

Market Update: Phase 5 UMR Implementation Modified

On July 23rd the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) released their recommendation to modify the Phase 5 Uncleared Margin Rules (UMR) implementation that is due to go live on September 1st 2020.

To discuss what this means for Phase 5 firms we recently spoke to **John Pucciarelli**, Director of Strategic Initiatives for AcadiaSoft who is focused on several aspects of Phase 5 implementation and industry outreach for Acadiasoft.



John Pucciarelli

Director of Strategic Initiatives,
AcadiaSoft

Can you explain what the BCBS and IOSCO recommended extension means and why now?

The BCBS and IOSCO global standard setting body have added a new phase to the UMR phase in schedule. The recommendation moves entities that will fall above €50 billion of Average Aggregate Notional Amount (AANA) into Phase 5 for September of 2020 compliance, the other entities above €8 billion AANA to September 2021. So, we now have essentially two new phases.

The industry made it's case last year gathering compelling data to show why the delay was appropriate, identifying the number of firms that were in scope highlighting the vast difference compared to firms in all previous phases. The industry was worried about the sheer number of firms entering at Phase 5 which would create bottlenecks in the system, so the delay was a clear response to those concerns.

The timing for this guidance seems appropriate as most US firms are in the middle of their Phase 5 calculations and a decision later on may have been problematic. It's important to note that BCBS and IOSCO are only a standard setting body, so we will need to hear from local jurisdictions and regulators globally to understand implications of this extension.

What is the impact of the extension on Phase 5 clients from your view?

The obvious impact is for those firms that are between €50 billion and €8 billion is that they get an extra year to prepare and do not have to rush through the process, but this extension will only be effective if they use that time wisely and continue with their preparations. Phase 5 clients will experience last minute issues, much like several Phase 1 firms in 2016 as they reached their compliance stage, despite robust project planning teams. A common theme and major impact is "time is on your side, until it's not."

"Time is on your side, until it's not."

“Phase 5 UMR extension is not a license for complacency.”

What does this extension mean for AcadiaSoft? How will it impact your current plans for clients?

Our strategy has not changed, we are still full throttle on getting our clients ready to tackle the challenges ahead for UMR compliance. Our working groups, webinars, client-focussed roadshows, podcasts and one to one meetings continue, along with education on the impact of these rules and how our products help to save resources is crucial. We don't plan to stop until every firm is up to speed.

.....

Should firms who believe they are in scope in 2021 take a “pens down” approach or should they press on with implementation plans?

A “pens down” approach is not the right way to go about this, the “Phase 5 UMR extension is not a license for complacency” because firms will encounter unforeseen issues. I urge firms not to waste time with this delay, its purpose was not only to alleviate the bottleneck, but to give firms more time to expand planning and decision making. Firms can be doing a lot in this new time frame including lengthy legal documentation initiations, deciding how to make calculations either through SIMM™ or Grid, using a third-party vendor, choosing custodians to implement segregation and negotiating control accounts. Even if firms think they are in complete control of their project plan they will still have several dependencies from outside parties that may dictate project factors.

I would urge these firms to not lose momentum and continue to educate, engaging in the marketplace and to use their time wisely.

.....

To hear the full discussion please visit http://bit.ly/UMRExt_Podcast

To join our Phase 5 working group or to find a central resource guide, visit our dedicated website www.acadiasoft.com/umr_compass or contact our experts info@acadiasoft.com