



TOPICS:

Counterparty Credit Risk

SOURCE:

International Swaps and Derivatives Association

ISDA: Expanding the Universe of Eligible Variation Margin Collateral for Non-Cleared Derivatives

- This paper examines the growing use of **non-cash securities as variation margin (VM) for non-cleared OTC derivatives**, based on interviews with asset managers, pension schemes and global dealers.
- Use of non-cash VM is already significant and expected to increase. The 2025 ISDA Margin Survey found that non-cash collateral represented **32.4% of VM received by 32 reporting dealers**, the highest level recorded by the survey. Buy-side firms are particularly motivated to keep cash invested, reduce dependence on repo markets and maintain diversified pools of pledgeable assets. Pension schemes also see broader collateral eligibility as protection against liquidity stresses that could otherwise force asset sales.
- The principal **constraint is operational rather than technological**. Key barriers include inconsistent collateral definitions across credit support annexes (CSAs), absence of a common collateral taxonomy, fragmented collateral optimization, manual substitutions and asset servicing, difficult-to-operationalize concentration limits, and weak connectivity between collateral and settlement systems. Expanding collateral schedules also creates requirements for security-master data and daily repricing.
- ISDA identifies four principles for the target operating model: **standardize, automate, optimize, and scale/elevate**. Proposed improvements include standardized eligibility definitions; use of the Common Domain Model (CDM); portfolio-wide collateral optimization; automated substitutions, coupon processing and concentration-limit controls; improved connectivity among trading, custody, valuation and settlement systems; and more efficient mechanisms for amending CSA eligibility schedules.
- Emerging solutions include **triparty VM arrangements, tokenized collateral, money market funds and US Treasury ETFs**. However, adoption, cost, operational maturity and inconsistent regulatory treatment remain obstacles. The paper therefore concludes that broader non-cash VM usage is likely, but successful expansion depends on reducing operational complexity and avoiding additional settlement, liquidity and counterparty risks.

