Crisil
Coalition
Greenwich

How Uncleared Margin will keep Derivatives Markets Busy in 2021

May 6, 2021

“This is a big year for uncleared margin,” a poignant statement from ISDA CEO Scott O’Malia in his recent conversation with Coalition Greenwich. The next phases—5 and 6—to be implemented on September 1, 2021 and September 1, 2022 respectively, will bring into scope many asset managers who, thus far, have not been subject to the initial margin (Reg IM) rules.

What makes 2021 a big year is the scale of the impact. Asset managers (according to ISDA roughly 1,000 affected over the next two phases) and, frankly, the industry overall, must develop comprehensive strategies to accommodate the changes wrought by uncleared margin rules (UMR). This is because UMR will change much of the collateral process, from calculation to safekeeping of collateral to eligibility criteria, and more.

Two of the many challenges discussed include the documentation requirements, and the operational and technology impacts.

Documentation

Although asset managers may be used to IA (independent amount, which is the legacy method), Reg IM is the new standard. To continue trading, therefore, an asset manager and their broker must agree to and implement new Regulatory IM Credit Support Annexes (CSAs) before the asset manager’s regulatory deadline. While there is a lot of standardization to these documents, the negotiations may be time consuming, adding to the burden of legal departments.

The documentation challenges don’t end there. Not only must asset managers agree to a new regulatory CSA with their counterparty, they also need to think about the segregation aspects of Reg IM. The new rules dictate that IM be exchanged bilaterally, meaning each party must post to each other. When an asset manager is pledging Reg IM, it must be held at an independent third-party custodian—new agreements must therefore be accepted by the asset manager, the broker and the custodian. Custodians will face an onslaught of requests to paper and open these accounts, so asset managers need to act well ahead of the compliance date. During other phases, trading relationships had been suspended when custodial arrangements were not yet in place.

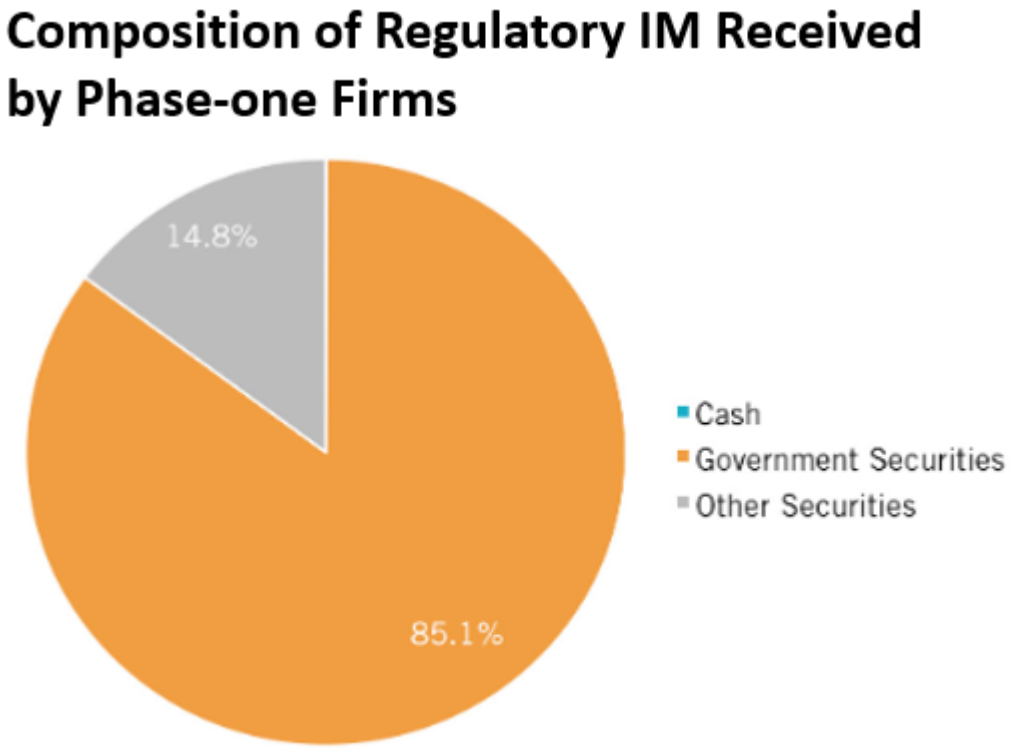
Operations and Technology

From a calculation perspective, regulators want to ensure sufficient IM is exchanged. To do so, many asset managers will use ISDA’s Standard Initial Margin Model (SIMM) to calculate the amount. The inputs and math to generate a SIMM calculation are generally more complex than we see for IA, so asset managers have to

enhance their data acquisition processes, as well as determine how technologically they will calculate SIMM. Both the data and calculation requirements mandate an evaluation and rethinking of the technology used by an asset manager.

In addition, because regulations dictate that brokers pledge Reg IM to asset managers, the brokers may decide to place their Reg IM with a tri-party agent. The buy side or the buy side's service provider must therefore consider how they will connect to the tri-party agents to confirm collateral value and eligibility. You can't determine if your broker has sent sufficient collateral if you can't connect to the collateral location.

What collateral can be pledged also changing. The chart below from the ISDA Margin Survey Year End 2020 shows the composition of Reg IM for Phase-one firms. Not surprisingly, government securities make up a majority of the total.



Source: ISDA Margin Survey Year-End 2020

Notice ably absent from this chart is cash, because regulators did not want cash held for Reg IM. In contrast, roughly 46% of IA is cash, as is 83% of variation margin received [1] . Those firms that have historically pledged cash—whether because it is easy to value, easy to move or due to historically low rates—will now have to source eligible securities collateral and have operational processes in place to efficiently move those securities. For some, the shift from cash to securities may not be a heavy lift; for others, a redesign may be required.

Looking Ahead

All the complexity cited above will lead to a variety of changes to market. For example, we expect firms to

actively monitor their Average Aggregate Notional Amount (AANA) and IM thresholds to ensure they, to the extent practicable, stay under the trigger amount, or at a minimum, have time to prepare for compliance.

In addition, portfolio managers may modify their trading strategy, moving from pure bilateral to either central-cleared swaps or exchange-traded derivatives. As more securities are pledged as collateral, the need to optimize the trading strategy and collateral selection process increases—that too is a data and technology challenge. The positive news is that there are a lot of solutions emerging: Technology vendors are partnering, market utilities are finding a valuable role for themselves, and execution venues are readying new instruments.

Get ready, there is indeed a lot of work to be done.

[1] Source: ISDA Margin Survey Year-End 2020

---

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India’s foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P

Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., an S&P Global company. ©2025 Crisil Ltd. All rights reserved.