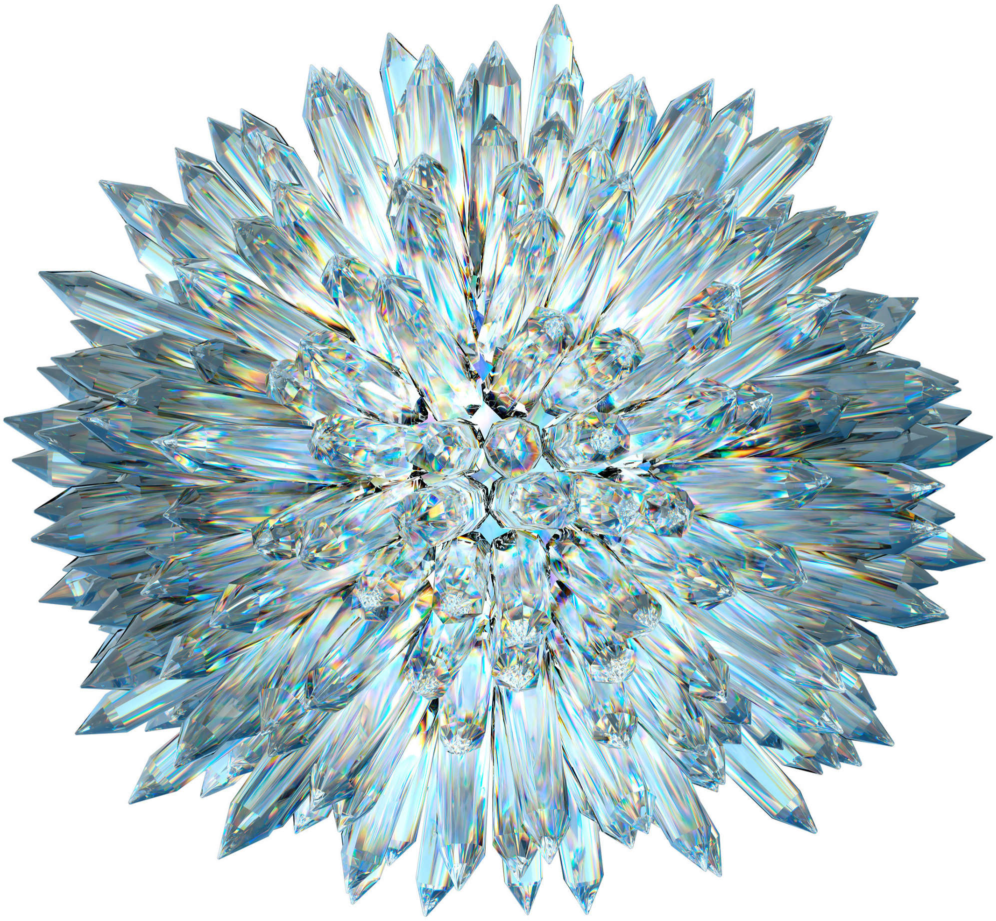


Be prepared for the Uncleared Margin Rules (UMR)

New Margin Rules for uncleared derivatives (UMR) transactions

What is the UMR about?

The global regulatory agenda covering the over-the-counter derivatives market participants recommends, among other things, the implementation of margin requirements for non-centrally cleared derivatives.

As per EMIR, the implementation of variation margin (VM) requirements occurred in March 2017, while initial margin (IM) requirements continue to phase-in annually through 2020.

While counterparties are familiar with the VM concept, IM rules and operations are new for most of the players, particularly for those on the buy-side. In addition to other requirements, regulatory IM demands a two-way gross margining process, which means that each party needs to transfer collateral from both the provider and receiver's perspective.

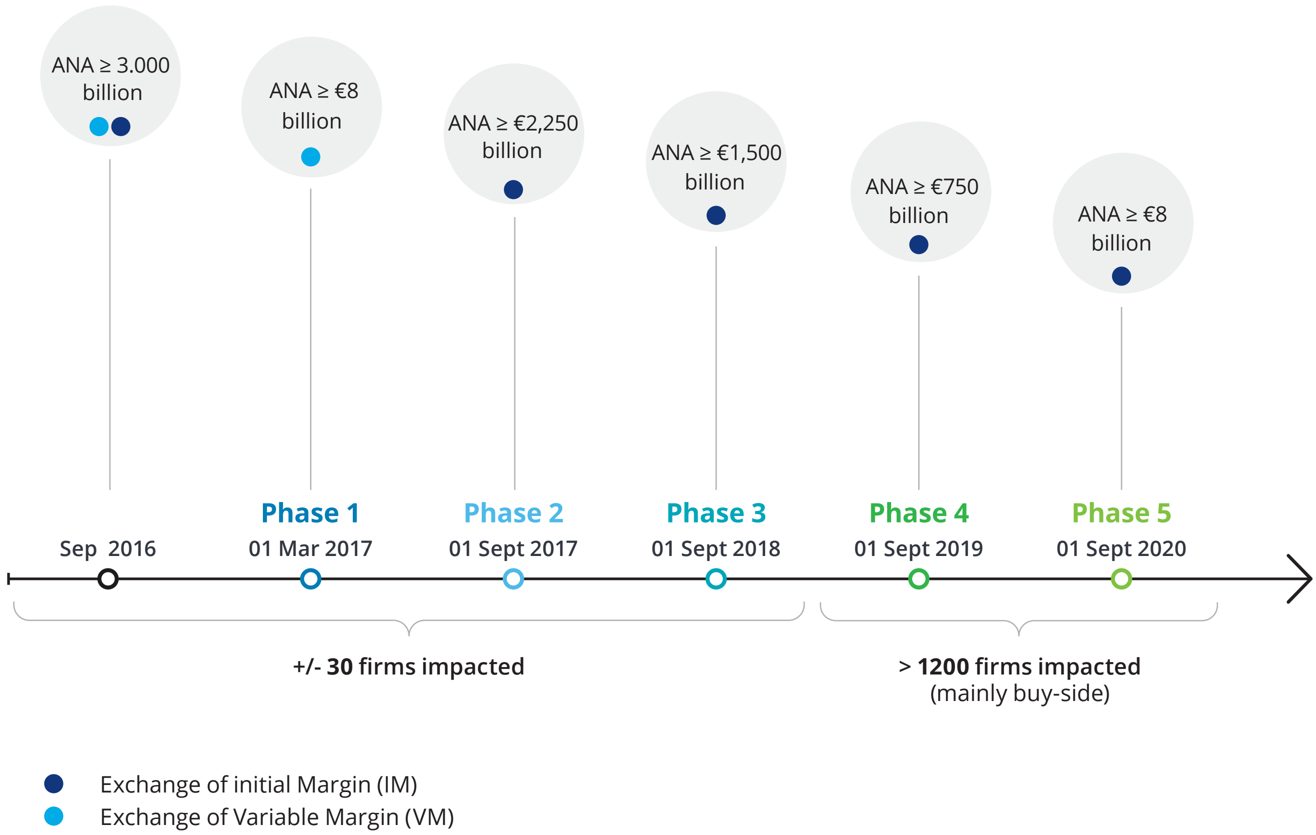
Who will be involved and when?

In 2019, firms with US$750 billion in derivatives balances across their groups will come into the scope under the rules, with the notional amount threshold dropping dramatically to US$8 billion in 2020.

ISDA has estimated to 1,200 the number of Newly In-Scope Counterparties (NISC) for the next IM phase-in in September 2019 and 2020.

The challenge for the NISC is mainly driven by the huge amount of tasks to be achieved within a very condensed period of time.

If not done in a timely manner, NISC may not be able to trade non-centrally cleared derivatives, limiting their options for both taking on and hedging risks.



An overview of the upcoming challenges...

NISC will have to address the following aspects to achieve compliance with the new UMR:

- Assess entities/products in-scope and calculate ANA (group level)
- Prepare, update and negotiate all Credit Support Annexes in line with EMIR requirements
- IM is pledged (and not transferred in full title) in favor of the counterparty and has to be held with a third-party custodian that is not affiliated with any of the counterparty
- Collateral cannot be re-used or re-hypothecated, and it has to comply with some stringent concentration and wrong way risk limitations
- Review all custodial arrangements: opening of new accounts and satisfy AML/KYC, accounts segregation, define eligible collateral and set-up connectivity
- Manage your margin requirements: Define the calculation model (initial margin needs to be calculated as per specific methodologies) , daily monitoring of margin requirements, asset required for collateral, organize the proper segregation of assets and the margin reconciliation

...and how we can support you

Our model combines the assurance and control of Deloitte project management with the flexibility and cost-effectiveness of mobilizing flexible teams of derivatives lawyers, ISDA expert, client onboarding specialists, margin and collateral management experts and more.

Our services and approach takes all of the components required to deliver a client outreach project, and wraps them up together as a single service.

- Strategic definition and operational efficiency of margin and collateral management process
- Support in review, update and negotiate required legal documentation (CSA) and services agreement (custodian)
- Facilitate the custodian operations, define and implement your target custodian model for UMR (asset segregation, connect, AML/KYC documentation, etc.
- Support in the calculation and monitoring of margin requirement needs
- Assurance and control of Deloitte project management
- Tax compliance and impact review

Contacts

Laurent Collet
Partner
Strategy Regulatory & Corporate Finance
lacollet@deloitte.lu
+352 451 452 112

Kevin Demeyer
Senior Manager
Strategy Regulatory & Corporate Finance
Kdemeyer@deloitte.lu
+352 451 453 808

Philippe Hijazin
Senior Manager
Strategy, Regulatory & Corporate Finance
phijazin@deloitte.lu
+352 451 453 426

Simon Ramos
Partner
Advisory & ConsultingIM Leader
siramos@deloitte.lu
+352 451 452 702

Pascal Martino
Partner
Banking & Deloitte Digital co-Leader
pamartino@deloitte.lu
+352 451 452 119

Benoit Sauvage
Senior Manager
RegWatch, Strategy & Consulting
bsauvage@deloitte.lu
+352 451 454 220