

Monitoring your OTC trades to ensure IM compliance

Phase 5 firms subject to the uncleared margin rules who do not expect to move initial margin (IM) because they will be below the €50m IM exposure threshold can benefit from a new service being developed by AcadiaSoft to help delay costly legal and operational changes associated with the rule compliance. **Mark Demo**, Director of Industry and Strategy, AcadiaSoft outlines the problem and the service solution.



Mark Demo

Director of Industry & Strategy

Phase 4 & 5

The phasing in of the new margin rules for uncleared over-the-counter (OTC) derivatives began in 2016. There have been three phases so far, with Phase 4 due to come into effect in September 2019 and Phase 5, the final phase, in September 2020.

From those two dates Phase 4 and 5 firms will have to post and receive initial margin (IM), with one important exception: they will NOT have to post IM if the post compliance date IM exposure associated to any individual counterparty group is less than €50m. That is a useful benefit to have as some industry experts predict that up to 70% of all Phase 5 firms will fall into this category.

However, as soon as that threshold is reached, the IM will have to be exchanged. And the problem is, it will be difficult for firms who have delayed their compliance procedures to know when they are close to the threshold, or when it has been reached or exceeded. That is why AcadiaSoft is introducing its Initial Margin Monitoring Service, specifically designed to help Phase 5 firms keep track of their estimated IM exposure amounts with each of their counterparties.

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Recent guidance from BCBS & IOSCO

In late March, the Basel Committee on Banking Supervision (BCBS) and the International Organisation of Securities Commissions (IOSCO) issued guidance to national regulators stating that Phase 4 and 5 firms need not negotiate documentation with counterparties or become operationally ready if the trading relationship with any given counterparty was below €50m. The International Swaps and Derivatives Association (ISDA) and the Securities Industry Financial Market Association (SIFMA) had been pushing for this and other concessions, and this was the only one IOSCO opined on.

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Around 1,000 firms could be in scope for IM Phase 5. If national regulators follow the BCBS and IOSCO guidance, it is estimated that up to three-quarters of them will benefit, as they are unlikely ever to exceed the €50m threshold and therefore not need to move margin. The Hong Kong Monetary Authority and the US Commodity Futures Trading Commission have publicly supported the guidance. Other regulators around the globe are expected to follow suit in the coming weeks and months.

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New service will monitor OTC trading relationships

Shortly after the BCBS and IOSCO issued their guidance, AcadiaSoft announced it was extending its existing capabilities to provide an IM Monitoring Service for firms to track their IM exposure with their counterparties, view when they were likely to reach the threshold, and then take appropriate action to complete the relevant documentation and meet the other IM requirements.

The service is based on the central IM functions that AcadiaSoft already performs daily on global OTC transactions. Today, every Phase 1, 2 and 3 firm sends its IM exposure to AcadiaSoft daily for IM calculation and reconciliation. AcadiaSoft expects every Phase 4 firm to do the same. With every prior phase firm connected to the AcadiaSoft Hub, these firms can send their anticipated IM exposures to Phase 5 firms and AcadiaSoft can aggregate the data to provide a single view of IM exposure across all of a phase 5's trading relationships.

Phase 5 firms will not have to contact each of their dealers on an ad-hoc basis to ask what their IM exposure is. Dealers will also have an organised and consistent method of distributing this key information to their Phase 5 counterparties. We expect the service will be up and running in the fourth quarter of this year.

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How to find out more

No other firm in the world has more experience than AcadiaSoft in helping firms comply with the initial margin rules for uncleared OTC derivatives transactions. To join AcadiaSoft's established community of Phase 5 firms working towards IM compliance in September 2020 please contact info@acadiasoft.com

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Listen to the full interview at http://bit.ly/IM_Monitor

For more in-depth information about navigating Uncleared Margin Rules, visit our dedicated UMR compass site: www.acadiasoft.com/umr_compass or email info@acadiasoft.com to book a demo with one of our experts.

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