



Working Group on Margin Requirements (WGMR)

Overview of Workstreams

2016

Overview of the ISDA WGMR Project

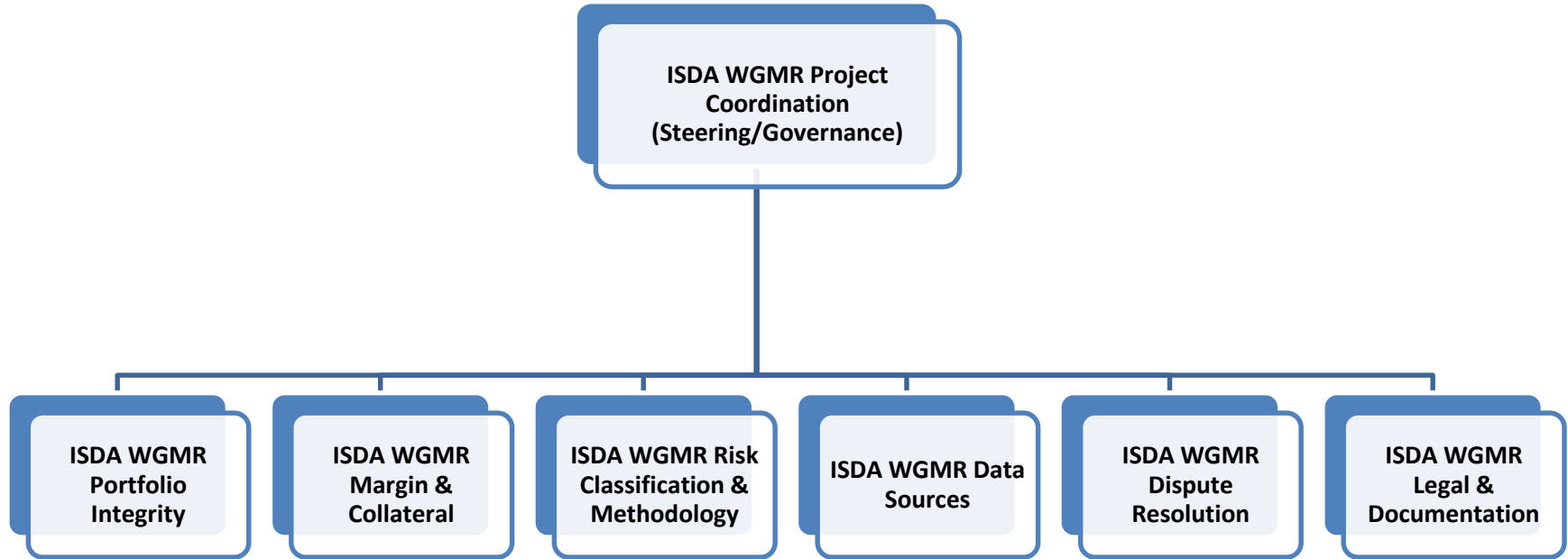
Background of SIMM

- In September 2013, the Working Group on Margin Requirements (WGMR), formed jointly by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO), issued the final margin policy framework for margining of non-cleared, bilateral derivatives.
- Implementation of new margin requirements will require significant changes to collateral practices, documentation and technology. ISDA has been leading industry efforts to prepare for the changes through multiple working groups within the ISDA WGMR Implementation Program.
- A key component of the WGMR Implementation Program is the development of the Standard Initial Margin Model (SIMM)¹, which is focused on developing a common IM methodology that can be used by market participants globally. SIMM is based on the Basel Committees sensitivity based approach.
- Unlike the calculation of variation margin (VM), which is based on day-to-day valuation changes that are often directly observable, IM calculations very much depend on the choice of model and the assumptions used. The SIMM provides an open, transparent, standard methodology for IM that will be available to all. In doing so, the potential for initial margin disputes between cpys will be reduced.
- ISDA's WGMR workstreams help the industry prepare for implementation of non cleared margin rules by covering issues such as documentation, margin calculation, collateral exchange and settlement, dispute resolution, and allows for consistent governance and oversight.

¹ In March 2013, ISDA published "[Standard Initial Margin Model for Non-Cleared Derivatives: White Paper and Appendix](#)" discussing the SIMM for non-cleared derivatives. The appendix to the paper discusses risk factors and idiosyncratic risk.

ISDA WGMR Implementation Program

Overview of Program Workstream Structure



Visit the ISDA WGMR Implementation Initiative website: <http://www2.isda.org/functional-areas/wgmr-implementation/>

Project Coordination (Steering and Oversight)

Workstream 1

Mission: This Workstream serves as a steering committee, and provides oversight and coordination across the WGMR implementation program. It establishes and maintains effective lines of communication with regulator, develops and implements effective advocacy strategies, and establishes regular communication/updates with ISDA CEO and the Board.

This workstream is comprised of ISDA Board member firms.

Examples of possible workstream projects:

Advocacy and Policy Responses	Written submissions to regulators such as CFTC, ESA, Japan.
Project Oversight	Reviews project status and timelines for all Workstreams. Functions as steering committee through senior level industry participation.
Advocacy Strategy and Regulatory Outreach	Coordinates regulatory meetings, responds to specific requests, reviews policy papers across all workstreams. Develops a formal strategy of interaction with ISDA staff, CEO, and member firms.
Project Governance	Provides direction, facilitates consensus when not achieved at workstream level. Acts on behalf of overall ISDA WGMR Initiative.

Portfolio Integrity Workstream

Workstream 2

Mission: This workstream will focus on determining a consistent in-scope population of covered entities and bilateral derivatives based on the regulatory phase-in schedule and applicable thresholds. It will help establish a process to reconcile transaction attributes including IM risk factors. Key outputs from this group are IM Portfolio Reconciliation specifications, the implementation of covered entities and notional threshold register.

Examples of possible workstream projects:

Performing Gross Notional Calculation	Firms perform a test run of the gross notional calculation outlined by BCBS-IOSCO to determine if they are in scope to exchange 2-way IM.
Self Disclosure Template	Document to help identify the types of information that firms will be required to disclose to one another to indicate if they are in scope for the new margin rules.
Industry Testing	Forum for industry to address build plan for Self Disclosure via ISDA Amend.

Margin and Collateral Processing Workstream

Workstream 3

Mission: The objective of this workstream is to design and develop an operating framework to support the WGMR requirements such as a) the new bifurcated IM and VM processing, b) IM segregation, and c) process for limited re-hypothecation. The workstream will also focus on identifying operational and technology solutions to support the new processes. Key outputs will be to build a standard industry process flow, and to create an end to end Minimum Standard document for the industry to assist in compliance with the WGMR Margin rules.

Examples of possible workstream projects:

ISDA Minimum Standards Document for the Future State Margin Workflow (MSD V1.0)	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 EU margin rules which are scheduled to come into effect in December 2015 for certain counterparties.
ISDA Minimum Standards Document for the Future State Margin Workflow (MSD V2.0)	Version 2 of the MSD will incorporate the proposed US Prudential and CFTC Regulations and JFSA proposed rule.
ISDA Minimum Standards Document for the Future State Margin Workflow (MSD V3.0)	Version 3 will incorporate final rules across 3 jurisdictions US, EU and Japan when issued.
Industry Testing	Forum for industry to address build issues and inconsistencies.

Risk Classification and Methodology Workstream

Workstream 4

Mission: This workstream is focused on analyzing different methodologies and selecting one, taking into account capital data and operational impacts. The workstream will a) determine SIMM inputs, b) develop the standards for consistent risk factor and trade categorization, and c) determine an approach to incorporate collateral haircuts. Backtesting will be performed to support risk factor selections and a governance process will be established to monitor on-going risk coverage.

Examples of possible workstream projects:

Model Selection	Different models reviewed and assessed. SBA-M selected as the most appropriate.
SBA-M Specification	Selection of model components (e.g. Vega), interaction with regulators on the model, resolve methodology issues at the ISDA WGMR Program level.
SIMM Calibration	Selection of risk factors for each asset class, decide on calibration approaches and identify the initial set of the calibrated parameters.
SIMM Testing	Backtesting exercise to determine appropriate stress period, confirm sufficient risk coverage and check appropriateness of model. Execute a benchmarking and an IMV exercise.
SIMM Documentation	Comprehensive documentation for SBA-M, Calibration and Approval processes.
SIMM Regulatory Approval	Interaction with regulators to acquire regulatory model approval.

Data Sources Workstream

Workstream 5

Mission: determine the identifiers (e.g. ISINs²) for the SIMM to be used for each asset class and (b) provide a standard mapping between the identifier and the risk weights associated with the SIMM risk buckets that will ensure the consistent application of risk weights and minimize differences in the SIMM implementation. The working group will also develop the procedures and standards to update this static data and share it with the users.

Examples of possible workstream projects:

Product Coverage Survey	Data survey to be completed by in-scope participants to determine product coverage for the candidate identifiers.
White Paper	Paper describing goals, examples, and description of work.
Static Data Mapping	Mapping of risk factor identifiers to existing SIMM risk buckets for each risk class.
Data Standards	Develop standards to share the mappings (and updates) with industry participants.

² International Securities Identification Number

Dispute Resolution Workstream

Workstream 6

Mission: The Collateral Dispute Resolution Working Group addresses developments in the Dispute Reporting criteria that is submitted to the Regulatory community.

Examples of possible workstream projects:

Initial Margin Determination Procedure	Design a procedure to resolve IM Disputes and produce a process for avoidance of disputes.
Market Polling Procedure	Revisit the procedure to resolve VM discrepancies by obtaining quotes from the parties and reference market sources.
Collateral Valuation Procedure	To define a process to resolve collateral value or eligibility discrepancies.

Legal and Documentation Workstream

Workstream 7

Mission: Legal and Documentation workstream goal is to create a new suite of CSA documentation to comply with margin requirements. The suite of documentation will include collateral support documentation for Japan, English and New York law arrangements, self assessment tools, segregation agreements, and protocols to migrate from old structures to new.

Examples of possible workstream projects:

English Law: Security Interest and Transfer	VM and IM, transitional and final (including regulatory (“reg”) VM and non regulatory (“non reg”) IM).
European IM Segregation Arrangements	Bank Custodian and European clearing system forms (will impact IM documentation).
NY Law: Security Interest	VM and IM, transitional and final (including reg VM and non reg IM).
US ACA Update	Triparty Account Control Agreement (update for final US regulations).
Protocol	To migrate existing variation margin arrangements to rule compliant CSAs
Japanese Law CSAs	VM and IM (including reg VM and non reg IM).
Dispute Resolution Procedures	VM and IM.
Self Disclosure Form	Classification of entity types re phase in schedule/ representation letter format (Europe, Japan, US).

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 68 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 web site: www.isda.org.

The ISDA SIMM and related documentation are works-in-progress drafts that are subject to substantive changes pending final regulations and ongoing discussions and may be modified or withdrawn by ISDA in whole or in part.