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Uncleared OTC Derivatives Variation Margin Client Outreach Internal FAQs

This document relates to a client regulatory outreach which is taking place ahead of the application of forthcoming margin regulatory requirements relating to OTC trades which are not centrally cleared (“Uncleared Margin”) from March 1, 2017. This is not a legal document and should not be used to advise clients. It is intended to assist you with general inquiries received from clients pertaining to such regulatory requirements.

What is Uncleared Margin?

Uncleared Margin is one of the commitments agreed amongst the Group of 20 (G20) nations in 2011 to reduce global systemic financial risk. As a result, BCBS-IOSCO published global guidelines in 2013 setting out proposed transnational margin rules for non-cleared OTC derivatives. These guidelines require all financial firms and systemically important non-financial entities that trade in non-cleared OTC derivatives to exchange initial margin and variation margin, as applicable.

The rules introduce the mandatory gross exchange of bilateral initial margin (**IM**) to cover potential credit exposure upon a counterparty default and daily net variation margin (**VM**) to cover mark-to-market exposure. Uncleared Margin also introduces rules relating to, amongst other things, the calculation of IM, what can constitute eligible collateral, margin haircuts and the treatment of collateral.

Where will the rules apply?

Margin rules have currently been adopted or proposed in a number of jurisdictions including the EU, the US, Japan, Switzerland, Canada, Australia, Hong Kong, Singapore, South Africa and India. The rules do contain some differences across jurisdictions.

When will the VM rules apply?

In the US, the VM requirements will affect all “in-scope” entities (regardless of the volume of trading) for trades that are executed (or materially amended) on or after March 1, 2017.

Which clients are being contacted about VM?

VM clients who traded uncleared OTC derivatives with Deutsche Bank AG (**DB**) in the past six months, and whose previously submitted documentation suggests might be in scope are being contacted. In this regard, SWAP protocol documentation for these clients has been reviewed and the following clients have been taken out of scope:

- Clients that have certified in the protocol that they are eligible for the End User Exception; and
- Clients that have certified in the protocol that they are “NFC minus” (the EMIR designation for non-financial counterparty that does a below-threshold level of swaps activity and is therefore out of scope for EMIR purposes).

Why are clients being contacted about VM?

Clients are being contacted about VM because they must do the following ahead of March 1, 2017: