
The ISDA Collateral Infrastructure Committee Best Practice for Margin Call Issuance and Response

INTRODUCTION

The ISDA Collateral Infrastructure Committee in its remit to monitor issues and challenges related to the OTC collateral process has identified a gap as it pertains to the current margin call process. As many counterparties continue to move towards an electronic form of margin call matching and processing, there remains a consistent population of counterparties who do not subscribe to an electronic form of margin call messaging, which prevent true STP in the overall collateral process. To that end the ISDA ¹CIC (Collateral Infrastructure Committee) has agreed to and is proposing a Best Practice for the issuance and response to margin calls in a standard manner to assist firms not currently utilizing an electronic margin call matching platform.

EXECUTIVE SUMMARY

As part of developing a standard form for Margin Call Issuance and Response the ISDA CIC examined the minimum set of fields which is required today to communicate the issuance of a margin call, as well as the expected response of a margin call. The process to reach the agreement on the templates was developed through thorough committee analysis, discussion and debates in order to reach an industry consensus proposed in this document.

The margin call templates presented as part of this Best Practice document include a standard form for an Outgoing Call and Call Response which consist of fields that are categorized as either required as part of the template or optional. It also includes definitions of each field as well as examples of different call data.

It should be noted that this Best Practice serves a segment of the OTC market which do not utilize any form of electronic automated margin call processing to further promote efficiency and a straight through process (STP) model. The ISDA CIC recommends this Best Practice to be used not as a replacement for current best practices² but as an enhancement of them. The harmonization of practice between practitioners serves to mitigate risks inherent in the collateral management process and also sets expectations and standards for new entrants to the over-the-counter (OTC) derivative market.

¹ The ISDA CIC ISDA Collateral Infrastructure Committee (CIC) was created to assess, develop, monitor and deliver a more robust collateral infrastructure processing framework and is made up of both Dealer Banks and Asset Managers.

² The ISDA Best Practices for the OTC Derivatives Collateral Process propose elements of Margin Call Issuance and Response which target an overall best practice for the industry.

OUTGOING MARGIN CALLS

Outgoing Call Template: Required Fields

The columns in the template below capture the following:

Outgoing Call: Required Fields – Fields required when issuing a margin call

Definitions - Data expected in the corresponding field when a call is issued

Call Example - Sample values of data expected in that particular field

Outgoing Call: Required Fields	Definitions	Call Example
Principal	Entity issuing margin call (per CSA unless mutually agreed between parties) <u>Examples:</u> <ul style="list-style-type: none"> ▪ Bank XYZ ▪ ABC Capital Management Strategy 135976 ▪ DEF Pension Fund 123b 	Bank XYZ
Counterparty Name	Entity to whom margin call is being issued (per CSA unless mutually agreed between parties) <u>Examples:</u> <ul style="list-style-type: none"> ▪ Bank XYZ ▪ ABC Capital Management Strategy 135976 ▪ DEF Pension Fund 123b 	ABC Capital Management Strategy 135976
Agreement Type	Identifies Business / Product Area <u>Examples:</u> OTC / REPO / TBA	OTC
Call Type	Identifies margin type and if there is a regulatory mandate <u>OTC Examples:</u> <ul style="list-style-type: none"> ▪ REG VM ▪ NON REG VM ▪ Non-REG Seg IA <u>REPO Example:</u> Netted Margin Call (TBD) <u>TBA Example:</u> Netted Margin Call (TBD)	REG VM
Call Amount	Amount of Credit Support being called for which accounts for Exposure, Independent Amount, Threshold, Collateral Balance, MTA, Rounding Increment, etc.	800,000.00 Assumes 0 Threshold, 250K MTA, and 10K Rounding
Valuation Date	Close of Business of the Mark-to-market underlying the margin call calculation	28-Nov-17
Settlement Date	Date on which the Counterparty agrees to remit collateral	29-Nov-17
Base Currency	Currency in which margin call is calculated and denominated	USD

OUTGOING MARGIN CALLS

Outgoing Call Template: Optional Fields

The columns in the template below capture the following:

Outgoing Call: Optional Fields – Fields which may be included when issuing a margin call

Definitions - Data expected in the corresponding field when a call is issued

Call Example - Sample values of data expected in that particular field

Outgoing Call: Optional Fields	Definitions	Call Example
Exposure	Current Mark-to-market value of the trade portfolio as recorded by the Principal (In Base Currency)	2,255,000.00
Independent Amount	Additional credit support amount over and above Mark-to-market value (In Base Currency)	140,000.00
Collateral Balance	Amount of collateral recorded by the Principal as held or posted (In Base Currency)	1,600,000.00

Margin Call Response

Margin Call Response Template: Required Fields

The columns in the template below capture the following:

Client Response: Required Fields – Fields required when responding to a margin call

Definitions - Data expected in the corresponding field when responding to a margin call

Response Example - Sample values of data expected in that particular field

Note: The below is an example of a Regulatory VM call satisfied with cash collateral. If pledging non cash collateral, ISIN or Cusip and Quantity are required.

Client Response: Required Fields	Definitions	Response Example
Agreed Amount	Amount of collateral that posting entity agrees to remit	750,000.00
Currency of Collateral	Currency in which the collateral being remitted is denominated	USD
ISIN/CUSIP	Industry standard security identifier of non-cash collateral being remitted	
Quantity	Nominal value of the security (ies) being remitted	
Settlement Date	Date on which the Counterparty agrees to remit collateral	29-Nov-17

Margin Call Response Template: Optional Fields

Client Response: Optional Fields – Fields which may be included when responding to a margin call

Definitions: Data expected in the corresponding field when responding to a margin call

Response Example: Sample values of data expected in that particular field

Client Response: Optional Fields	Definitions	Response Example
Delivery / Return	Identifies if amount being remitted is a Delivery of Counterparty's collateral or a Return of Principal's collateral	Delivery
Exposure	Current Mark-to-market value of the trade portfolio as recorded by the Counterparty (In Base Currency)	2,205,000.00
Independent Amount	Additional credit support amount over and above Mark-to-market value (In Base Currency)	140,000.00
Collateral Balance	Amount of collateral recorded by the Counterparty as held or posted (In Base Currency)	1,600,000.00

Important Note and Disclaimer

This document does not constitute legal, accounting or financial advice, and describes the market consensus among derivatives market participants that participated in the ISDA Collateral Infrastructure Committee. 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.