NEWS RELEASE
For Immediate Release

Market Guidance on Standardization of the ISDA Variation Margin CSA

NEW YORK, December 5, 2016 – The International Swaps and Derivatives Association, Inc. (ISDA) today published a market guidance note from its Board of Directors on the standardization of the ISDA Variation Margin Credit Support Annex (CSA). The note is intended to provide guidance and strategic perspectives on the possible benefits of further standardizing elements of the current ISDA Variation Margin CSA.

Derivatives market participants should evaluate this guidance in the context of their own specific situation, and take any legal and other counsel they may consider appropriate.

The guidance reads as follows:

The first ISDA CSA was published in 1994. Since then, ISDA has published multiple versions of CSA documents under New York, English and Japanese law – most recently, the 2016 non-cleared margin rule-compliant variation margin and initial margin CSAs. The ISDA CSAs have been widely adopted over the years, with consequent risk-reduction benefits for market participants.

The ISDA-published CSAs have generally been template documents that provide parties with flexible terms they can negotiate for their specific circumstances, giving them optionality in how they collateralize their derivatives transactions. (The various published forms of Standard CSA (SCSA) are a notable exception to this general approach.) This optionality has led to many different combinations of collateral terms being used by different counterparties.

With the implementation of the new margin rules, a large number of counterparties will need to amend existing CSAs and replace them with new agreements, or put in place a CSA for the first time, in order to comply with the variation margin requirements on March 1, 2017. ISDA has published the ISDA 2016 Variation Margin Protocol, which contains various 'Methods' that parties can use to make these changes. Different counterparties have different preferred methods of bringing their documentation into compliance with the margin rules.

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While the margin rules for non-cleared derivatives will reduce some of the scope for optionality for trades under the remit of the rules, there will remain significant latitude for optionality within CSAs. But where parties are putting in place a new CSA, either for the first time or to replace an existing CSA, they have an opportunity to use standardized collateral terms, and the ISDA Variation Margin Protocol provides a mechanism for this. They may also achieve more standardized terms by bilaterally negotiating bespoke amendments to existing CSAs that reduce optionality.

Adoption of more standardized variation margin terms by market participants, whether through creation of a new CSA or through more standardized amendments to existing CSAs, would promote safer and more efficient markets by facilitating price discovery and increasing transparency. Further standardization of terms within the CSA could also have other benefits by simplifying and standardizing market processes and reducing potential margin disputes, such as valuation differences.

In order to obtain the benefits outlined above, we encourage market participants, where consistent with their objectives and their mandate, to use the following standardized collateral terms:

- Use of a more limited range of cash or securities as eligible collateral, denominated in a single currency or a limited range of international currencies.
- For firms looking to streamline processes, reduce risk and minimize the cost of hedging between bilateral and cleared over-the-counter products, the adoption of a synchronized and standardized set of CSA terms between both cleared and non-cleared products could prove to be beneficial.
- Use of market standard interest rates on posted collateral. (Parties that wish to accommodate negative interest rates can do this using the Variation Margin Protocol for new CSAs or ISDA's Negative Rates Protocol for existing CSAs.)
- Removal of thresholds for variation margin so that current exposure is fully collateralized, which is a requirement of the margin regulations (a minimum transfer amount may be used to avoid having to transfer small amounts of collateral).
- Daily valuation and notification of variation margin calls, combined with timely settlement in accordance with new regulations.

Standardization of terms is not the only consideration for parties when agreeing their collateral terms, and fully standardized terms may not be appropriate for all counterparties. But all parties should consider the benefits to be reaped from increased standardization. For many, the March 1, 2017 regulatory date may be a good opportunity to make a change, but the optimal level of market standardization may not be adopted in a single step. Market participants should continue to review their collateral terms and consider how they could benefit from greater standardization, even after the regulations are live.

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About ISDA
Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 850 member institutions from 66 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org.