

AcadiaSoft Market Observations and 2020 Plans

As you make preparations for your 2020 IT budget planning – we would like to provide you with some insight into market trends in the initial margin and messaging space as well as internal AcadiaSoft initiatives that could serve as key input into your investment prioritization decisions. Our role in the market provides us with a unique insight across the industry – enabling us to have a clear view on market trends, efficiencies and operational challenges.

From a Margin and Collateral Messaging & Workflow perspective:

- We see strong buy-side support for expansion of our messaging community beyond OTC Bi-lateral margin calls into TBA, Repo, Cleared (FCM to buy side) and Securities Lending (we are currently testing with two parties). As an example, we saw 60,000 Repo messages across our platform in the first six months of 2019 compared to 25,000 repo messages in total during 2018.
- We also see strong interest from tri-party agents in directly connecting to MarginManager - our margin service for delivery of the pledge accept message to the tri-party agent with a returned settlement status back to AcadiaSoft. We are actively testing messaging directly with BNY Mellon.

From a Payments perspective:

- Interest Processing - we expect continued buy-side take up of the interest statement reconciliation service – if you are not currently integrated to us for interest statement reconciliation – please consider doing so. Turn your manual process into an exceptions-based process where manual intervention is only required when you have a difference with your counterparty that is above a tolerance set and agreed by you and your counterparty.
- We see strong buy-side interest in extending support for payments processing beyond cash collateral and into payments on securities collateral, swap payments (e.g. resets, coupons, etc.) as well as separate payments for PAI, commissions and other fees on cleared agreements. We have initiated a new payment working group to gather business requirements - if you don't already attend – please consider assigning someone from your firm.

From a Relay perspective:

- Our Relay* volume has increased 10-fold over the past year because we now have dedicated internal resources to work directly with your teams to identify relay prospects and get them mapped into – our margin service. If your firm wants to move to 100% automation of margin calls – and is willing to partially dedicate a resource to this effort, please get in touch and we will map out a project plan to work directly with your firm.

**Relay is a service that enables intelligent automation of manual margin call messages from your clients that have not yet joined AcadiaSoft's margin community.*

From an Initial Margin Perspective:

AcadiaSoft estimates that that approximately 250 firms will be in-scope for Phase 5 of the Uncleared Margin Rules in September 2020 - of which we predict that approximately one third (or 80) will immediately move margin. We expect the balance of approximately 170 firms will exceed the \$8BN gross notional but may never need to move margin. We see these firms as target candidates for:-

- **IM Monitoring Service:** The IOSCO guidance that enables Phase 5 firms that exceed the \$8BN gross notional threshold but fall under the \$50MM IM threshold by counterparty group to defer their IM Compliance expenditures has also created a dependency to rely on Phase 1, 2, 3 and 4 firms to tell them when they are approaching the threshold of moving initial margin. AcadiaSoft will soon launch our IM Monitoring Service which will give Phase 5 firms a single place where they can login to view their IM Exposure that is aggregated across all their in-scope dealer counterparties.
- **IM Sole Calc:** Our IM sole calc services enables in- scope dealers to service these clients by sending a notification (expected call) to our MarginManager service where the Phase 5 client can view and respond to their dealer notifications. We expect a significant number of Phase 5 firms to opt for this most in-expensive means to comply with the non-cleared margin rules once they do approach the point of moving initial margin.
- **Pre-Trade "What If":** We expect a significant number of Phase 5 firms to make every effort to avoid breaching the \$50MM IM threshold by counterparty group. AcadiaSoft's pre-trade "what if" service will be delivered as a separate add on to the IM Monitoring Service.
- **Risk Service Suite:** for the 80 estimated Phase 5 firms that may move margin in September 2020, we have combined our regulatory services including: AgreementManager, Sensitivities Calculation service, IM Exposure Manger and our MarginManager service into one simple solution at a cost point that no Phase 5 firm would ever replicate on their own. Please get in touch or find out more [here](#) if you have affiliates who are on their own from a compliance perspective or have clients who are struggling.
- **ISDA SIMM™ for House IA calculation:** we see several firms experimenting with using ISDA SIMM™ as a replacement to their VAR or percentage of notional based house Independent Amount (IA) calcs. Buy side firms like the IA dispute reduction and transparency that AcadiaSoft's IM Exposure Manager service provides over and above the existing house IA process. If your firm collects or posts house IA and already or will soon have a Reg IM requirement, we will be happy to discuss your options.

From an Initial Margin Monitoring (Backtesting and Benchmarking) Perspective:

- Our IM Backtesting and Benchmarking service is live and being used by a Phase 2 swap dealer to meet their ongoing IM monitoring commitments under the IM rules. Our solution took this Phase 2 firm to 95% plus coverage using a full revaluation method. Even if your firm already has a monitoring solution in place – we can significantly improve the quality of your monitoring solution while significantly reducing your cost base. More information on the IM Backtesting & Benchmarking service can be found [here](#).

Overview of AcadiaSoft Initiatives

- **AgreementManager** – We are creating a single, golden source repository for all collateral agreements. We also integrate to the new negotiation platforms and offer your firm a single integration point without dictating the platform that your counterparty must use. We can also offer a digitization solution to address your legacy legal documentation.
 - Existing Integration to ISDA Create for CSA negotiation
 - Existing Integration to PWC eBAM and Genpact for CSA document digitization
- LCH SwapAgent Integration to MarginManager – our margin service
 - AcadiaSoft is integrating LCH SwapAgent into its existing Margin messaging and workflow. If you would like to understand more about the benefits of integrating from AcadiaSoft's margin service directly into SwapAgent, please contact your relationship manager to find out how you can join our community and working group to stay abreast of the latest developments.

To keep up to date with our latest news follow us on [Twitter](#) or [LinkedIn](#)

To find out more about any of AcadiaSoft's initiatives or solutions contact us on info@acdiasoft.com or visit acdiasoft.com

AcadiaSoft, Inc. is the leading industry provider of risk and collateral management services for the non-cleared derivatives community. AcadiaPlus is an open platform that provides the sell-side, the buy-side and fund administrators with specialist applications and a third party partner ecosystem for the straight-through processing of the entire risk mitigation lifecycle. Backed by 16 major industry participants and market infrastructures, AcadiaSoft is used by a community of more than 1100 firms exchanging approximately \$700B of collateral on a daily basis via its margin automation services.

AcadiaSoft® is a registered trademark of AcadiaSoft, Inc. ISDA SIMM™ is a registered trademark of ISDA

Boston
93 Longwater Circle
Norwell, MA 02061

New York
1450 Broadway 7th Floor
New York, NY 10018

London
Broadgate Quarter
One Snowden Street
London EC2A 2DQ

Tokyo
Level 11 Aoyama Palacio Tower
3-6-7 Kita-Aoyama Minato-Ku
Tokyo 107-0061