

Version 1 (6.3.2017) – For EU Asset Manager

**(TEXT OMITTED FROM PARAGRAPHS 3 TO 13)**

[Name of Asset Manager]

## Risk Management Policies and Procedures [Manual/Handbook]

for the margining of uncleared swaps under EMIR

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## 1. About this document

- 1.1 This document contains the risk management policies and procedures of [ ] (the "**Manager**", and the other asset management companies within the [*name of asset manager*] group (the "**Group**")) with respect to margining of uncleared OTC derivative transactions under the EMIR Rules.
- 1.2 Although this document refers to risk management policies and procedures of the [Manager/Group], the [Manager/Group] is applying these policies and procedures on behalf of its Clients; either generally or, for Segregated Clients, with respect to the uncleared OTC derivative transactions it enters into on behalf of such Clients.
- 1.3 Defined terms are set out in paragraph 14.
- 1.4 This version of this document is dated as of [ ] 2017 and was prepared by [ ] and was approved by [ ] on [ ].

## 2. Background

### 2.1 The EMIR Rules

- 2.1.1 The EMIR Rules were developed by the Joint Committee of the European Supervisory Authorities to define the risk-mitigation techniques for OTC derivative contracts not cleared by a Central Counterparty, as laid out in Article 11 of EMIR.
- 2.1.2 The EMIR Rules require:
- (a) counterparties to exchange VM with regards to the uncleared transactions. This requirement takes effect from 1 March 2017;
  - (b) counterparties to exchange IM with regards to the uncleared transactions. This requirement takes effect from 4 February 2017, with transitioning (see paragraph 3.1.4 below);
  - (c) counterparties to have in place appropriate netting and collateral agreements and to conduct a legal review of the effectiveness thereof (see paragraph 5 below);
  - (d) counterparties to establish risk management policies and procedures as to various matters (see paragraph 2.4 below).
- 2.1.3 This document sets out the [Manager/Group]'s risk management policies and procedures as to the manner in which it will comply with the EMIR Rules.

### 2.2 Counterparties and Clients subject to the EMIR Rules

- 2.2.1 The requirements under the EMIR Rules apply to all EU financial counterparties (FCs) and EU non-financial counterparties (NFCs) whose OTC derivative contracts are over the clearing threshold (NFC+s).
- 2.2.2 The following Clients of the [Manager/Group] ("**Covered Clients**") are subject to the EMIR Rules:
- (a) UCITS;
  - (b) AIFs managed by an AIFM;

(c) Segregated Clients of the [Manager/Group] established in the EU which are:

- (i) credit institutions;
- (ii) investment firms;
- (iii) insurance firms;
- (iv) reinsurance firms;
- (v) pension schemes;
- (vi) NFC+s.

2.2.3 Other than the transaction reporting requirements, EMIR does not apply to certain multi-lateral development banks, certain EU public sector entities, the European Financial Stability Facility and the European Stability Mechanism (EMIR Article 1(5)).

2.2.4 EMIR does not apply to European central banks or the BIS (EMIR Article 1(4)).

2.2.5 The EU Commission has adopted a delegated act to disapply EMIR to central banks of the US and Japan. The EU Commission has consulted on a delegated act which, when adopted, would also disapply EMIR to the following non-EU central banks:

Australia, Canada, Hong Kong, Mexico, Singapore and Switzerland.

2.2.6 All other non-EU central banks are the equivalent of NFCs and, if over the clearing threshold, would be the equivalent of NFC+s.

2.2.7 For counterparties to which the EMIR Rules apply, the EMIR Rules also extend to those counterparties with whom they enter into uncleared OTC derivative transactions which are:

- (a) EU non-financial counterparties whose OTC derivative contracts are below the clearing threshold (NFC-s);
- (b) non-EU counterparties which would be FCs or NFC+s if they were established in the EU (TCEs).

2.2.8 This means that Covered Clients are required to exchange margin in accordance with the EMIR Rules with bank and broker counterparties who are not established in the EU.

2.2.9 Notwithstanding paragraph 2.2.7(a) an entity to whom the EMIR Rules applies may, as a matter of policy, decide not to exchange VM or IM with NFC-s. (Art 24) – see further paragraph 12.2.

2.2.10 The [Manager/Group] does not enter into OTC derivatives transactions on behalf of any Client with an NFC.

### **2.3 Other Clients**

2.3.1 As stated in paragraph 2.2.7, counterparties to uncleared OTC derivatives transactions who are themselves subject to the EMIR Rules will be required to exchange margin with counterparties who are not themselves subject to the EMIR Rules but who would be subject to the EMIR Rules if established in the EU.

2.3.2 Accordingly Clients who are not Covered Clients but who would be subject to the EMIR Rules if they were established in the EU ("**Indirectly Covered Clients**") will still be required to exchange

margin in accordance with the EMIR Rules by EU banks and brokers with whom the [Manager/Group] enters into trade uncleared OTC derivatives transactions on behalf of those Clients.

- 2.3.3 Clients which are NFC-s (and Clients which would be NFC-s if they were established in the EU) are not subject to the EMIR Rules and, although the Manager expects its EU Counterparties to continue to require margin to be exchanged with such Clients, the Manager does not expect that exchange of margin to be subject to the EMIR Rules on the assumption that the Counterparty will have a policy as described in paragraph 2.2.9.

## **2.4 Transactions covered**

- 2.4.1 The EMIR Rules apply to uncleared OTC derivative contracts entered into after the date when the EMIR Rules specify.

- 2.4.2 For VM the date of application of the EMIR Rules is 1 March 2017.

- 2.4.3 For IM the date of application of the EMIR Rules is phased in depending on the AANA of both counterparties – see paragraph 3.4.1 below.

- 2.4.4 Notwithstanding that the EMIR Rules only apply to the margining of new uncleared OTC derivative contracts, it is the Manager's policy to:

(a) exchange VM in accordance with the EMIR Rules for new and legacy transactions together (save where there are commercial reasons not to do so (such exceptions to be approved on a case by case basis by [*the applicable fund/portfolio manager*]) or where required by a Segregated Client);

(b) exchange IM only where required under the EMIR Rules for new transactions except where there are commercial reasons not to do so (such exceptions to be approved on a case by case basis by [*the applicable fund/portfolio manager*]) or where required by a Segregated Client).

- 2.4.5 Consistent with the current industry position (as set out in Appendix 1) the Manager's policy is to treat the following as if a new OTC derivative contract had been entered into:

(a) Novation or assignment of an existing OTC derivative transaction to the Manager;

(b) Any increase in the notional amount of an existing OTC derivative transaction;

(c) Any increase to the maturity date of any existing OTC derivative transaction;

(d) Any change to the terms of an existing OTC derivative transaction which is material in economic terms;

(e) Any other change to the terms of an existing OTC derivative transaction which is material in that it changes the nature of the transaction.

- 2.4.6 The EMIR Rules requirements with respect to VM apply to all types of uncleared OTC transactions entered into after 1 March 2017, subject to the following:

(a) With respect to physically settled FX forwards the requirements of the EMIR Rules to exchange VM are deferred until the earlier of 31 December 2018 and the date of entry into application of certain clarifications to the definition of physically settled FX forwards under the MiFID2 framework (Art 37(2)). This means that Clients are not required under

the EMIR Rules to exchange VM for such transactions entered into before such date. [However, the Manager's policy is to margin the transactions on an EMIR Rules basis in any event [unless the only product traded is physically settled FX and there are no existing collateralised trading documents in place with the relevant counterparty for the Client, in which case [ ]. In those cases, the Manager's policy is to try to enter into an ISDA Master Agreement and Credit Support Annex (on an EMIR Rule compliant basis) before the date on which such transactions are subject to the VM margin requirements].]

- (b) Under the EMIR Rules there is no requirement to exchange VM with respect to single-stock equity options and index options until 4 January 2020. The Manager's policy is to margin these transactions on an EMIR Rules basis in any event [unless [ ], in which case [ ]. In those cases, the Manager's policy is to try to enter into an ISDA Master Agreement and Credit Support Annex (on an EMIR Rule compliant basis) before the date on which such transactions are subject to the VM margin requirements.]

2.4.7 The requirements with respect to IM apply to all types of uncleared OTC transactions entered into between IM In-scope Entities after the applicable phase-in date (see paragraph 3.1.4 below), provided that an FC or NFC+ may provide in its risk management procedures that IM is not collected with respect to the following:

- (a) physically settled FX forwards;
- (b) FX swaps; and
- (c) the exchange of principal of uncleared currency swaps (Art 27).

2.4.8 [It is anticipated that the][The] Manager's policy [will be][is] not to apply IM with respect to such transactions.

2.4.9 Under the EMIR Rules, where an FC or an NFC+ faces a counterparty which is domiciled in a third country, it may calculate margins on the basis of a netting set that includes the following types of contracts:

- (a) uncleared OTC derivatives subject to margin requirements under the EMIR Rules;
- (b) contracts that meet both of the following conditions:
  - (i) they are identified as uncleared OTC derivatives by the regulatory regime applicable to the counterparty domiciled in the third country;
  - (ii) they are subject to margin rules in the regulatory regime applicable to the counterparty domiciled in the third country (Art 26).

2.4.10 The Manager accepts that it will need to allow the margining of such expanded netting sets in order to enable its counterparties in such jurisdiction to achieve compliance with the own margin rules.

2.4.11 There is a deferral in the application of the EMIR Rules to uncleared OTC derivative contracts with group counterparties as described in paragraph 12.6.1.

2.4.12 There is also an exemption from the application of the EMIR Rules to intragroup OTC derivative transactions (EMIR Articles 11(3) and 3)) and a potential deferral in the application of the EMIR Rules when entering into such transactions with non-EU group counterparties where there is no

equivalence decision under Article 13(2) of EMIR with respect to the margin regime of the counterparty (Art 36(2) and Art 37(3)). See further paragraph 12.6.

## 2.5 Risk Management Policies and Procedures

2.5.1 Under the EMIR Rules (Art 2(2)), FCs and NFC+s are under an obligation to establish, apply and document risk management procedures for the exchange of collateral for uncleared OTC derivatives which provide for or specify:

- (a) the eligibility of collateral for uncleared OTC derivatives in accordance with Section 2 of the EMIR Rules – these are contained in paragraph 6;
- (b) the calculation and collection of margin for uncleared OTC derivatives in accordance with Section 3 of the EMIR Rules – these are contained in paragraph 8 and 9;
- (c) the management and segregation of IM for uncleared OTC derivatives in accordance with Section 5 of the EMIR Rules – [these will be developed before any Client is subject to the requirement to exchange IM];
- (d) the calculation of the adjusted value of collateral in accordance with Section 6 of the EMIR Rules – these are contained in paragraph 7;
- (e) the exchange of information between counterparties and the authorisation and recording of any exceptions to its risk management procedures – these are contained in paragraph 13.1;
- (f) the reporting of the exceptions set out in Chapter II of the EMIR Rules to senior management - these are contained in paragraph 13.2;
- (g) the terms of all necessary agreements to be entered into by counterparties, at the latest, at the moment in which an uncleared OTC derivative contract is concluded, including the terms of the netting agreement and the terms of the exchange of collateral agreement in accordance with Article 3 of the EMIR Rules - these are contained in paragraph 4;
- (h) the periodic verification of the liquidity of the collateral to be exchanged - these are referred to in paragraph 7.3 and are not required by the Manager for the reason stated;
- (i) the timely re-appropriation of the collateral in the event of default by the posting counterparty from the collecting counterparty - these [are/will be] contained in paragraph 9.5 and are only applicable to IM; and
- (j) the regular monitoring of the exposures arising from OTC derivative contracts that are intragroup transactions and the timely settlement of the obligations resulting from those contracts - these are contained in paragraph 12.6.4 and apply where the intragroup exemption is granted or applied for.

2.5.2 These risk management procedures should be tested, reviewed and updated as necessary and at least annually (Art 2(5)).

2.5.3 [ ] is responsible for the annual testing and review of these risk management procedures and any changes to them are subject to the approval of [ ].

2.5.4 Additionally where FCs and NFC+s enter into a netting agreement or an exchange of collateral agreement, they shall perform an independent legal review of the enforceability of those

agreements. That review may be conducted by an internal independent unit or by an independent third party. However, the requirement to perform the review shall be considered to be satisfied in relation to the netting agreement where that agreement is recognised in accordance with Article 296 of CRR (Art 2(3)).

2.5.5 FCs and NFC+s are also required to establish policies to assess on a continuous basis the enforceability of the netting and the exchange of collateral agreements that they enter into (Art 2(4)).

### **3. Counterparty Classification and Self-Disclosure**

#### **3.1 General**

#### **3.2 Counterparty status**

#### **3.3 Client status**

#### **3.4 AANA levels**

### **4. Trading Documentation**

#### **4.1 General**

#### **4.2 Netting Agreements**

#### **4.3 Collateral Agreements**

### **5. Legal review**

#### **5.1 General**

#### **5.2 Netting Agreements and Collateral Agreements**

#### **5.3 Continuous Review**

#### **5.4 Segregation Arrangements**

### **6. Eligible Collateral**

### **7. Haircuts**

#### **7.1 General**

#### **7.2 Standard Methodology**

#### **7.3 Own Volatility Estimates**

### **8. Variation Margin**

#### **8.1 Calculation**

#### **8.2 Collection**

### **9. Initial Margin**

#### **9.1 Calculation**



- 9.2 **Collection**
- 9.3 **IM Thresholds**
- 9.4 **Concentration Limits**
- 9.5 **Segregation**
- 10. **Initial Margin Model**
  - 10.1 **General**
  - 10.2 **Calibration**
  - 10.3 **Qualitative Requirements**
- 11. **Minimum Transfer Amounts**
- 12. **Exemptions**
  - 12.1 **CCPs**
  - 12.2 **NFC-s and equivalent**
  - 12.3 **IM based upon AANA threshold**
  - 12.4 **Covered Bond Issuers**
  - 12.5 **Non-Netting Jurisdictions**
  - 12.6 **Intragroup Transactions**
- 13. **Miscellaneous**
  - 13.1 **Exchange of Information**
  - 13.2 **Reporting of Exceptions**
- 14. **Defined Terms**
  - 14.1.1 **AANA** means the aggregate average notional amount of uncleared OTC derivatives determined in accordance with Art 36 of the EMIR Rules as described in paragraph 3.4.1.
  - 14.1.2 **AIF managed by an AIFM** means an alternative investment funds managed by alternative investment fund managers authorised or registered in accordance with Directive 2011/61/EU of the European Parliament and of the Council
  - 14.1.3 **Central Counterparty** means a legal person that interposes itself between the counterparties to the contracts traded on one or more financial markets, becoming the buyer to every seller and the seller to every buyer. A Central Counterparty need not be a CCP authorised under EMIR.
  - 14.1.4 **Client** means a Fund or a Segregated Client.
  - 14.1.5 **[Collateral Manager** means [*outsourced collateral management service provider*].]

- 14.1.6 **Counterparty** means a bank or broker with whom the [Manager/Group] enters into or intends to enter into uncleared OTC derivatives on behalf of Clients.
- 14.1.7 **Covered Client** has the meaning given to it in paragraph 2.2.2.
- 14.1.8 **Credit Support Annex** means a 1995 ISDA Credit Support Annex (English law – transfer) or a 1994 ISDA Credit Support Annex (New York law) or a 2016 ISDA VM Credit Support Annex (English law – transfer) or a 2016 ISDA VM Credit Support Annex (New York law).
- 14.1.9 **CRR** means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.
- 14.1.10 **EMIR** means Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.
- 14.1.11 **EMIR Rules** means Commission Delegated Regulation of 4 October 2016 supplementing EMIR with regard to regulatory technical standards for risk-mitigation techniques for OTC derivatives not cleared by a central counterparty.
- 14.1.12 **FC** means a financial counterparty under EMIR being an EU credit institution, investment firm, insurance firm, reinsurance firm, pension scheme or UCITS or an AIF managed by an AIFM.
- 14.1.13 **Fund** means a collective investment scheme established as a closed or open-ended fund whether as a corporate vehicle or as a trust or in other legal form and includes a fund established under the UCITS Directive and an AIF, in each case whose assets whose assets are under the management of the [Manager/Group].
- 14.1.14 **Indirectly Covered Client** has the meaning given to it in paragraph 2.3.2.
- 14.1.15 **group** means, with respect to an entity, that entity and the other entities in the world-wide accounting group of which it forms part.
- 14.1.16 **IM** means collateral calculated in accordance with the EMIR Rules that is collected or posted in respect of an uncleared OTC derivative transaction in order to cover the potential future exposure in the interval between the last exchange of VM and the liquidation of positions following a default.
- 14.1.17 **IM Credit Support Documents** means a 1995 ISDA Credit Support Deed or an 1994 ISDA Credit Support Annex (New York law), in each case, adapted for the provision only of IM or a 2016 ISDA Credit Support Deed (IM) or a 2016 ISDA Credit Support Annex (New York law) (IM) , in all cases together with the relevant account control agreement(s) and/or tri-party collateral agreements, however described, between the parties thereto the their applicable custodian(s).
- 14.1.18 **IM In-Scope Entity** means, at any time, an entity which is subject to the requirement to exchange IM under the EMIR Rules at that time.
- 14.1.19 **IM Model** means a model to determine the amount of IM required to be exchanged under the EMIR Rules.
- 14.1.20 **ISDA** means The International Swap & Derivatives Association, Inc.
- 14.1.21 **ISDA Master Agreement** means a 1992 ISDA Master Agreement or a 2002 ISDA Master Agreement.

- 14.1.22 **NFC** means an undertaking established in the European Union other than a financial counterparty or a Central Counterparty
- 14.1.23 **NFC+** means an NFC which has crossed the clearing threshold and is subject to the clearing obligations pursuant to Article 10(1)(b) of EMIR
- 14.1.24 **NFC-** means an NFC which has not exceeded the clearing thresholds in EMIR
- 14.1.25 **OTC derivative transaction or contract** means a derivative contract the execution of which does not take place on a regulated market as within the meaning of Article 4(1)(14) of Directive 2004/36/EC or on a third-country market considered as equivalent to a regulated market in accordance with Article 19(6) of Directive 2004/39/EC.
- 14.1.26 **Segregated Client** means a client of the Group on behalf of whom the [Manager/Group] manages only some of its assets as a separate "portfolio" or "account" from the other assets of the client.
- 14.1.27 **TCE** means non-EU counterparties which would be FCs or NFC+s if they were established in the EU.
- 14.1.28 **UCITS** means a collective investment scheme established pursuant to the UCITS Directive.
- 14.1.29 **UCITS Directive** means Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).
- 14.1.30 **uncleared OTC derivative transaction or contract** means an OTC derivative transaction or contract which is not cleared through a Central Counterparty.
- 14.1.31 **VM** means collateral provided by one party to its counterparty to meet the performance of its obligations under one or more OTC derivative transactions between the parties as a result of a change in value of such obligations since the last time such collateral was provided.

## Appendix 1

### Transaction Term Changes/Events

#### ISDA Trade Life Cycle Events Guide for Non Cleared Margin

Category	Trade Event	Detail	* Bring into scope for Un-cleared margin? Yes or No (Working Group Consensus View)	Notes	Does M&CP Consensus Align With Clearing Y/N
Amendments and Cancellations	Amendment (i.e. Correction)	Amending details that were originally input incorrectly	No		Y
	Economically Immaterial Amendment		No (no change in pricing)		Y
	Economically Material Amendment		Yes (change in pricing)		N(subject to further esma guidance)
	Cancellation	Trade booked in error and subsequently cancelled	No		Y
Trade events	New Trade for In-scope product (post compliance date)		Yes		N/A
	New Trade for out-of-scope product (post compliance date)		No		N/A
	New Trade for out-of-scope product in one jurisdiction and in-scope product for another jurisdiction (post compliance date)		Yes for the entity subject to the regulatory regime where the product is in-scope	The CSA between the parties should cover the products covered by the agreement. So the parties would then agree to include or exclude the product and avoid asymmetric terms.	NA
	Increase	A bilaterally executed agreement to increase the notional on the transaction	Yes	Generally firms seem to feel the entire trade comes into scope.	N(subject to further esma guidance)
	Full Termination	Full Unwind	No		Y
	Partial Termination	Partial Unwind	No	The partial unwind would NOT bring the remaining portion of the trade into scope. (as under clearing logic)	Y
	Allocation	Original Unallocated "Block" Trade allocated to principal parties post go live	No	Assuming trade entered into prior to effective date. Yes, for allocations of trades entered into post effective date.	N/A
	Cleared Positions	Original Bilateral Trade (the "alpha" trade), post compliance	No		N/A
		Cleared Position ("beta" and "gamma" trades)	No		N/A
	Full Novation	Remaining party	Yes		Y
		Step in	Yes		Y
		Step out	No		Y
	Partial Novation	Remaining party	Yes		Y
Step in		Yes		Y	
Step out		No		Y	

	Inter-affiliate Novation		Same as Novation treatment above	This is yes to clearing obligation where the new party is stepping in.	Same as "Full Novation" above, unless the counterparties can rely on the intragroup exemption under Article 4(2) of EMIR.	
	Inter-Affiliate Partial Novation		Same as Novation treatment above	This is yes to clearing obligation where the new party is stepping in	Same as "Partial Novation" above, unless the counterparties can rely on the intragroup exemption under Article 4(2) of EMIR.	
	Swaption Exercise	Exercise of a Swaption/Resulting Swap from the exercise of a Swaption	No			
	Compression Event	Original Trade - Terminated		No		Y
		Original Trade - Amendment		No		Y
		New resultant trade		Yes	Generally firms say YES to this, NO if its an industry wide run compression.	Yes - Any contract in a clearing obligation product which is entered into or novated between in-scope counterparties after the clearing obligation is in force must be cleared. This is regardless of whether the contract results from a compression exercise or similar.
Cash Settlement	The actual cash settlement of fees, payments, etc.	No		Y		
<b>Intrinsic changes</b>	Amortizing Notionals	Changes to the notional during the course of a trade	No	if pursuant to the original contract terms	Y	
	Dividend resets		No	if pursuant to the original contract terms	N/A	
	Equity resets		No	if pursuant to the original contract terms	N/A	
	Rate resets	Changes to the floating rate of a trade	No	if pursuant to the original contract terms	Y	
<b>Other</b>	Successor events	Product/Part of transaction being replaced by an	othNo	if pursuant to the original contract terms	N/A	
<b>Other</b>	Credit Events	Default on a transaction eg bankruptcy/restructuring/obligation default	No	if pursuant to the original contract terms	Y	
<b>Other</b>	Corporate Actions	Incl: Bonus Issue/Capitalisation issue Special Dividend Spin-Off Stock Split/Change in nominal value Reverse Stock split/Change in nominal value	No-assuming related to the underlying equity	if pursuant to the original contract terms	N/A	
				if pursuant to the original contract terms	N/A	
				if pursuant to the original contract terms	N/A	
				if pursuant to the original contract terms	N/A	
				if pursuant to the original	N/A	

				contract terms	
				if pursuant to the original contract terms	N/A
<b>Other</b>	Conversions	Parties mutually agreeing and consenting to a conversion post-compliance date which results in a material amendment. Would not include a conversion documented pre-compliance date as an event due to take place in the future (i.e. post-compliance date). Example would be swap on an ADR that is converted to swap on the underlying stock as agreed by both parties, or a stock is dual listed and is converted from a GBP line to a HK line as agreed by both parties.	Yes	Propose similar treatment as swaptions. No, if option to convert is negotiated pre compliance date. Yes, if you amend swap originally referencing ADR to instead reference the underlying post compliance date, because that would be a material amendment.	N/A
<b>Other</b>	Publicly traded / listed swap index	Swap is removed/changed in the index by the administrator of the index (i.e. not at the discretion of the dealer or counterparty). Example would be quarterly roll for index CDS. Would not include rebalancing of the index.	No		N/A
<b>Other</b>	Customized basket index swap	Constituents of the basket are changed at the discretion of the dealer or counterparty. Example would be rebalancing the basket by closing a swap on an old ticker and booking that swap on a new ticker	Yes		
<b>Other</b>	Reference Entity Succession Event		No – if pursuant to original contract terms (i.e., no change in pricing)		N/A
<b>Other</b>	Addition of Reference Underlyer to Long Portfolio or Short Portfolio	Creation of a new swap contract on Security XYZ. Does not include documented changes.	Yes	if initial agreement allowed addition or removal then "No"	N/A
<b>Other</b>	Removal of Reference Underlyer from Long Portfolio or Short Portfolio	Partial or full termination of existing swap contract on Security XYZ	No		N/A
<b>Other</b>	Increase in Notional Amount for existing Reference Underlyer	Increasing long or short exposure to Security XYZ. Does not include documented changes.	Yes	If bilaterally agreed, no if a function of some corporate action is stock split	N/A
<b>Other</b>	Decrease in Notional Amount for existing Reference Underlyer	Decreasing long or short exposure to Security XYZ in a portfolio swap wrapper	No		N/A

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## Appendix 2

### Eligible Collateral (Art 4)

The following assets are eligible as collateral under the EMIR Rules

- (a) cash in the form of money credited to an account in any currency, or similar claims for the repayment of money, such as money market deposits;
- (b) gold in the form of allocated pure gold bullion of recognised good delivery;
- (c) debt securities issued by Member States' central governments or central banks;
- (d) debt securities issued by Member States' regional governments or local authorities whose exposures are treated as exposures to the central government of that Member State in accordance with Article 115(2) of CRR;
- (e) debt securities issued by Member States' public sector entities whose exposures are treated as exposures to the central government, regional government or local authority of that Member State in accordance with Article 116(4) of CRR
- (f) debt securities issued by Member States' regional governments or local authorities other than those referred to in point (d);
- (g) debt securities issued by Member States' public sector entities other than those referred to in point (e);
- (h) debt securities issued by multilateral development banks listed in Article 117(2) of CRR;
- (i) debt securities issued by the international organisations listed in Article 118 of CRR;
- (j) debt securities issued by third countries' governments or central banks;
- (k) debt securities issued by third countries' regional governments or local authorities that meet the requirements of points (d) and (e);
- (l) debt securities issued by third countries' regional governments or local authorities other than those referred to in points (d) and (e);
- (m) debt securities issued by credit institutions or investment firms including bonds referred to in Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council<sup>(1)</sup>;
- (n) corporate bonds;
- (o) the most senior tranche of a securitisation, as defined in Article 4(61) of CRR, that is not a re-securitisation as defined in Article 4(63) of CRR;
- (p) convertible bonds provided that they can be converted only into equities which are included in an index specified pursuant to point (a) of Article 197(8) of CRR;
- (q) equities included in an index specified pursuant to point (a) of Article 197(8) of CRR;
- (r) shares or units in undertakings for collective investments in transferable securities (UCITS), provided that the conditions set out in Article 5 are met.

A counterparty shall only collect collateral from the asset classes referred to in points (f), (g) and (k) to (r) where all the following conditions apply:

- (i) the assets are not issued by the posting counterparty;
- (ii) the assets are not issued by entities which are part of the group to which the posting counterparty belongs;
- (iii) the assets are not otherwise subject to any significant wrong way risk, as defined in points (a) and (b) of paragraph 1 of Article 291 of CRR.

(1) Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 302, 17.11.2009, p. 32).



## Appendix 3

### Haircuts (Annex II to the EMIR Rules)

#### *Methodology to adjust the value of collateral for the purposes of Article 21*

1. The value of the collateral shall be adjusted as follows:

$$C_{\text{value}} = C \cdot (1 - H_c - H_{\text{FX}})$$

where:

C = the market value of the collateral;

H<sub>c</sub> = the haircut appropriate to the collateral, as calculated under paragraph 2;

H<sub>FX</sub> = the haircut appropriate to currency mismatch, as calculated under paragraph 6.

2. Counterparties shall apply at least the haircuts provided in the following Tables 1 and 2 to the market value of the collateral:

**Table 1**

#### **Haircuts for long term credit quality assessments**

Credit quality step with which the credit assessment of the debt security is associated	Residual maturity	Haircuts for debt securities issued by entities described in Article 4 (1) (c) to (e) and (h) to (k), in (%)	Haircuts for debt securities issued by entities described in Article 4 (1) (f), (g), (l) to (n) in (%)	Haircuts for securitisation positions meeting the criteria in Article 4 (1) (o) in (%)
1	≤ 1 year	0,5	1	2
	> 1 ≤ 5 years	2	4	8
	> 5 years	4	8	16
2-3	≤ 1 year	1	2	4
	> 1 ≤ 5 years	3	6	12
	> 5 years	6	12	24
4 or below	≤ 1 year	15	N/A	N/A
	> 1 ≤ 5 years	15	N/A	N/A
	> 5 years	15	N/A	N/A

**Table 2**

**Haircuts for short term credit quality assessments**

Credit quality step with which the credit assessment of a short term debt security is associated	Haircuts for debt securities issued by entities described in Article 4(1) (c) and (j) in (%)	Haircuts for debt securities issued by entities described in Article 4(1) (m) in (%)	Haircuts for securitisation positions and meeting the criteria in Article 4(1) (o) in (%)
1	0,5	1	2
2-3 or below	1	2	4

1. Equities in main indices, bonds convertible to equities in main indices and gold shall have a haircut of 15%.
2. For eligible units in UCITS the haircut is the weighted average of the haircuts that would apply to the assets in which the fund is invested.
3. Cash variation margin shall be subject to a haircut of 0%.
4. For the purpose of exchanging VM, a haircut of 8% shall apply to all non-cash collateral posted in a currency other than those agreed in an individual derivative contract, the relevant governing master netting agreement or the relevant credit support annex.
5. For the purpose of exchanging initial margin, a haircut of 8% shall apply to all cash and non-cash collateral posted in a currency other than the currency in which the payments in case of early termination or default have to be made in accordance with the single derivative contract, the relevant exchange of collateral agreement or the relevant credit support annex ('termination currency'). Each of the counterparties may choose a different termination currency. Where the agreement does not identify a termination currency, the haircut shall apply to the market value of all the assets posted as collateral.

The rating category per credit quality step for the purposes of Article 15 of the Commission Implementing Regulation (EU) 2016/1799 is set out in Annex II to that Regulation. The correspondence of the rating categories of each ratings agency with the credit quality step is set out in Annex III to that Regulation.