

## U.S. and EU Margin Rules for Uncleared Derivatives A Quick Reference Guide

### SCOPE OF RULES - ENTITIES

CFTC & PR Rules	EMIR
SDs, MSPs (CFTC & PR rule), SBSBs and MSBs that are prudentially regulated (PR rule) (together, "CSEs")	EU FCs, NFC+s and non-EU entities trading uncleared OTC derivatives with certain other non-EU entities, which have a direct substantial and foreseeable effect within the EU

### U.S. MARGIN REQUIREMENTS FOR CSEs BY COUNTERPARTY TYPE

TYPE OF COUNTERPARTY	INITIAL MARGIN	VARIATION MARGIN
CSE → Swap Entities	Required to collect	Required to exchange
CSE → Financial end users w/material swaps exposure ( <i>uncleared swap volumes exceed \$8 billion</i> )	Required to exchange	Required to exchange
CSE → Financial end users w/o material swaps exposure	As determined appropriate in accordance with credit risk	Required to exchange
CSE → Other counterparties to extent relevant swaps do not qualify for listed exemptions	As determined appropriate in accordance with credit risk	As determined appropriate in accordance with credit risk

### EU MARGIN REQUIREMENTS BY COUNTERPARTY TYPE

COUNTERPARTIES	INITIAL MARGIN	VARIATION MARGIN
FCs / NFC+s → FCs / NFC+s	Required to collect ( <i>if counterparty's uncleared swap volumes are below €8 billion, IM does not apply</i> )	Required to collect
NFC-s → any counterparty	No margin requirements	No margin requirements

### IMPLEMENTATION SCHEDULE

CFTC & PR Rules & EMIR	
<b>IM</b>	If the total exposure of uncleared swaps, SB swaps, FX forwards and FX swaps (U.S. rules) or all uncleared derivatives (EU rule) for the counterparty and its affiliates exceeds \$/€3 trillion - <b>9/1/16</b> ; \$/€2.25 trillion - <b>9/1/17</b> ; \$/€1.5 trillion - <b>9/1/18</b> ; \$/€0.75 trillion - <b>9/1/19</b> ; and all others - <b>9/1/20</b>
<b>VM</b>	If the total exposure of uncleared swaps, SB swaps, FX forwards and FX swaps (U.S. rules) or all uncleared derivatives (EU rule) for the counterparty and its affiliates exceeds \$/€3 trillion - <b>9/1/16</b> ; and all others - <b>3/1/17</b>

### SCOPE OF RULES - PRODUCTS

CFTC & PR Rules	EMIR
Uncleared swaps (CFTC & PR rules) and SB swaps (PR rule) entered into on or after the relevant compliance date that do not qualify for certain enumerated exemptions from mandatory clearing ( <i>physically-settled FX forwards and FX swaps and the fixed, physically settled exchange of principal in cross-currency swaps are not subject to ANY margin requirements</i> )	Uncleared derivatives entered into on or after the relevant compliance date that do not qualify for certain enumerated exemptions from the requirement to post or collect IM or VM ( <i>physically-settled FX forwards and FX swaps and exchange of principal in currency swaps are <u>not</u> subject to IM <u>but are</u> subject to VM requirements</i> )

### NETTING

	CFTC & PR Rules	EMIR
<b>IM</b>	<p><u>Approved Model</u>: Can net all uncleared swaps under an EMNA within, but not across, broad risk categories (<i>commodity; credit; equity; and FX or interest rate</i>)</p> <p><u>Standardized Approach</u>: 60% benefit of cross-asset netting</p>	<p><u>Model</u>: Can net all uncleared swaps under an EMNA within, but not across, asset classes (<i>interest rates, currency and inflation; equity; credit; commodities and gold; other</i>)</p> <p><u>Standardized Approach</u>: 60% benefit of cross-asset netting</p>
<b>VM</b>	Change in value from previous collection of VM	Change in value from previous collection of VM

For more clarity on uncleared margin – including explanatory footnotes and citations – please visit <https://www.milbank.com/clarity-on-uncleared-margin.html>

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### IM THRESHOLDS (REQUIREMENT TO POST/COLLECT)

CFTC & PR Rules	EMIR
\$50 million <i>(consolidated basis for all uncleared swaps at group level)</i>	€50 million <i>(consolidated basis for all uncleared swaps at group level)</i>

### MINIMUM TRANSFER AMOUNTS (MARGIN TRANSFER)

CFTC & PR Rules	EMIR
\$500,000 <i>(total IM and VM to be collected or posted)</i>	€500,000 <i>(or equivalent in another currency; total IM and VM)</i>

### MARGIN TIMING

	CFTC & PR Rules	EMIR
<b>IM</b>	Must occur initially on or before the BD after execution and at least daily thereafter	Must be calculated and collected within one BD following certain events <i>(including execution, expiration, no calculation in preceding 10 BDs, etc.)</i>
<b>VM</b>	At least daily	Must be calculated at least daily and collected same-day <i>(permitted collection w/i 2 BDs if certain conditions are met)</i>

### APPLICABLE MARGIN CALCULATIONS

	CFTC & PR Rules	EMIR
<b>IM</b>	<p><u>Approved Model</u>: 99% confidence interval over shorter of (i) 10 BDs, and (ii) the maturity of the swap or netting portfolio; historical observation period of 1-5 years plus period of significant financial stress</p> <p><u>Standardized Approach</u>: Calculated as percent of notional, with adjustment related to net-to-gross ratio</p>	<p><u>Model</u>: 99% confidence interval over margin period of risk of at least 10 days; historical data from period of 3-5 years plus at least 25% of data representative of period of significant financial stress</p> <p><u>Standardized Approach</u>: Calculated as percent of notional, with adjustment related to net-to-gross ratio</p>
<b>VM</b>	Change in value from previous collection of VM	Change in value from previous collection of VM

### ELIGIBLE COLLATERAL

	CFTC & PR Rules	EMIR
<b>IM</b>	Cash, certain enumerated debt securities, certain listed equities, shares in certain pooled investment vehicles and gold. <i>(haircut schedule applies)</i>	Cash, gold, certain government bonds, corporate bonds, equities, most senior tranche of securitization and shares or units in UCITs (where specified conditions are satisfied) <i>(haircuts apply - schedule or own estimates; additional considerations required for credit quality risk, wrong-way risk and concentration risk)</i>
<b>VM</b>	<p><u>CSE and Swap Entity</u>: immediately available cash funds denominated in U.S. dollars, another major currency or the currency of settlement <i>(haircut schedule applies)</i></p> <p><u>CSE and Financial End User</u>: any of the same forms of collateral permitted for IM <i>(haircut schedule applies)</i></p>	Same eligible collateral as IM <i>(haircuts apply - schedule or own estimates)</i>

### SEGREGATION & REHYPOTHECATION

	CFTC & PR Rules	EMIR
<b>IM</b>	CSEs are required to segregate all IM collected pursuant to the margin rules at 3rd party custodian; all IM posted by CSEs (even if not pursuant to the rules) must be held by 3rd party custodian No rehypothecation but can reinvest cash collateral that is required to be segregated	All IM collected must be segregated (can be held by collected counterparty, 3rd party holder or custodian); cash collected as IM must be deposited with an independent 3rd party holder or custodian or with a central bank; collecting party must offer posting party right to individual segregation No rehypothecation but can reinvest cash collateral that is required to be segregated
<b>VM</b>	No segregation requirements	No segregation requirements

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