

Please email questions to [CHRIS.DIMMICK@ACADIASOFT.COM](mailto:CHRIS.DIMMICK@ACADIASOFT.COM)



Collateral 2020

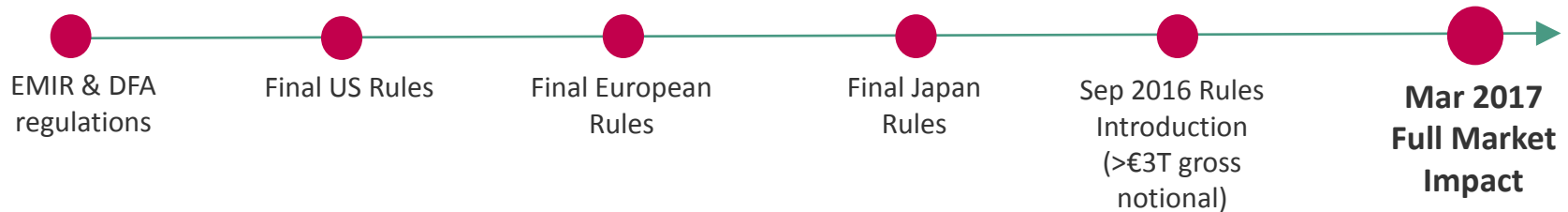
Uncleared Margin Rules Overview

March 18, 2016

## Objective & Agenda

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Raise awareness on the impact of uncleared margin rules on the collateral process - with a focus on Mar 2017 changes



### Agenda:

- Uncleared margin rules and the Mar 2017 impact
- Changes major banks have led to support the Sep 2016
- Preparing for Mar 2017

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Un-cleared margin rules and the Mar 2017 impact (Poll1)

## Un-cleared Margin Rules

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- Final rules issued in US by banking regulators, CFTC
- Final draft rules issued by European regulators in Mar 2016
- Final rules expected in Japan
- SEC rule is pending but timing is uncertain
- Will require posting and collection of **variation margin (“VM”)** and, in most cases, **initial margin (“IM”)**
- Will require regulatory controls and auditability across previously unregulated process

## Variation Margin

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- VM required March 2017
- Must verify with dealers that netting is enforceable
- Decide on new or amended agreements
- Adopt standard margin process
  - Zero threshold
  - Timely delivery of VM
  - Collection and posting
  - Eligible collateral – includes certain securities but specified haircuts apply
  - Minimum transfer amount

## Initial Margin – When, For What and With Whom

- Gross notional for March, April, and May '16 > threshold - in for IM as of Sept 1
- Count all uncleared derivatives incl. FX forwards and swaps even though they are not subject to IM margin rules
- If one party is below threshold, IM not required
- Swaps with corporate end users of small financial institutions exempted
- Investment funds are considered distinct legal entities as long as they are not supported by other funds or advisor for insolvency purposes
- Disclosure to dealers is required in advance of Sep 2016
- Disputes subject to capital penalties under Basel III
- Need to segregate with an independent custodian (no rehypothecation)

Phase In Schedule

Gross Notional	IM
€3T	Sep 2016
€2.25T	Sep 2017
€1.5T	Sep 2018
€750B	Sep 2019
€8B	Sep 2020
<€8B	NA

## Margin Requirement – on a Page

Topic	Variation Margin	Initial Margin
Type of Risk	Current exposure	Potential future exposure
Covered Entities	All financial firms and systemically important non-financial entities	
Product Scope	All products	Excludes FX forwards/swaps and physically settled FX associated with principal Payments on cross currency swaps
Threshold	Zero	€50 million – group consolidated basis**
Exchange frequency	Daily	
Minimum Transfer Amount	<=€500,000	<=€500,000
Eligible Collateral	Cash, High quality government bonds and central bank securities, High Quality corporate bonds and covered bonds, Equities included in major stock indices, Gold	
Haircuts	Model-based Haircuts or Schedule	
Segregation Model	No segregation	Segregated

\*\* Test for affiliate: consolidation under accounting standards

## Operational Impacts

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- All market participants
  - Self declaration
  - Re-papering of CSA agreements
  - Multiple calcs & calls per agreement (Legacy, Reg VM & for some IM)
  - Increased call frequency (zero thresholds, daily calls, mandatory collateralization) and collateral movements
  - Faster processing times (movement on call date)
  - Regulatory compliance (dispute prevention, reporting by jurisdiction, audit trail responsibility)
- For IM eligible parties, posting and segregating IM





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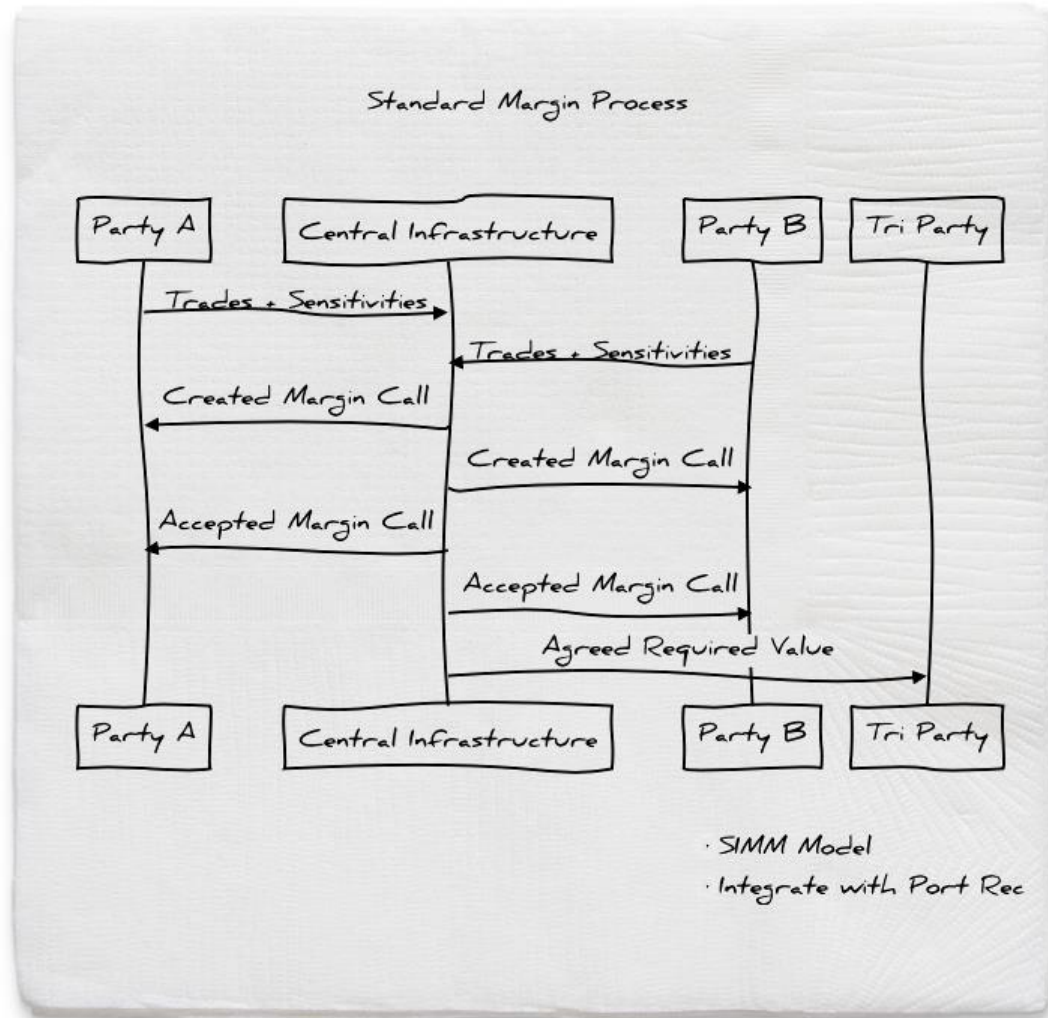
Changes major banks have led to support the Sep 2016 (Poll 2)

## Sep 2016 Changes being Implemented by In-Scope Parties

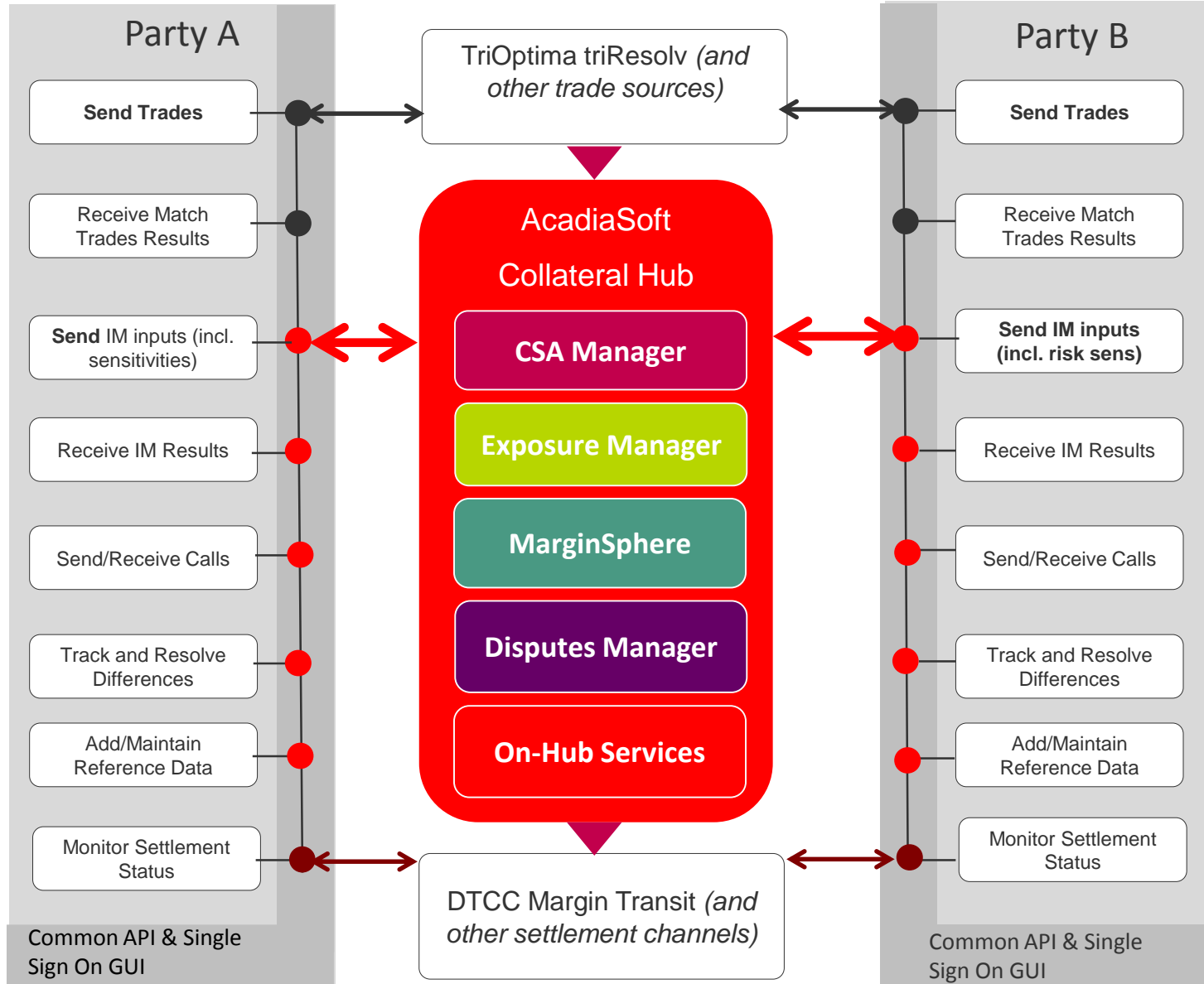
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- New agreement hierarchies
- New margining process
  - Standard IM Calculation (based on SIMM Model & Schedule)
  - IM Sensitivity Reconciliation
  - Dispute Prevention
  - Margin call generation / exceptions processing
- Full automation of the VM and IM margin process
- New tri-party relationships (for segregated IM)

# Collaboration has driven a redesign of the process



# Collateral Hub – Front-To-Back Workflow



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Preparing for Mar 2017 (Poll 3)

## March 2017 Preparations

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- Complete research / analysis of impacts
- Develop a Plan that considers:
  - Mar 2017 impact on portfolios, operations, systems, etc
  - What dependencies are on your critical path
  - Impact on counterparties
  - What industry resources can be leveraged
  - Actions, timelines, resources, project costs etc.
- Engage with the industry – leverage standards
  - Creation of new or amendment of existing CSAs
  - Enhancement of margin workflow
  - Validation of the assumptions that underlie internal decisions (e.g. outsourcing, compliance procedures)
- Execute

## Available Central Capabilities to satisfy Mar 2017 Requirements

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- ISDA Updated Documents
- ISDA Amend
- AcadiaSoft MarginSphere 2.2 (and Partner Program)
- AcadiaSoft Xpress
- TriOptima – AcadiaSoft Integration
- AcadiaSoft IM service

## Additional Challenges being addressed in Working Groups

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- How to automate the Onboarding of Regulatory Agreements
- How to calculate or verify regulatory margin using Central infrastructure
- How to best leverage standards to minimize disputes
- How to satisfy new audit/compliance requirements
- How to integrate all counterparties into an automated margin process (Xpress +)



## Options to Consider for Automation (Poll 4)

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Standards-based automation is required to properly support volumes and regulatory compliance. Adoption option:

- Electronic messaging (MarginSphere)
- Standard margin call formats over email (Xpress)
- Existing consistent formats over email converted to standard (*Xpress with conversion*)
- No change and allow your dealers to convert as necessary (Relay)

## Invitation – March 2017 Working Group

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- Objectives
  - Work across the industry to help resolve the major challenges March 2017 poses
  - Define and deliver central infrastructure solutions
  - Calculating or verifying margin using existing trade, sensitivity and call-related information
  - Leveraging standards to minimize disputes
- Process
  - Initiate with a meeting held every other week (start in April)
  - Break into drill-down topics as necessary
  - Communicate via newsletter and other methods

## Monthly Communication of Updates

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- Objectives
  - Keep broad range of parties impacted by Mar 2017 up to date in the simplest way possible
- Process
  - Monthly 30 min update call
  - Agenda includes regulatory, implementation and adoption updates
  - Information will also be published in newsletter form for distribution across firms

## Next Steps

- Determine participation levels in the working group and update forums
  
- Determine your best 2017 Operating Model
  
- April 29 (tentative) Update Forum:
  - Final Rules
  - Updates/Changes in Operational Impacts
  - Direct updates from Dealers