

Derivatives Alert

Prudential Regulators' Final Non-Cleared Margin Requirements for Covered Swap Entities (CSEs)

Counterparty Type	Initial Margin	Calculating Initial Margin	Initial Margin Thresholds	Acceptable Initial Margin Collateral	Initial Margin Segregation	Variation Margin	Acceptable Variation Margin Collateral
Swap Entity (including other CSEs)	CSE must collect from (and post to) at least the IM collection amount, which could be daily depending on how often changes in portfolio composition and other factors occur	CSE may use the standardized margin schedule or an internal margin model approved by the relevant Prudential Regulator	CSE may adopt a maximum IM threshold amount of \$50 million (\$20 million for affiliates) in aggregate credit exposure with a counterparty, below which it need not collect or post	Cash, gold, U.S. government bonds, and certain corporate bonds, foreign government bonds, and equities (subject to minimum haircuts)	All IM posted by CSE (including excess) and IM collected by CSE up to IM collection amount must be segregated at a third-party custodian. CSE or CSE affiliate can be custodian for IM collected from an affiliate	CSE must collect VM from and post VM to the counterparty at least once per business day	Only U.S. dollars or the currency in which payment obligations under the swap are required to be settled
Financial End User With Material Swaps Exposure	Same as above, except for affiliates, CSE not required to post (instead, only required to notify the affiliate of the amount that otherwise would be required)	Same as above	Same as above (for affiliates, \$20 million threshold amount applies when calculating amount that otherwise would be required to post)	Same as above	Same as above	Same as above	Same as above, plus any major currency and any collateral allowed as IM
Financial End User Without Material Swaps Exposure	CSE not required to post. CSE required to collect at such times and in such forms and amounts (if any) that CSE determines appropriate to address counterparty credit risk and risk of the swap	At CSE discretion	At CSE discretion	At CSE discretion	IM collected by CSE (if any) not required to be segregated; if IM ever posted by CSE (never required), must be segregated at a third-party custodian	Same as above	Same as above
Other Counterparty (except not a financial end user without material swaps exposure (see above) and not a commercial end user or small financial institution that hedges (see below))	Same as above	Same as above	Same as above	Same as above	Same as above	CSE not required to post. CSE required to collect at such times and in such forms and amounts (if any) that CSE determines appropriate to address counterparty credit risk and risk of the swap	At CSE discretion
Commercial End User or Small Financial Institution That Hedges	N/A	N/A	N/A	N/A	N/A	N/A	N/A

IM = Initial Margin; VM = Variation Margin