Standard Initial Margin Model

Initial Margin is the amount of collateral required to open a position with a broker or an exchange or a bank. The Standard Initial Margin Model (SIMM) is very likely to become the market standard.

Margin is designed to provide a common methodology for calculating initial margin for uncleared OTC derivatives. Initial margin calculation is counterparty-portfolio-based. Given this standardized approach, counterparties can easily reconcile the results.

Initial margin calculation is counterparty-portfolio-based. It applies to non-cleared OTC derivatives only. Derivative trades belonging to a counterparty will be divided into cleared-trade portfolio and non-cleared-trade portfolio. The initial margin is computed for the non-cleared portfolio.

Margin is collateral that one party needs to deposit with a broker or an exchange to cover some or all of the credit risk. Initial Margin: it is the amount of collateral required to open a position.

Maintenance Margin is the minimum amount of collateral required to keep the position open after inception. Margin Balance = Asset value – Borrowed fund

If (Margin balance) < (Maintenance margin), the broker issues a margin call that requires the investor to bring the margin balance back to initial margin.

Reference:

https://finpricing.com/lib/IrBasisCurve.html