

Special Questions on securities usage for variation margin (VM) payments in over-the-counter (OTC) derivatives transactions

OTC derivatives transactions involve periodic exchange of VM between counterparties. Such VM payments can be posted in cash or in the form of collateral securities. The share of non-cash VM payments has reportedly grown over the past few years. These special questions ask about current practices and recent trends in the usage of non-cash collateral for VM payments in OTC derivatives transactions with clients.

81. Does your institution accept securities, for example, US Treasuries and other securities, for VM payments from clients in OTC derivatives transactions?

- A. Yes
- B. No
- C. NA, not substantially engaged in OTC derivatives transactions

82. Since January 2023, how has the volume of VM payments received using securities changed as a share of total VM received from clients in OTC derivatives transactions?

- A. Increased considerably
- B. Increased somewhat
- C. Remained basically unchanged
- D. Decreased somewhat
- E. Decreased considerably

83A. If you indicated in your response to question 82 that the volume of VM payments received using securities as a share of total VM received from clients in OTC derivatives transactions has increased since January 2023, how important has each of the following factors been in supporting the increase (please rank each factor using the following scale: 1 = very important, 2 = somewhat important, or 3 = not important)?

- A. Increased demand from clients
- B. Technological improvements in data provision and pricing transparency that allow timely and accurate valuation of collateral
- C. Availability of custodial services to manage non-cash collateral payments
- D. More aggressive competition from other institutions
- E. Other (please specify)

83B. If you indicated in your response to question 82 that the volume of VM payments received using securities as a share of total VM received from clients in OTC derivatives transactions has decreased since January 2023, how important has each of the following factors been in supporting the decrease (please rank each

factor using the following scale: 1 = very important, 2 = somewhat important, or 3 = not important)?

- A. Decreased demand from clients
- B. Difficulty in collateral valuation and optimization
- C. Higher likelihood of collateral disputes
- D. Low liquidity of collateral securities during market stress conditions
- E. Balance sheet availability
- F. Other (please specify)

84. Since January 2023, how has the volume of VM payments received using securities of each of the following type changed as a share of total VM received from clients in OTC derivatives transactions (please use the following scale: 1=increased considerably, 2= increased somewhat, 3=remained basically unchanged, 4=decreased somewhat, 5=decreased considerably, or 6=NA, not accepting this type of securities for VM payments)?

- A. US Treasuries
- B. Corporate bonds
- C. Equities
- D. Other (please specify)

85. How would you characterize the frequency of transactions in which securities are used for VM payments among clients of each of the following type (please use the following scale: 1 = frequently used, 2 = occasionally used, 3 = rarely used, 4 = not used, 5 = NA, no clients of this type)?

- A. Hedge funds
- B. Mutual funds and ETFs
- C. Pension funds and endowments
- D. Insurance companies
- E. Separately managed accounts established with investment advisors
- F. Nonfinancial corporations
- G. Other type of client (please specify)

86. When entering a new OTC derivatives position with a client, what are the most important factors affecting your firm's willingness to accept securities for VM payments (please rank each factor using the following scale: 1 = very important, 2 = somewhat important, or 3 = not important)?

- A. Relationship with the client
- B. Counterparty risk profile
- C. Market liquidity of collateral securities
- D. Ease of rehypothecation of collateral securities
- E. Type of OTC derivative contract

- F. Size of haircut
- G. Current and expected market conditions
- H. Balance sheet capacity
- I. Composition of collateral already held by the firm from all clients
- J. Other (please specify)

87A. For OTC derivatives positions with clients for which US Treasuries are used as collateral for VM payments, approximately what fraction is managed through each of the following arrangements? (please select the closest range: 1=large fraction; 2=moderate fraction; 3=small fraction; 4=not using this arrangement)

- A. Collateral is exchanged directly between a client and the firm
- B. Collateral is managed through a custodial third-party or tri-party arrangement

87B. For OTC derivatives positions with clients for which securities other than the US Treasuries are used as collateral for VM payments approximately what fraction is managed through each of the following arrangements? (please select the closest range: 1=large fraction; 2=moderate fraction; 3=small fraction; 4=not using this arrangement; 5=NA, do not accept securities other than US Treasuries for VM payments)

- A. Collateral is exchanged directly between a client and the firm
- B. Collateral is managed through a custodial third-party or tri-party arrangement

88. How do you anticipate the volume of non-cash VM payments your institution receives as a share of total VM received from clients in OTC derivatives transactions will change over the next twelve months?

- A. Increases considerably
- B. Increases somewhat
- C. Remains basically unchanged
- D. Decreases somewhat
- E. Decreases considerably