

Corporate & Financial Weekly Digest

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ISDA Collateral Developments

The International Swaps and Derivatives Association is responsible for a trio of recent developments with respect to the collateralization of derivative transactions using ISDA Credit Support Annexes.

The most important new development is the publication of a set of documentation templates (the "Sample Tri-party IA Provisions") that enable parties to modify a standard ISDA Credit Support Annex (ISDA-speak for Security Agreement) to allow for the segregation of "Independent Amounts" (ISDA-speak for initial margin) with an independent custodian. Such segregation will be required in many trading relationships relating to uncleared swaps once the new margin rules required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) come in effect next year. However, segregation has already become a common issue in master agreement negotiations, so this new standard wording will be a valuable resource for ISDA negotiators. These templates do not, however, eliminate the need to negotiate an agreement with the chosen custodian. The templates are accompanied by a memorandum that explains how they can be used. The templates and memorandum can be found [here](#).

On November 30, the ISDA Collateral Steering Committee published the 2011 Best Practices for the OTC Derivatives Collateral Process. This is an update of a document originally published in 2010 and incorporates a number of new developments reflecting evolving standards for the mitigation of risk in the collateral management process for over-the-counter derivatives. These Best Practices do not, however, attempt to address the issues that may arise out of the final Dodd-Frank Act rulemakings concerning margin requirements for swap transactions. The Best Practices can be found [here](#).

Early in November, ISDA announced the start of the final phase of an initiative to create a "Standard Credit Support Annex" that will enable the parties to a master swap agreement to deliver cash collateral in multiple currencies (instead of just one designated currency). Because of some important risk issues that are still being addressed, ISDA has not yet published a draft of the proposed new provision, but expects to do so in early 2012. This initiative is expected to be more relevant to swaps dealers than to swaps end users. Information about the Standard CSA project can be found [here](#).