Deutsche Bank
Legal

Initial Margin for non-cleared derivatives

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Passion to Perform

Agenda

1) Background – EU Rules
2) Margin Requirements
3) Covered Entities
4) Covered Transactions
5) IM Calculations
6) IM Requirements Overview
7) IM Segregation – Third Party Custodian
8) Documentation Architecture – Example
9) IM Documentation under German Law

Background – EU Rules

Based on a mandate from G20, BCBS and IOSCO developed global “minimum standards” on margin requirements

Objective → Reduce Systemic Risk

Objective → Promote Central Clearing

At EU – Level implemented by European Market Infrastructure Regulation (EMIR)* and Delegated Regulation**

* Regulation (EU) 648/2012 on OTC-derivatives, central counterparties and trade repositories

** Commission delegated regulation (EU) 2016/2251 supplementing EMIR with regard to regulatory technical standards for risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty

Margin Requirements

Variation Margin

Objective

Protects against counterparty credit risk arising out of fluctuations in market value

Initial Margin

Objective

Protects against potential losses between the last exchange of VM and liquidation or hedging of positions following a counterparty default

Covered Entities ➔ FC and NFC+

Phase 1
Feb 04 2017
€ 3.0 + trillion (AANA)

Phase 2
Sept 01 2017
€ 2.25 + Trillion (AANA)

Phase 3
Sept 01 2018
€ 1.5 + Trillion (AANA)

Phase 4
Sept 01 2019
€ 0.75 + Trillion (AANA)

Phase 5
Sept 01 2020
€ 8 + Billion (AANA)

- Aggregate Average Notional Amount (AANA) of outstanding non - cleared derivatives during observation period (March – May) on group level (including intra-group transactions but counting them once)
- After Phase-In periods: AANA for months March – May of preceding year of € 8 billion or more (Art. 28 Delegated Regulation)

Covered Transactions

Art 2 (5) EMIR: “derivative” or “derivative contract” means a financial instrument as set out in points (4) to (10) of Section C of Annex I to Directive 2004/39/EC (MIFID) as implemented by Article 38 and 39 of Regulation (EC) No 1287/2006

No IM

- ❖ Physically settled FX forwards
- ❖ Physically settled FX swaps
- ❖ Exchange of principals of currency swaps

Date of application

- ❖ Single – stock equity options or index options
- ❖ Art. 36(1) and 37 apply from 4.1.2020

IM Calculation

EMIR allows for Standard and Internal Model approaches

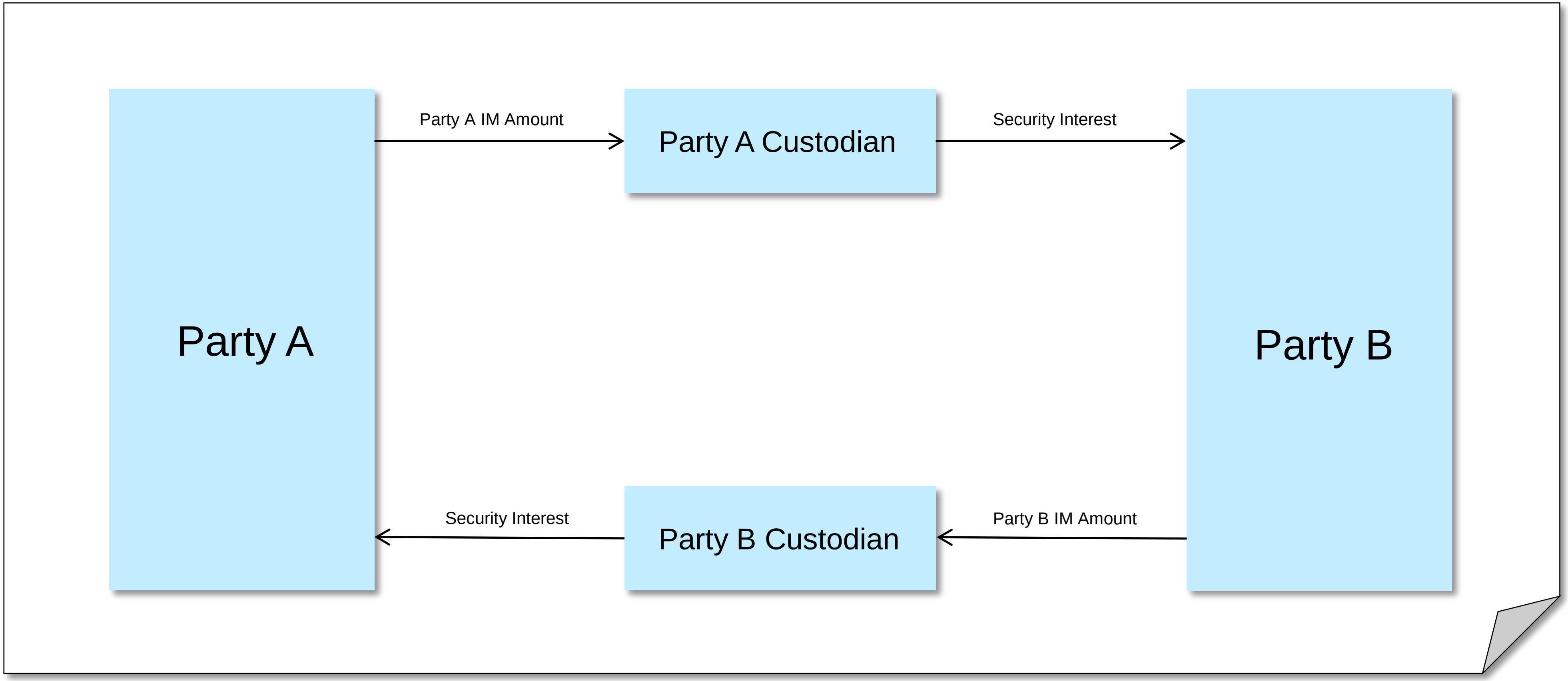
	Standard Model	Internal Model
pros	Simple implementation	Smaller IM
cons	Potentially larger IM	Regulatory approval requirement and difficult to harmonize between counterparties

ISDA SIMM

IM Requirements Overview

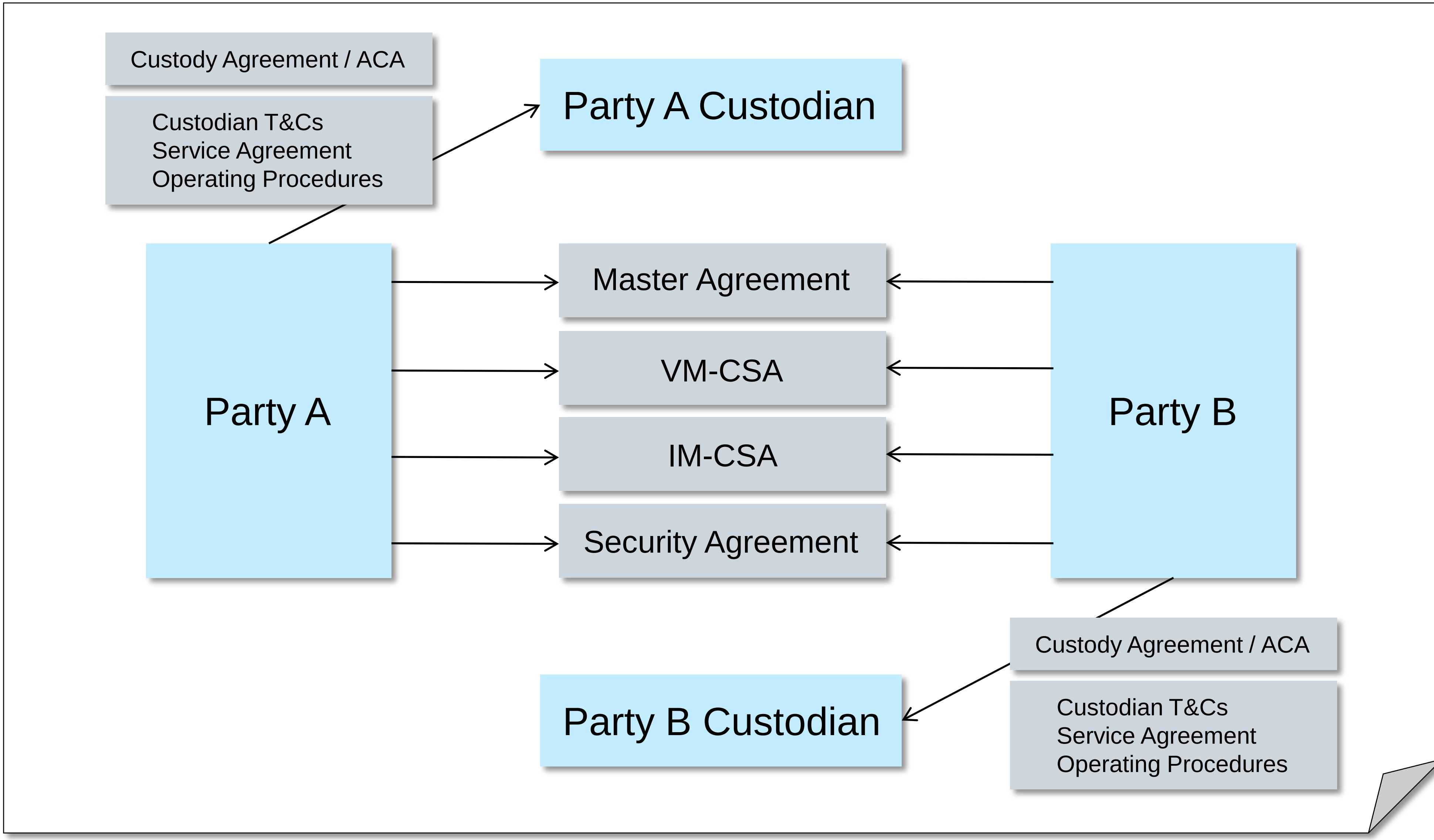
- Permitted threshold of EUR 50 million shared across consolidated group
- Reduction of threshold to EUR 10 million where both counterparties belong to same group
- Minimum Transfer Amount of EUR 500.000 (for both IM and VM)
- No Netting ➔ Two way IM
- Segregation
- No re-hypothecation, re-pledge or re-use
- Documentation

IM Segregation – Third Party Custodian



Objective: protection of default or insolvency of collecting counterparty

Documentation Architecture - Example



IM Documentation under German Law