

# Netting Provisions in Standard Master Netting Agreements

Patricia Epstein, Esq.

Morgan Stanley Dean Witter

Effective management of Sales  
and Trading Risk essential to  
success and viability of  
Financial Services Firms

- INITIALLY RISK MANAGEMENT FOCUSED EXCLUSIVELY ON MARKET RISK
- NOW OPERATIONAL RISK OR NON-MARKET RISK RECEIVING INCREASED FOCUS
- OPERATIONAL RISK INCLUDES COUNTERPARTY CREDIT RISK

- **LEGAL RISK - A KEY COMPONENT OF COUNTERPARTY CREDIT RISK**
- **TO UNDERSTAND LEGAL RISK MUST ANALYZE ENFORCEABILITY OF NETTING RIGHTS IN CONTEXT OF COUNTERPARTY INSOLVENCY**

USE OF STANDARD AGREEMENT FORMS TO  
MANAGE COUNTERPARTY RISK ACROSS FINANCIAL  
PRODUCT TYPES

GOAL - REDUCTION OF SYSTEMIC RISK

ENDORSED BY:

REGULATORS

THE COUNTERPARTY RISK MANAGEMENT  
POLICY GROUP

## INDUSTRY ASSOCIATIONS, INCLUDING:

The Bond Market Association (TBMA)

The British Bankers' Association (BBA)

The Emerging Markets Traders Association (EMTA)

The Foreign Exchange Committee

The International Swaps and Derivatives Association (ISDA)

The Japan Securities Dealers Association (JSDA)

The London Investment Banking Association (LIBA)

The Investment Dealers Association of Canada (IDA)

# TBMA/ISMA GLOBAL MASTER MASTER REPURCHASE AGREEMENT

- Repurchase Transactions
- Buy/Sell Back Transactions

# MASTER AGREEMENT

## CONFIRMATIONS

### ANNEX 1 - SUPPLEMENTAL TERMS AND CONDITIONS - ELECTIONS include:

- Party to send confirmations calls
- Inclusion of Buy/Sell Back Transactions
- Inclusion of Equity Securities, Net Paying Securities
- Base Currency
- Pricing Sources
- Interest Rates payable on Cash Margin
- Delivery period for margin

# STRUCTURED AS A SALE

## EVENTS OF DEFAULT

- Failure to perform
- Insolvency
- Repudiation
- Breach of representation

## NETTING

- Payment/delivery
- Close out

# CROSS - PRODUCT MAS

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Contractual “superstructure”  
netting rights among any nu  
agreements

**PRINCIPAL AGREEMENTS -**  
Underlying Master Agreements  
designated from time to time by parties

**UNCOVERED TRANSACTIONS -**  
Transactions not otherwise subject  
to a master agreement

## CLOSE OUT EVENTS

- Permits close out of all transactions

## PRINCIPAL AGREEMENTS

- Overrides notice, cure periods

## PRINCIPAL AGREEMENTS

- Identification of additional CL

- Exclusion of defaults having li  
counterparty creditworthiness

## CLOSE OUT EVENTS

- Exceptions - transactions that c  
closed out

## SETTLEMENT AMOUNTS

- Valuation of transactions, netting of obligations, application of collateral etc. pursuant to the terms of relevant Principal Agreements
- Option to net excess collateral
- Settlement amounts translated into single BASE CURRENCY
- SETTLEMENT AMOUNTS set off to reach FINAL NET SETTLEMENT AMOUNT