Commodity Futures Trading Commission
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Fact Sheet – Final Rule Regarding Margin for Uncleared Swaps

The Commodity Futures Trading Commission (CFTC) has adopted rules to implement section 4s(e) of the Commodity Exchange Act. The rules address margin requirements for uncleared swaps entered into by swap dealers (SDs) or major swap participants (MSPs) with financial institutions

Margin requirements will protect the safety and soundness of SD/MSPs and the integrity of the financial system. Requiring parties to collect margin will provide them with collateral to cover the risk posed by counterparties with open swap positions. Requiring parties to post margin will reduce the ability of firms to take on excessive risk.

The rules apply to SD and MSPs that are not subject to regulation by the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Farm Credit Administration' or the Federal Housing Finance Agency (collectively the Prudential Regulators).

The rules are based on the proposal of September 17, 2014, after taking in consideration comments from the public. The CFTC consulted with the Prudential Regulators as well as with the Securities and Exchange Commission in developing the rules. The rules are very similar to the rules recently adopted by the Prudential Regulators. The rules are also very similar to international standards issued in 2013 by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions.

Products

The rules would apply to uncleared swaps entered into after the effective dates of the regulation (see implementation schedule below). The proposal would not apply retroactively.

Market Participants

The rules would apply to those SDs and MSPs that are not subject to oversight by the Prudential Regulators (covered swap entities or CSEs). The rules would impose margin requirements on (i) trades between CSEs and SDs or MSPs and (ii) trades between CSEs and financial end users.

The rules would not impose margin requirements on commercial end users.

Nature and Timing of Margin Requirements

Initial Margin (IM)

The rules would require daily two-way margin (posting and collecting) for all trades between CSEs and SD/MSPs. The rules would require daily two-way margin for all trades between CSEs and financial end users that have over $8 billion in gross notional exposure in uncleared swaps.

Variation Margin (VM)

The rules would require daily cash payment for all trades between CSEs and SD/MSPs.

The rules would require daily posting for all trades between SD/MSPs and financial end users.

Calculation of IM

The rules would permit the calculation of margin to be based on models or a standardized table.

Models would be required to use a 99% confidence level over 10-day liquidation time.

The rules would permit $50 million threshold below which margin need not be collected.

Calculation of VM

The rules would require the use of methods and inputs that rely on recent trades or third-party valuations.

Forms of Margin

The rules would permit IM to include cash, sovereign debt, government-sponsored debt, investment grade debt including corporate bonds, equities, gold, and shares of certain funds with appropriate haircuts.

The rules would require VM to be in cash for all trades between CSEs and SD/MSPs.

The rules would permit VM of the same nature as permitted IM for all trades between SD/MSPs and financial end users.

Custodial Arrangements

The rules would require IM to be held at independent custodian. The rules would not permit rehypothecation of required IM.

Inter affiliate Swaps

The rules require IM on certain inter-affiliate swaps to prevent evasion. The rules would otherwise exempt inter-affiliate swaps from IM with certain exceptions. The rule requires the exchange of variation margin between affiliates.

Implementation Schedule

IM requirements would be phased-in starting September 1, 2016 and ending September 1, 2020 from the largest participants to smaller ones. VM requirements would be effective September 1, 2016 for the largest participants and March 1, 2017 for the rest.