

Interest payments on cash margin

Interest is due on cash margin, except where such margin is paid because of a failure by the Buyer to return certain collateral securities on the Repurchase Date (see 4(h)(i) of GMRA 2011).

Interest should be accrued on cash margin at a rate indexed to a reference rate agreed between the parties plus or minus an agreed spread. Common reference rates are overnight indexes such as EONIA for EUR, SONIA or RONIA for GBP and Fed Funds Effective for USD.

Interest accruing on cash margin up to but excluding the day on which margin called today is due to be delivered (the margin delivery date) should be included in the calculation of Net Exposure.

~~In the event of negative interest rates, the interest rate on cash margin should be set to zero. As this provision is not included in the GMRA, parties should include it in their confirmations or by an agreed amendment to their GMRA.~~

Where parties have agreed to use a particular interest rate reference to calculate the reinvestment income on cash margin, one party cannot unilaterally apply another reference rate if and when the agreed rate becomes negative. Parties have to agree changes to such contract terms and any changes, like the original rate, should be recorded in their master agreement or, if that is not practicable, in confirmations. When an agreed reference rate goes negative, unless and until a new reference rate is agreed, parties are contractually obliged to pay negative rates.