

U.S. Banking Agencies Clarify Capital Treatment of Cleared Derivatives with Settled-to-Market Variation Margin

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Recently, certain derivatives clearinghouses have changed their rulebooks to treat daily payments of mark-to-market variation margin as settlement payments of the derivatives transactions rather than pledges or transfers of collateral. In response to this trend and industry questions about its effect on regulatory capital requirements, on August 14, 2017 the U.S. banking agencies released interagency guidance clarifying that banking organizations may be able to treat payments of mark-to-market variation margin as settlement payments of derivatives transactions and thus reduce the risk-weighted assets associated with certain transactions, subject to several important conditions.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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