CLEARED SWAP HANDBOOK

DERIVATIVE PROCESSING UNDER THE DODD-FRANK ACT AND EUROPEAN MARKET INFRASTRUCTURE REFORM (EMIR)

INVESTOR SERVICES

BNY MELLON

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Customers must engage a Clearing Member to act as their agent in dealing with the CCP.

In recent months, global regulators have made significant steps to up their efforts to mandate central clearing of OTC derivatives.

In the US, the Dodd-Frank Act requirements are being implemented, Swap Dealer and Major Swap Participation registration deadlines have been set and the earliest have been reached. The clearing of certain swaps by the dealers is now mandatory and additional market participants and products will follow in the coming months. In Europe the European Market Infrastructure Regulation (EMIR) came into force on 16th August 2012. This also mandates central clearing of over-the-counter (OTC) derivatives, and the deadlines for the various market participants and types of swaps will soon be set.

Some of our customers are now centrally clearing OTC derivative trades, while others are in the latter stages of their implementation projects and more are mobilizing their efforts. We are seeing an increasing number of customer queries relating to the post-trade processing of centrally cleared swaps and details of the information flows BNY Mellon requires in order to properly service and account for centrally cleared swaps.

Instrument types we know will be cleared in the short to medium term include certain Interest Rate Swaps (IRS), Credit Default Swaps (CDS/CDX), Total Return Swaps (TRS), Commodity Swaps, FX Swaps and Non-Deliverable Forwards (NDFs). Additional products will be impacted by regulatory reform through additional registration, reporting and collateralization requirements.

As required under Title VII of the Dodd-Frank Act, The Bank of New York Mellon is provisionally registered as a swap dealer with the United Stated Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association, the self-regulatory organization for the U.S. futures and swaps industry. Swaps and OTC derivatives are an offering of The Bank of New York Mellon, which provides asset servicing and collateral services for its clients.

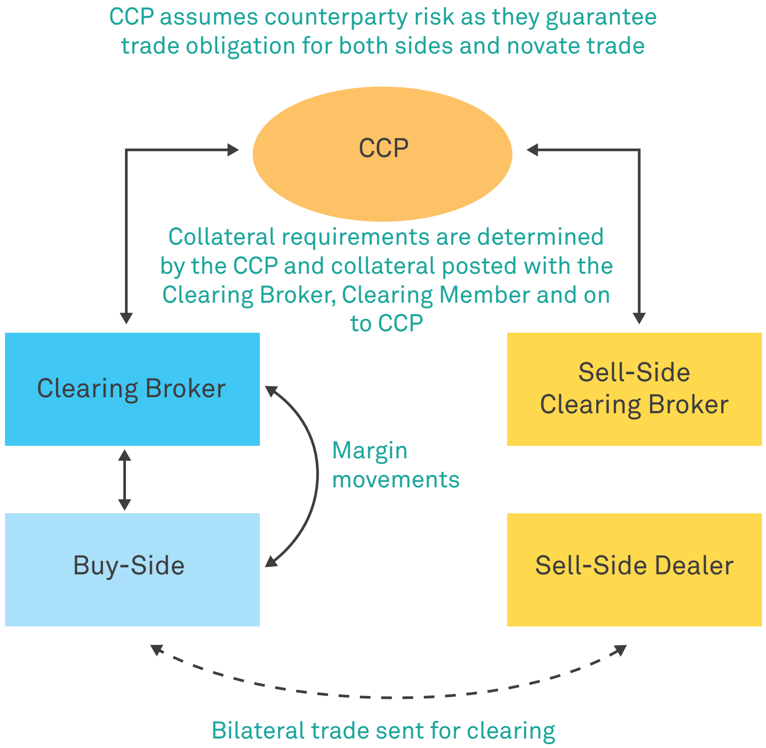
A NEW SERVICING MODEL

At the point of trade, both parties must agree to centrally clear the OTC derivative contract. The Central Counterparty (CCP) steps into the middle of the trade, becoming the buyer to every seller and the seller to every buyer. CCPs have several layers of protection against default. The first is that they only face off to approved and accepted Clearing Members. Customers must engage a Clearing Member to act as their agent in dealing with the CCP.

Centrally cleared trades are "given-up" by the buy-side (or sell-side) customer to their Clearing Member. In many cases, clients are signing up more than one clearing member so they can ensure that they are prepared to "port" positions from one clearing member to another, so that certain counterparty risks are appropriately diversified and aligned with regulator intentions. Bilaterally-traded OTC derivatives that are to be cleared must first be Affirmed or Confirmed and the trades routed by the Affirmation/Confirmation platform to the nominated Clearing House and nominated Clearing Broker(s). Necessarily, trade confirmation messages to industry utilities, such as MarkitWire, must include these additional details. BNY Mellon is able to assist in the Trade Confirmation of centrally Cleared OTC Derivative trades within our D360 suite of Derivatives Middle Office services.

Through the life of the OTC derivative contract, the CCP requires, as a second line of defense, collateral in the form of Initial Margin and Variation Margin. It notifies the Clearing Member who, in turn, calls for this from each of its customers. Initial Margin is the amount required to hold a position open and variation margin is the daily return on the position. The CCP and/or Clearing Member may also issue an intraday margin call.

The introduction of this operating model will require changes to the end-to-end processing of OTC derivatives when they are centrally cleared. Changes will include the data included in the customer trade instruction, the accounting treatment of the daily variation margin and the customer advice of margin movements.



TRADE INSTRUCTION

OTC Derivative trade instructions generally comprise a comprehensive set of data, which reflects the complexity of these instruments. With the migration to central clearing, customer trade instructions will require additional data elements in addition to the data currently required. These data elements are:

- Central Counterparty name/Legal Entity Identifies (LEI) (mandatory)
- Exchange deal ID (mandatory) (Known as Unique Swap Identifier (USI) post clearing)
- Clearing Broker (mandatory)
- Executing Broker (optional)
- Commissions (optional)
- Closeout flag indicator or trade reference (mandatory)

BNY Mellon is able to receive trade instructions in a number of formats. BNY Mellon participates in various industry standards and conforms to market conventions wherever possible.

Centrally cleared OTC derivatives will be standardized such that they can be either bought or sold (the customer can take a long or short position).

SWIFT Messaging:
Where possible, derivative trade instructions should be delivered via the SWIFT network. This includes Financial Products Markup Language (FpML), which is useable for certain swap types and standard SWIFT messages for margin movements.

FpML:
Industry Standardization for Institutional Trade Communication (ISITC) members have provisionally agreed formats for centrally cleared OTC derivatives trade messaging. BNY Mellon is currently leveraging FpML versions 4.2 and 4.4 and has mapped the mandated additional fields described above into the message format to encourage efficient trade capture.

Delimited text files and Excel:
Files in Excel, .csv or other delimited text files containing centrally cleared OTC derivatives trade details can be transmitted and received via FTP and uploaded directly into the appropriate middle office and accounting platforms. At present, this is limited to Interest Rate (IRS and Credit Default Swaps (CDS/CDX).

Fax:
BNY Mellon will capture and manually enter trade details received via fax. There is an operational overhead associated with manual trade entry and BNY Mellon will seek to recover these costs though an appropriate service fee.

Compression of Centrally Cleared Swaps are not entirely identical to similar functions in Futures processing and the inconsistencies require greater transparency to be provided to the fund administrator.

TRADE NETTING AND COMPRESSION

Centrally cleared OTC derivatives will be standardized such that they can be either bought or sold (the customer can take a long or short position). Where trades in the same standardized contract offset, or partially offset, it may be possible for the customer to net these positions at the Clearing Member and CCP. However, BNY Mellon will follow the ISITC recommendation and will require the customer to provide a complete breakdown of the trades that establish a net position. This also applies to situations where net positions “cross-zero”. BNY Mellon requires a closing instruction referencing the existing position and an opening instruct for the new position.

Periodic portfolio compression will become a requirement under the new regulations for market participants with large derivatives portfolios. To achieve this, CCPs may, in some instances, reduce (compress) transactions to create a new aggregated trade to close a number of cumulative smaller positions. BNY Mellon will require a complete breakdown of the trades that achieve the portfolio compression, including any close-out instruction details.

There may be some unexpected consequences of portfolio compression from an accounting perspective. Where existing swap contracts are closed, it may be necessary to realize a gain or loss. Taxation implications of this event may be different than if the individual derivatives had been allowed to run to their natural expiry.

The CCPs offer constant or periodic portfolio compression at the account level for which clients can elect. It is important that customers understand the accounting and other implications of subscribing to this CCP service. Compression of Centrally Cleared Swaps is not entirely identical to similar functions in Futures processing and the inconsistencies require greater transparency to be provided to the fund administrator. BNY Mellon will not interpret or determine the compression transaction array by matching instructions verifying these against Clearing Broker statements. Where the customer elects for periodic portfolio compression by the CCP it is the customer's responsibility to provide a complete breakdown of the trades closed, modified or created in the compression process. BNY Mellon will apply the relevant accounting and taxation treatment to these compression trades based on account level elections.

Global regulators have been working in concert to achieve increased transparency in the oversight of derivatives and the exposures that are created through trading.

NEW STANDARD IDENTIFIERS (USIS, UTIS, UPIS, LEIS, CICIS, ETC.)

Global regulators have been working in concert to achieve increased transparency in the oversight of derivatives and the exposures that are created through trading. To achieve this, a number of standard identifier parameters have been defined within the reporting rules that have been mandated. These include:

Unique Swap Identifier (USI):

In Europe, the equivalent will be the Unique Trade Identifier (UTI), created by the CCP when the specific (unique) derivative contract is cleared. This identifier is attached to the cleared transaction throughout its lifecycle and will be referenced in partial terminations and close-out. Should the portfolio be compressed, a new unique identifier will be issued for the compression transaction by the CCP.

At the point of trade the USI/UTI will not be assigned. It is important, therefore, that the customer provides this key piece of information once the trade has been cleared. The USI/UTI is a mandatory data element for subsequent reconciliation or reporting.

Unique Product Identifier (UPI):

This term is consistent in both the US and Europe and defines the type of swap that has been traded. Various parameters of the swap will be identical for any derivatives contracts that reflect the same UPI.

Legal Entity Identifiers (LEI):

Regulators in both the US and Europe will require each party to a trade to be identified in derivatives reporting. Global standardization and issuance of LEIs requires that a global body be set up to monitor and supervise. The Financial Stability Board (FSB) has commenced work on this initiative but it will take some time to become fully established. The global standard for LEIs is expected to define 20 alphanumeric characters that will also identify the entity within an organizational hierarchy.

The FSB has set out recommendations for a global LEI solution and advocates a three pronged approach. A Regulatory Oversight Committee (ROC) will have ultimate responsibility for the governance of the global LEI system in the public interest. It will comprise regulatory authorities that support the core principles and purposes of the system. The Central Operating Unit (COU) is the principal operational arm of the global LEI system. In particular, the COU has responsibility for ensuring the application of uniform global operational standards, protocols and technological connectivity. A Board of Directors will be appointed to direct the operations of the COU. Implementation of the global system will be delegated to Local Operating Units (LOUs). These will provide local registration, validation, maintenance of reference data and protection of information that must be stored locally.

As the market fluctuates, the account at the clearing broker changes value which generates margin variation on a daily basis.

The FSB intends to commence the roll-out of these structures in 2013.

Commodity Futures Trading Commission Interim Compliant Identifiers (CICIs):
As an interim measure to facilitate derivative trade reporting, the CFTC has issued CICIs that should be used in place of LEIs until the LEI issuance and monitoring infrastructure is established. The LEI for the underlying security of a derivative position will be stored, if provided. The LEI of the clearing broker is a required field.

ACCOUNTING

Accounting follows account convention: the standard process utilizes market value accounting similar to futures. The position is held at value with initial premium or discount as cost. Swaps are established at the leg level with a long and short position to reflect the value received and paid for the contract. The swap legs are aggregated together to represent the cost of the contract as well as the sum of the daily cash flows. Positions carry accrued interest from the time of last coupon date through to the current date.

CCPs have the responsibility for valuing centrally cleared OTC derivatives and employ an auction process subject to certain validation checks. As the market fluctuates, the account at the clearing broker changes value, which generates margin variation on a daily basis. The clearing broker will pay or call Variation Margin from the Customer. The Variation Margin amount is adjusted for daily interest accrual and, in the case of Interest Rate Swaps, it is also adjusted for Price Alignment Interest (PAI). The latter is a cost of funding adjustment and is calculated off-line using the appropriate interest rate for the IRS transaction. These rates are based on the underlying currency of the transaction and the CCP. For example, a USD IRS at the CME (one of the CCPs) uses the daily FED effective rate for the accrual of PAI. Once calculated, the PAI amount is captured on the accounting platforms and reconciled to the clearing broker statement on a periodic basis.

Any initial payment or cash settlement will be included, or offset, in the next day's Variation Margin activity. In order to correctly account for this and other Variation Margin components, BNY Mellon will require details of the daily margin payment, including a complete breakdown identifying the daily interest accrual and PAI components. The daily P&L is treated differently to the interest accrual and PAI, which is treated as interest income.

Within the accounting function BNY Mellon does not validate the margin calculations, fees or adjustments. A periodic accounting reconciliation to the Investment Manager is conducted in accordance with the agreed service levels. BNY Mellon does offer daily Clearing Member Margin Statement validation and reconciliation in its D360 suite of Derivatives Middle Office services.

VALUATION

In order to value funds, it is necessary to obtain the CCP valuation of centrally cleared OTC derivatives. Where a daily NAV is required, the fund accountant must utilize the CCPs preliminary valuation based on a pre-close auction process in which its members participate. Where the customer's investment manager is unable, or not permitted, to provide derivatives valuations, BNY Mellon can obtain CCP valuations on the customer's behalf.

BNY Mellon's pricing process is to store unfunded, inverted prices on its systems (i.e. 100.25 translates to -0.25), which properly translates our position methodology (i.e. Positive positions for buy protection, negative positions for sell protection).

INITIAL MARGIN (COLLATERAL) AND VARIATION MARGIN MOVEMENTS

The customer, or its collateral manager, is expected to instruct all collateral movements. Cash and certain securities are eligible for use as Initial Margin but cash only must be used to fund Variation Margin payments. Security movement instructions should utilize the MT5xx series and should reference the movement as initial or variation margin movement for CCP trades. Cash instructions should be communicated via an MT2xx message and should indicate the movement in relation to CCP activity and whether or not it is an initial margin payment or variation margin payment.

MARGIN MANAGEMENT SERVICES

OTC derivatives reform has led to a need for improved risk sensitivities, better transparency and increased capital and liquidity requirements. With the implementation of regulatory reform already underway, core custody services need to cohesively work with collateral management services to provide a crucial role in implementing the necessary risk mitigation measures, improving transparency and in the segregation, processing, holding and servicing of collateral. For both cleared and non-cleared trades initial margin and variation margin postings are being required of market participants.

BNY Mellon is acknowledged to be one of the leading global providers of collateral services. Regulatory reform of the derivatives markets will create the need for additional collateral products and services. Among the lessons learned from the financial crisis is that institutional investors need to know where their collateral is located at all times and must be in a position to take quick action on it at any time.

Derivatives Portfolios in the future will be split between those derivative contracts that can be centrally cleared and those derivative contracts for which CCPs cannot clear, and must therefore remain in a bilateral arrangement. In the cleared environment, the posting of variation margin is required on a daily basis. For derivatives contracts that are non-cleared, clients must prepare to hold initial margins posted to counterparties on a gross basis and in segregated accounts at the individual fund level. The notion of collateral thresholds may not apply for all market participants. This is a new requirement for many firms as bilateral OTC derivative trades were not typically collateralized prior to implementation of regulatory reform. For several years now, BNY Mellon has been at the forefront of establishing segregated tri-party accounts for clients who sought this offering as a best practice for the protection of assets. We anticipate an increase in demand for these products as the regulatory collateral requirements for clients are implemented.

COLLATERAL MANAGEMENT SERVICES

Existing collateral management services, such as the management of margins for exchange traded derivatives and the bilateral trading of OTC derivatives, will continue to be enhanced to take into consideration the new regulatory environment and evolving market models. Market participants are seeking solutions that will immediately meet their needs, while also having the flexibility to grow with their future requirements. The suite of BNY Mellon collateral management products that address this space include the following:

MarginEdge℠
MarginEdge is a comprehensive framework that helps market participants effectively manage the derivatives margin process across the spectrum of market participants for Listed, Cleared OTC and Bilateral OTC Derivatives. MarginEdge provides an effective approach to addressing front- and middle-office collateral management requirements of end-clients, clearing members and CCPs.

MarginEdge Segregation framework provides protection of assets and compliance with risk management approach and regulatory requirements. MarginEdge connectivity amongst market participants reduces the implicit and explicit costs and improves operational efficiencies. Optimization facilitates best use and allocation of collateral. MarginEdge products provide transparency to view/manage collateral portfolios and help realize performance improvements through efficiencies in the utilization of non-standard collateral and long assets.

Margin DIRECT℠
Margin DIRECT provides custody services for posted margin balances in counterparty transactions. BNY Mellon holds margin balances while users do business and transact with counterparties. This provides a strong element of risk mitigation in counterparty relationships. Bilateral OTC derivative customers are exposed to significant balance sheet risk due to OTC derivative trading counterparty risk. Regulatory reform aims to mitigate Clearing Members' balance sheet risk through the exchange of collateral (margin). Even amid counterparty transactions, institutions require capabilities to maximize liquidity and to access cash if need be. Customers can manage initial margin positions under a tri-party agreement while reducing counterparty risk. BNY Mellon will safekeep posted initial margin balances in a segregated BNY Mellon collateral custody account. The collateral posting and retrieval process is thereby simplified and the assets safeguarded. Customer margin positions are protected by segregating them away from the customer's counterparties. In the event of a counterparty default this structure helps ensure the return of pledged collateral to the customer.

Liquidity DIRECT℠
Liquidity DIRECT offers sophisticated and extensive cash reporting capabilities to capture, value and settle all related investment activity. Transactions are posted in real-time, multiple holdings are included in a single report, and data is archived for extended periods – all features that enable you to continuously monitor and reconcile accounts with ease. Reports can be accessed online at anytime. They can also be e-mailed according to a schedule of your choosing, whether it be daily, weekly or monthly. Additionally, reports can be delivered via SWIFT for cash balances, transactions and holdings.

DM Edge®
DM Edge® allows users to customize their margin and collateral process via a web based interactive workflow. The service provides administration of ISDA Credit Support Annexes (CSAs), GMRAs

and ISLAs, including the monitoring of credit thresholds, minimum transfer amounts (MTAs) and initial margin requirements. In support of our DM Edge Service, we use a vendor platform, the Algo Collateral Management application as supplied by IBM, to provide an in-house service.

As Collateral Manager, we analyze, extract and load agreement margin parameters into our application, including Threshold Amounts and Eligible Credit Support and valuation percentages. After this initial setup, we are then able daily to calculate margin deficits and excesses to issue and respond to margin calls and process collateral settlements. Operational and technology infrastructure is integrated with other areas of the bank, including custody and asset servicing. We provide day to day operational services that will calculate, process and report collateral obligations. The service model is flexible and supports both omnibus and segregated accounts, as well as pledge and title transfer. Beyond this, we can be a client's outsourced back/middle office and represent them to their counterparts. The reporting of repetitive and exceptional daily activity is available via a real-time DM Edge Connect portal, or through push based scheduled reporting.

We are able to leverage complimentary tools and capabilities to: daily mark-to-market collateral, assist in reconciling margin call disputes, effect timely collateral substitutions in cases of corporate or other events, assess the eligibility of proposed collateral and apply security or geographic concentration limits. DM Edge can support client service models regardless of custody location. However, where clients opt to use BNY Mellon custody services, there are inherent operational and cost efficiencies.

REPORTING

Under the Dodd Frank Act and EMIR, there are differing reporting obligations depending on the status of the entity engaged in swaps trading. Swaps Data Repositories (Transaction Repositories in Europe) will be appointed to receive, maintain and provide transparency on the size of the swaps market. Under the Dodd Frank Act, the transaction reporting obligation generally lies with the sell-side Swap Dealer but may be the responsibility of the buy-side in some circumstances (for instance when the sell-side party is not a US entity). Under EMIR, both parties to a derivatives trade will be required to report. The regulations do, however, make provision for the buy-side to delegate transaction reporting to a third party.

RECONCILIATION

It is anticipated that reporting of buy-side customers' swaps trading activity will be delegated to their Executing Brokers. Reconciliation to the Swaps Data Repositories (Transaction Repositories in Europe) will, therefore, be of particular interest to those entities that do not report for themselves. BNY Mellon has participated in a number of initiatives aimed at facilitating such reconciliations. We are able to support this as a component of our D360 suite of services.

FREQUENTLY ASKED QUESTIONS

What additional content is required on centrally cleared OTC derivatives trade instructions to BNY Mellon?

- Central Counterparty name/identifier (mandatory)
- Exchange deal ID"USI" (mandatory)
- Clearing Broker (mandatory)
- Executing Broker (optional)
- Commissions (optional)
- Closeout flag indicator (mandatory)
- Legal Entity Identifier (LEI)

Where within BNY Mellon should OTC derivatives trade details be sent?

- OTC derivative trade details delivered via FpML should be sent to the existing address
- All other message formats/media should be sent to the existing addresses/ fax numbers

Will it still be necessary to Affirm/Confirm centrally cleared OTC derivatives trades?

Bilaterally-traded OTC derivatives that are to be cleared must first be Affirmed or Confirmed and the trades routed by the Affirmation/ Confirmation platform to the nominated Clearing House and nominated Clearing Broker(s). Trade confirmation messages to industry utilities such as MarkitWire must include these additional details. BNY Mellon is able to assist in the Trade Confirmation of centrally Cleared OTC Derivative trades within our D360 suite of Derivatives Middle Office services.

What will be the trading/settlement process for Cleared Swaps?
OTC derivatives will continue to be traded bilaterally (in the future this is expected to migrate to electronic platforms). At the point of trade, the parties agree to centrally clear and agree on the Clearing House to be used (CME, Eurex, LCH, etc.).

How will initial payments on new trades be processed?
Any Initial Payment or cash settlement will be captured and processed in the following day's margin activity – alongside Variation Margin payments and will be advised and passed through the Clearing Broker.

How will collateral be managed for centrally cleared OTC derivatives portfolios?

- Collateral in a centrally cleared OTC trade will follow a similar mechanism to the Initial Margin requirement of an Exchange Traded Derivative. The Exchange will advise the Clearing Broker of the Initial Margin requirement and the Clearing Broker will pass this requirement to its customer.
- The investment manager or outsourced middle office/collateral manager is expected to instruct all margin movements. Security movement instructions should utilize the MT5xx series and should reference the movement as initial margin movement for CCP trades. Cash instructions should be communicated via an MT2xx message and should indicate the movement in relation to CCP activity and whether or not it is an initial margin payment or variation margin payment.
- There are a number of possible arrangements for the posting of this Initial Margin – depending on the CCP's policies.

How are Life Cycle Events and payments managed in centrally cleared OTC derivatives environment?

- On a daily basis the interest accruals of Interest Rate Swaps are calculated and the net daily accrual is paid as a component of the Variation Margin amount (adjusted for Price Alignment Interest). This means that at the time of the theoretic cash flow or coupon payments, these have already been paid or received incrementally during the preceding period. Offsetting accounting entries occur on the event dates to recognize the payment amount.
- Credit Default Swaps events will be advised to the customer by its Clearing Member. BNY Mellon must be instructed by the customer how it is to process any items arising.

How does BNY Mellon intend to address trade netting & portfolio compression?

- Following the ISITC discussions on trade netting, BNY Mellon requires that all trade details be fully advised. BNY Mellon supports the crossing of zero with trades by booking one trade equal to the notional amount of the open trade but booked in the opposing direction to bring the position to zero and then booking the difference as a new trade to establish the new net position after crossing zero. Where trades are netted at the Clearing House and/or Clearing Broker, it is the responsibility of the Investment Manager to provide, directly (or via the Broker), a complete breakdown of the trades that establish the net position.
- Compression of portfolios must follow a similar policy. All compressed trades and resulting new trades must be advised by the customer.

Will it be possible to reconcile cleared OTC derivative portfolios to the Market?

- A collateral reconciliation to the clearing broker can be completed manually on behalf of the client to highlight any discrepancies and provide a secondary check to the collateral movement instructed by the asset manager or outsourced middle office/collateral manager (Portfolio reconciliation of OTC derivatives is offered within our D360 suite of Derivatives Middle Office services).
- Reconciliation to Swaps Data Repositories will be possible once such entities become established and reconciliation data is made available.

Does the buy-side customer have to use the CCP valuations in striking a NAV?

- Centrally cleared OTC derivative contracts are valued by the CCPs independently using an auction process in which its members participate. Each Clearing House will then validate the information for accuracy and then distribute to its direct members. The CCPs use these valuations in calculating Variation Margin and the valuations are also an input to the Initial Margin requirement models.
- Where an independent valuation is used to strike the NAV, there may be discrepancies in the calculation of P&L of each cleared swap position and, therefore, the variation margin amount. This could potentially give rise to reconciliation discrepancies with the Clearing Broker Margin Statement.
- Where a Clearing House is unable or unwilling to provide valuation data to Custodian Banks in time to strike the NAV, the Investment Manager must provide the valuation to be used.

How are valuation discrepancies treated from an accounting perspective? What happens if the clearing member models/curves deviate from Independent valuations used for risk purposes?

A "buy-side" entity using its own assumptions to assess its liabilities may wish to value its hedges using the same assumptions. This is something the buy-side entity might very reasonably wish to apply in its use of specific valuation models. Where discrepancies arise between the Buy-side valuation and the CCP, the CCP's own valuations must prevail for margin payments.

Is it possible to use existing CCPs/clearing broker for OTC derivatives?

The existing Exchanges are well placed to become central counterparties for OTC derivative clearing. It is up to the CCPs themselves to determine which products they are willing to clear. It will be necessary to select the CCP based on their products. We can provide a high-level guide of the CCPs.

Similarly, Clearing Brokers must be members of the Clearing House (CCP), although netting between Exchange-Traded Derivatives (ETD) and OTC members portfolios may not be possible.

Which valuation methods will the CCPs employ for calculating Initial Margin calls?

In the CCP model, the valuation of cleared derivatives will be conducted by the CCPs. They will apply their own unique Initial Margin calculation models to the different categories of derivatives they clear. Each CCP must publish the methodologies they will use - some details are already available but for others the information is not readily available.

What collateral requirements will be introduced by the new regulations for non-cleared OTC derivatives?

- The Dodd Frank Act will impose an obligation on Major Swap participants and Swap Dealers to receive from their counterparties Initial and Variation Margin on a daily basis.
- The Initial Margin requirement may be based on a Value at Risk (VaR) calculation but this must exceed the equivalent requirement of the CCPs.
- It is anticipated that Variation Margin for non-cleared swaps will be based on existing calculation methodologies.

Who can answer other questions?

If you have any questions, please contact your Relationship Manager.

APPENDIX

CENTRALLY CLEARED OTC INSTRUCTION TEMPLATES

Credit Default Swap

Account	Customer account number which needs to be used for processing.
Transaction Type	Transaction type description (Opening a new trade, or closing an existing trade).
Central Counterparty Name	Clearing venue (Central Counterparty) name or identifier (mandatory).
Exchange Deal ID	Unique Swap Identifier (USI) issued by the CCP (mandatory).
Clearing Broker	Clearing Member name and/or identifier (mandatory).
Executing Broker (optional)	The trading counterparty for the swap (prior to novation to the CCP) – (optional).
Commissions	CCP commissions and upfront fees (optional).
Closeout Flag Indicator	Indicator to link the instruction to an existing trade to be closed or partially closed (mandatory).
Trade Date	The day the trade was made in the market.
Effective Date	For CDS the effective date is generally the previous pay date (20/03, 20/06, 20/09 & 20/12) this is why CDS now settle with interest on the trade.
Accrual Start Date	For CDS the accrual will continue from T+1.
Settlement Date	Cash settlement date. The cash settlement date and the accrual start date are not normally the same day, unlike ordinary bond markets.
Maturity Date	The date the swap will mature.
Underlying Security	The asset on which the protection is based, we would need to find the reference asset cusip and add as the underlying cusip in UNKDUM.
Coupon	The annual coupon rate to be paid or received.
Quantity	Notional amount.
Settlement Amount	Cash settlement amount (Some managers provide a split between the income and principle but others provide a full settlement amount).
Payment Direction	If we are paying or receiving the settlement amount.
Protection Buyer or Seller	If they have bought or sold protection. The buyer of protection will always be the payer of the coupon.
Day Count Fraction	The accrual method used to calculate the coupon payment.
Payment Frequency	How often the payments are due to be made.
Deal Reference	Most managers provide a deal reference which we use a the link reference.
Authorized Signatures	All faxes must have authorized signatures.

Interest Rate Swap

Account	Customer account number which needs to be used for processing.
Transaction Type	Transaction type description (Opening a new trade, or closing an existing trade).
Central Counterparty Name	Clearing venue (Central Counterparty) name or identifier (mandatory).
Exchange Deal ID	Unique Swap Identifier (USI) issued by the CCP (mandatory).
Clearing Broker	Clearing Member name and/or identifier (mandatory).
Executing Broker (optional)	The trading counterparty for the swap (prior to novation to the CCP) – (optional).
Commissions	CCP commissions and upfront fees (optional).
Closeout Flag Indicator	Indicator to link the instruction to an existing trade to be closed or partially closed (mandatory).
Trade Date	The day the trade was made in the market.
Effective Date	The date the swap become effective (usually T+1).
Settlement Date	Cash settlement date (usually the effective date).
Maturity Date	The date the swap will mature.
Quantity	Notional amount.
Fixed Rate Payer	Party paying the fixed amount.
Fixed Rate Payment Dates	Dates the payments are made during the year (normally annually for fixed leg).
Fixed Rate	Rate.
Fixed Rate Day Count Fraction	The accrual method used to calculate the coupon payment.
Floating Rate Payer	Party paying the floating amount.
Floating Rate Reference	Index (e.g. LIBOR, FED RATE, EURIBOR).
Designated Maturity	Index series (1M, 3M or 6M).
Spread	Extra rate paid on top of the LIBOR rate.
Floating Rate Payment Dates	Dates the payments are made during the year (normally monthly, quarterly or semi annually for floating leg).
Floating Rate Day Count Fraction	The accrual method used to calculate the coupon payment.
Settlement Amount	Cash settlement amount (Some managers provide a split between the income and principle but others provide a full settlement amount).
Payment Direction	If we are paying or receiving the settlement amount.
Deal Reference	Most managers provide a deal reference which we use a the link reference.
Authorized Signatures	All faxes must have authorized signatures.

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2. Source for The Bank of New York Mellon Global Markets Award Winning Research: Global Finance Magazine

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