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BACKGROUND ON THE WORKING GROUP ON MARGIN REQUIREMENTS

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FRAMEWORK AND RULES

- 2011 – G20 added margin requirements to post-crisis reforms.
- 2011 – BCBS-IOSCO tasks working group to develop margin standards for uncleared swaps (“WGMR”).
  - Representatives from 25 regulatory authorities, including CFTC, SEC, FDIC, FRB, OCC, and FRBNY.
- 2013 – WGMR publishes standards
  - Covers product and entity scope, margin calculation, collateral , timing of exchanges, compliance schedule and cross-border issues.
- 2015 – CFTC and U.S. prudentials issue final rules based on WGMR standards.

ENTITY SCOPE

- Variation margin: Financial end users (*i.e.,* regulated entities and firms that "primarily" invest or trade).
- Variation <u>and</u> initial margin: Financial end users with material swaps exposure ($8 billion AANA threshold)
- Exclusions:
  - Non-Financial End Users,
  - Sovereigns, central banks, BIS, MDBs
- Exclusions means that out of nearly 160,000 total swap relationships, only 12,000 firms will be subject to IM.
  - Of the 10,000 relationships subject to IM, only about 20% will <u>actually</u> exchange IM due to $50M IM threshold.
  - IM will therefore be exchanged by about 1.5% of all relationships.

ONGOING CHALLENGES

- ISDA estimates phase 5 will bring into scope 1,100 entities, versus only 34 in Phases 1-3.
  - Question regarding possible “congestion” as each new swap relationship will require IM documentation, custodial arrangements, and increase demand for high quality collateral.
  - Is industry ready to handle all at once?
- Other challenges include Brexit, LIBOR and cross-border cooperation.

PHASE 5 OF INITIAL MARGIN

- Some regulatory adjustments for phase 5 have taken place.
  - In March 2019, the IOSCO and BCBS published a clarification on the timing requirements for the establishment of rule-compliant documentation.
- WGMR continues to monitor developments.
- Now, Richard Haynes, of the CFTC OCE will discuss their study of the phase 5 situation.