases collateral to each of the counterparties subject to pre-defined conditions • Firms may choose to assess feasibility of supporting internal segregation of counterparty IM on their firm’s books and records. Refer to the work in progress by ISDA Legal regarding the infrastructural and operational challenges resulting from the segregation requirements <p>Minimum Standards :</p> <ul style="list-style-type: none"> • 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 • Market participants to ensure that their choice of segregation meets the qualification requirement of the regulatory bodies and where choosing Triparty custodial arrangements , ensure that arrangements provide sufficient automation to support bilateral risk monitoring and daily balance reconciliations 	<ul style="list-style-type: none"> • Dependency that it is only applicable to IM • Dependency on the Legal Group to define account structure • Assumption that Custodians will support the account arrangements needed to comply with the WGMR requirements • WGMR framework recommends but does not mandate IM segregation at a third party custodian • Assumption that ISDA to coordinate legal opinions of adequacy of segregation for custodians that meet qualification requirement from the regulatory bodies based on relevant local laws similar to netting opinions • Dependency to develop an industry standard account control agreement to be used for each form of Third party or Tri-Party segregation arrangement that meets all the regulatory requirements in each jurisdiction 	<ul style="list-style-type: none"> • Acceptable forms of account structure – cash or non-cash differentiation • Local rules where collateral has to be held – ensure enforceability for secured party? • Do the proposed margin rules pose any limitation on appointing an affiliate as a custodian? – Comments from Legal: the U.S. proposals prohibit the use of affiliated custodians • Treatment of UK agreement with transfer of ownership in third-party/tri-party? • Nonstandard process for ACA negotiation • Collateral treatment for margin not required to be collected under draft RTS. 	<ul style="list-style-type: none"> • CFTC & PR: If a CSE posts IM, including IM not required by the margin rule, then that margin must be held by a 3rd party custodian not affiliated with either party. If CSE collects IM as required by the margin rules, then that IM must be held by a 3rd party custodian not affiliated with either party • Japan: IM must be segregated in a trust account or by other measures 	<ul style="list-style-type: none"> • See MS 17 ESA • Chp 4 Article 1 SEG (para 1,3) – p. 42

MS#	Process or Background	Minimum Standard Description	Assumptions & Dependencies	Open Questions & Outstanding Issues	Cross-Jurisdictional Regulatory Differences	Regulatory Reference
MS 24	Instructing Collateral Movements and Settlement	<ul style="list-style-type: none"> Firms to ensure they have the appropriate connectivity with custodians to meet the volume and timing of margin requirements Working with the relevant industry participants to agree and implement market standards for custodial swift messaging for Third Party and Tri-Party segregation arrangements for the following activities: <ul style="list-style-type: none"> cash movements – pledge and return, security movements – pledge and return, confirmation of settlement, and collateral release 	<ul style="list-style-type: none"> Assumption that ISDA will coordinate with market participants to set standards for custodial swift messaging for Third Party and TriParty segregation arrangements 	<ul style="list-style-type: none"> Custodian working group requirements document - has tri-party swift codes been implemented in any jurisdictions e.g. DTCC 		<ul style="list-style-type: none"> See MS 17
MS 25	Reconciliation of collateral positions	<ul style="list-style-type: none"> At the close of each business day or as soon as possible thereafter, the Third Party or Tri-Party system should provide, in a standardized electronic format, the information needed to effect a daily reconciliation of collateral balances. The format of the collateral balance file for reconciliation should be standardized across the industry to maximize efficiencies in the automation of reconciliation The minimum collateral balance fields required for reconciliation should include the following: <ul style="list-style-type: none"> Close of Business Statement Date, Custody Account Number, Collateral Identifier (ISIN, Cash Currency, Letter of Credit reference etc.), Par Value/Original Face Amount of Security, Price, Market Value, and Currency 	<ul style="list-style-type: none"> Dependency that Custodians will adopt standards and are able to provide collateral balances Assumption that potential use of Product/Instrument Taxonomy for Eligibility 			<ul style="list-style-type: none"> MS 17
MS 26	Re-hypothecation	<ul style="list-style-type: none"> Not permissible 			<ul style="list-style-type: none"> One-time re-hypothecation is permissible under WGMR, but prohibited by national jurisdictions 	<p>BCBS / IOSCO:</p> <ul style="list-style-type: none"> Treatment of provided initial margin (5.0) <p>ESA:</p> <ul style="list-style-type: none"> Chp 4 Art 1REU <p>JFSA:</p> <ul style="list-style-type: none"> Rehypothecation

6. Future State Process Flows

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 teams than the ones outlined in the flow.



Working Assumptions:

1. Trade capture systems will indicate source of trades (e.g. 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. Valuation and eligibility checks may be performed by individual firms.
3. Segregation structures may vary by region based on final rules (e.g. affiliate entity, third party).
4. Disputes not resolved by pricing model / quants teams are escalated via the Dispute Resolution Protocol.

7 Appendices

7.1 Appendix A: WGMR Final Policy 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 derivatives².

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 Derivatives³ 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 before the end of 2014

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 rule⁴ to establish initial and variation margin 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. The comment deadline is set to expire on December 2, 2014.

US Prudential Regulators

On September 24, 2014, the US Prudential Regulators (FRB, FDIC, OCC, FHFA, and FCA) published a re-proposed rule⁵ 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

² <http://www.bis.org/publ/bcbs261.pdf>

³ <https://www.eba.europa.eu/documents/10180/655149/JC+CP+2014+03+%28CP+on+risk+mitigation+for+OTC+derivatives%29.pdf>

⁴ <http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2014-22962a.pdf>

⁵ <http://www.gpo.gov/fdsys/pkg/FR-2014-09-24/pdf/2014-22001.pdf>

one of the Agencies is the prudential regulator. Such entities and their counterparties shall apply these requirements to all non-cleared swaps and non-cleared security-based swaps. The comment deadline is set to expire on November 24, 2014.

7.3 Appendix C: Initial Margin Phase-in Schedule by Jurisdiction

Below is the phase-in threshold schedule based on proposed regulations from regulators in the Europe, United States, and Japan.

Effective Date	EU Threshold for IM Phase In	US CFTC & PR Threshold IM Phase In	JFSA Threshold for IM Phase In
December 1, 2015	AMEANA ⁶ > €3T	ADANA ⁷ > \$ 4T	JP Avg. Agg. Not. ⁸ > ¥ 420T
December 1, 2016	AMEANA > €2.25T	ADANA > \$3 T	JP Avg. Agg. Not. > ¥ 315 T
December 1, 2017	AMEANA > €1.5 T	ADANA > \$2 T	JP Avg. Agg. Not. > ¥ 210 T
December 1, 2018	AMEANA > €0.75 T	ADANA > \$1 T	JP Avg. Agg. Not. > ¥ 105 T
December 1, 2019	AMEANA > €8 B	ADANA > \$3 B	JP Avg. Agg. Not. > ¥ 1.1 T

⁶ AMEANA = Aggregate month-end average notional amount of non-centrally cleared derivatives for June, July and August preceding the December of threshold phase-in.

⁷ ADANA = Average daily aggregate notional amount of non-cleared swaps, non-cleared security-based swaps, FX forwards, and FX swaps for June, July and August preceding the December of threshold phase-in.

⁸ JP Avg. Agg. Not. = Sum of average aggregate notional outstanding amount of non-cleared OTCD and OTC commodity derivatives, and the aggregate notional outstanding amount of physically-settled FX forwards as of the last day of each month from June, July and August preceding the December of threshold phase-in.