

THE POWER OF COLLABORATION

Webinar – 12th September 2018

Navigating Uncleared Margin Rules:

Plotting a course towards Phase 4 & 5 Compliance



2 Thank You For Joining Us

Agenda:

- Introducing AcadiaSoft
 - General Overview
 - AcadiaSoft Hub
- Industry Update
 - Challenges ahead
 - Key decisions
 - Steps to UMR Compliance
- Navigating UMR – Lessons Learned
- AcadiaSoft - helping the industry via a range of services
- Q&A

Speakers:



Laura Craft
Marketing Director



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Co-Lead



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Advisory Services

Introducing AcadiaSoft

What: Company Origin

- 10 years ago AcadiaSoft set the standard for electronic margin and collateral messaging via our MarginSphere® product
- Today, we maintain over 150,000 active VM CSA agreements, nearly 100% of all active Regulatory IM CSA agreements and process tens of thousands of margin calls daily
- In September of 2016, we introduced our IM calculation and reconciliation service – used today by every in-scope Phase 1, 2 and 3 institutions
- At the same time, we began to create the AcadiaSoft Hub which acts like a collateral messaging and data operating system for the OTC industry

Introducing AcadiaSoft

How: AcadiaSoft Hub

- Similar in concept to how your smartphone handles access to applications, user entitlements, communications and data handling and security – the hub functions in much the same way
- Maintaining the largest directory of unique margin relationships in the world
- Connecting hundreds of clients and counterparties and dozens of collateral management vendors for margin and collateral messaging
- Partnering with multiple IM optimization vendors to reduce the total amount of Initial Margin firms post to one another
- Receiving over 1 million trades and 25 million sensitivities daily to support IM reconciliation
- Continual feedback from the industry via working group collaboration

Industry update – challenges ahead & industry advocacy

- Phase 4/5 clients are advised to start early in UMR compliance preparation – they face a different type of challenge:
 - Large number of clients
 - Strain on service providers
 - Substantial build
 - Agreement repapering
- Time/resource crunch toward later stages
- Restrictions in trading uncleared derivatives, hedging and market liquidity for non-compliant firms
- ISDA and SIFMA industry advocacy for regulatory relief

Phase 4/5 clients – key decisions

- In scope self-assessment
- Choice of custodians for margin segregation
- Approach to documentation
- Calculations infrastructure – to build in house vs. vendor
- Choice of IM model to select

Benefits of ISDA SIMM™ over Schedule

- ISDA SIMM™ is a simplified VaR risk-based model that allows offsetting risks
- Transparent – allowing for timely identification of calculation discrepancies through an established support environment
- Schedule could be multiple times of SIMM, meaning higher funding/capital cost, incurred by both sides of the trade

AcadiaSoft – Steps to IM Compliance and Resources

Timeline	Required Task	Resources Required
T – 20M	Identification of in-scope Start attending AcadiaSoft’s working group monthly calls	Low
T – 18M	Counterparty disclosure	Low
T – 14M	Defining the approach for UMR compliance	Medium
T – 12M	Obtain regulatory model approval	Heavy
T – 10M	Custodian set-up	Heavy
T – 9M	Calculation & operational set-up Participate in AcadiaSoft twice-a-month testing calls Set up the monthly or weekly testing schedule with AcadiaSoft	Heavy
T – 3M	Negotiate & execute documentation	Heavy
	Go-live testing	

Navigating Uncleared Margin Rules - Lessons Learned

- \$50M group threshold only applies to posting and not compliance
- Differences in sensitivities is not the *only* driver of disputes
- Risk Transformation i.e. creation of CRIF is an involved process
- Backtesting and Benchmarking could be your internal monitoring tool, don't overlook
- Delaying compliance start may severely restrict trading
- Treatment of cross currency swaps may require technology build
- Plan for setting up a new team for IM dispute investigation/resolution
- Lastly, carefully decide between outsourcing or hiring resources for go live activities.



How can AcadiaSoft help your firm?

AcadiaSoft - Helping the Industry via a Range of Services

- AcadiaSoft IM Exposure Manager service is the market standard for IM calculation and reconciliation.
- New product development focus - standardization across solutions, processes and infrastructure.
- Solutions developed for UMR compliance:
 - **Advisory Services** - tailored consultancy offering
 - **Sensitivities Calculation Service** - calculates risk sensitivities needed to calculate SIMM™
 - **Back testing and Benchmarking Services** - risk management tool
 - **Agreement Manager** - single interface offering helping comparison, validation and affirmation of agreement data
 - **IM Model Comparative Analysis** - AcadiaSoft can help clients to understand the quantitative impact of the two IM models by running a complete Schedule calculation and an estimated SIMM™ calculation on its live portfolio. This service while being cost effective will help clients in their IM model selection process

Introducing Advisory Services

- **Advisory Services** is a tailored consultancy offering to help new in-scope UMR clients meet their operational and regulatory requirements.
- The **Advisory Services** provides your firms with information, analysis and guidance in the following areas:
 - Initial SIMM™ calculation setup
 - Model validation including securing regulatory approve to use SIMM™
 - Monthly/quarterly SIMM™ monitoring/governance/remediation processes
 - Annual industry back testing
 - On-going operation end to end control process
 - New client onboarding, etc.
- Help clients make the right decision by optimal use of resources and budget

Sensitivities Calculation Service

Overview of the Service

- Calculates sensitivities and seamlessly generates the (CRIF) file that forms the input to the SIMM™ calculation
- Integrates with IMEM to provide a full workflow for in-scope firms

Client Benefits

- Utilize proven technology and methodology without impacting on internal resources
- Supports the entire ISDA SIMM™ end to end process within the AcadiaSoft Hub environment
- Lower cost through mutualisation
- All data is held securely within the AcadiaSoft data center

IM Backtesting & Benchmarking

Overview of the Service

- Quarterly (static) portfolio back testing and benchmarking of ISDA SIMM™
- Designed to cover all user product requirements over time
- Employs a range of lookback periods and specifications
- Offered by AcadiaSoft and jointly developed with Quaternion RiskManagement

Client Benefits & Requirements

- The Service will provide clients with a valuable tool to support their regulatory requirement to back test and benchmark ISDA SIMM™
- Cost mutualisation, standard models and market data sets, and the opportunity to drive process standardization are key client incentives
- Clients can use the Service to validate their internal back testing and benchmarking

AgreementManager

Why?

- Industry estimates ~9,400 new regulatory initial margin relationships will require new or amended CSA documentation by September 2020

Overview of the Service

- AgreementManager enables comparison, validation and affirmation of agreement data via a single interface.

Client Benefits & Requirements

- Expedites negotiated Agreement data capture
- Reduces disputes via reconciliation of records
- Ensures Agreements remain regulatory compliant
- Increased transparency and control, leading to reduced operational costs



Q & A

Submit your questions via user panel

Thank you for attending

For more information on uncleared margin rules visit www.acadiasoft.com/umr_compass or schedule a meeting: advisoryservices@acadiasoft.com

Join us for our AgreementManager webinar in November
email: info@acadiasoft.com for details