

BVI CONFERENCE

BNP PARIBAS SECURITIES SERVICES

FROM THE LAST STEPS TOWARDS INITIAL MARGIN
IMPLEMENTATIONS TO THE GROWING NEED FOR SOPHISTICATED
COLLATERAL SOLUTIONS

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SECURITIES SERVICES

April 2019



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INITIAL MARGIN MANAGEMENT REQUIREMENTS

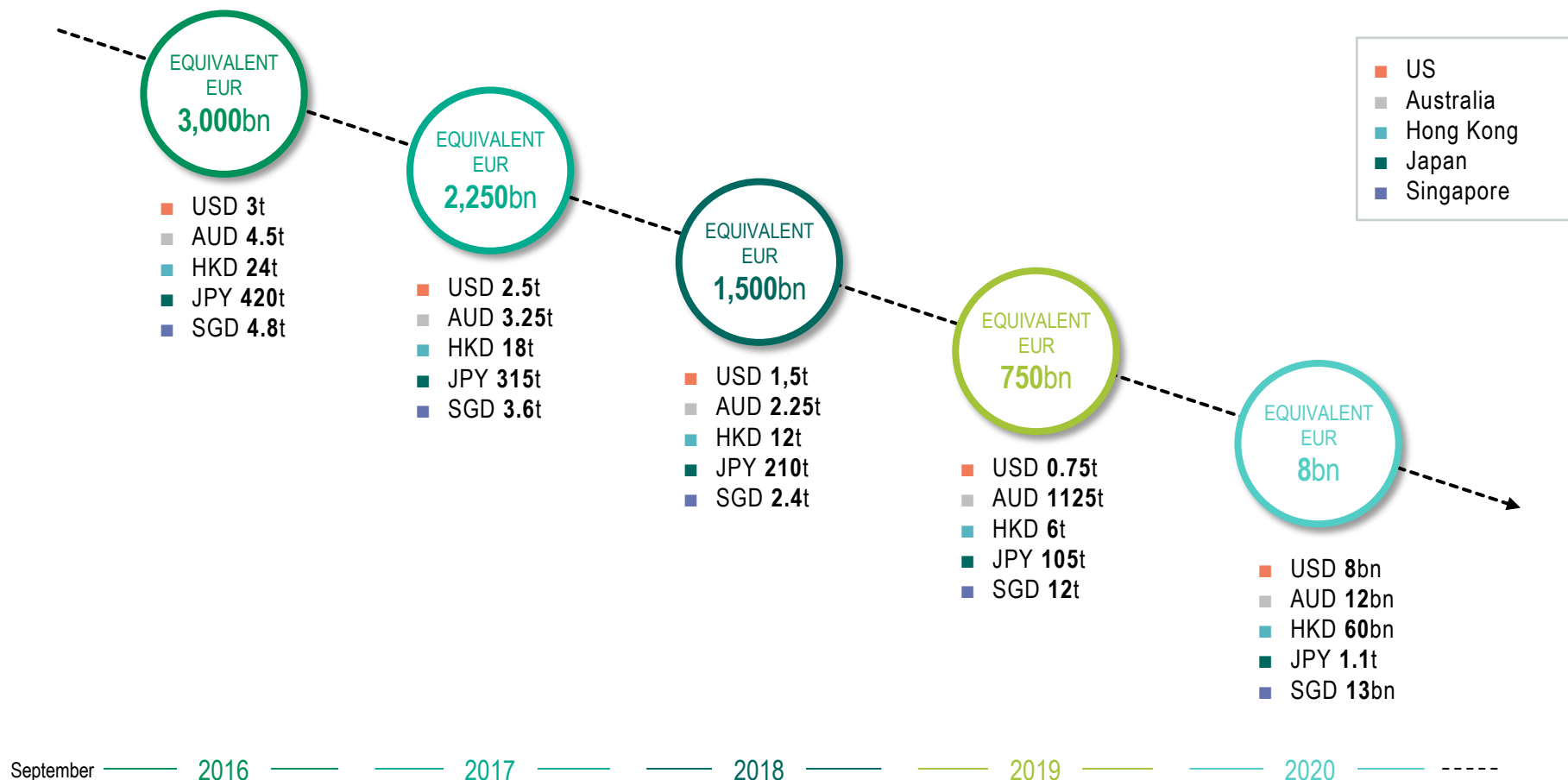
A SPRINT TO THE FINISH LINE



INITIAL MARGIN REGULATORY CALENDAR



The rules are phasing-in each year according to a notional threshold of non-centrally cleared derivatives
To determine if an entity is caught by the rules, it has to calculate – at consolidated group level - its aggregate average notional amount recorded on the last business day of March, April and May of the year referred to



A SPRINT OR A MARATHON?

IDENTIFY IN-SCOPE ENTITIES EARLY

- Define entities in scope and their respective “aggregate average notional amount” (AANA)
- Observation window is typically between March and May for a September implementation, so firms will need to conduct estimates long before the observation window in order to have enough time to prepare

STEP
1

STEP
2

MAKE EARLY DISCLOSURES TO COUNTERPARTIES

- Self-disclosure to occur 12-18 months before the initial margin go-live date

STEP
3

AGREE ON THE LEGAL AND OPERATIONAL FRAMEWORK

- Initial margin calculation methods
- Preferred custodian and margining framework for IM exchanges
- Credit support annex (CSA):
 - IM thresholds determination (maximum allowed: 50M€)
 - Minimum Transfer Amount (MTA) (maximum allowed: 500K€ across IM and VM)

IDENTIFY SPECIAL CASES

- Any specific regulatory constraint applying to jurisdiction, entity...

STEP
4

<https://www.isda.org/a/iVmEE/ISDA-Initial-Margin-Fact-sheet.pdf>



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A SPRINT... AND...A MARATHON!

ESTABLISH CUSTODIAL RELATIONSHIPS

- Each trading relationship requires two Account Control Agreements (ACAs), each party being Pledgor and Secured Party at the same time
- KYC and account openings
- Communication setup

STEP
5

STEP
6

PREPARE FOR COMPLIANCE

- IM calculation setup
- Operational readiness

STEP
7

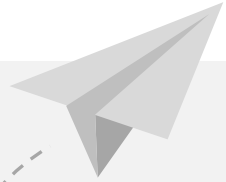
NEGOTIATE AND EXECUTE DOCUMENTATION

- IM Credit Support Annex (CSA) between you and your counterparty
- Account Control Agreement (ACA) between you, your counterparty and your custodian
- Standard Initial Margin Model (SIMM) licence
- SIMM Crowdsourcing Utility (if needed) licence agreement

STEP
8

FINALISE PREPARATIONS

- Procedures definition
- Internal testing
- Testing with third-parties (incl. custodians)



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INITIAL MARGIN – LET’S MAKE IT SIMPLE !



INITIAL MARGIN FOR NON-CLEARED OTC DERIVATIVES

- Initial margins calculation
- Exposures management
- Collateral management: 2-way exchange of IM
- Segregated custody arrangements



A COMPLETE POST TRADE CHAIN OF SERVICES WITH AN OPEN ARCHITECTURE

- Compliant to support the initial margin process, from **calculation** to **collateral management** and **IM segregation**
- Integrated within our existing “Collateral Access” suite of services
- Leveraging our triparty collateral management solution, which is the market practice



Initial margin calculation,
exposure management
and margin calls



Tri-party collateral
management solution

With **segregated custody
arrangements** and
Account Control
Agreements in local law

YOU (or) BNP Paribas
on your behalf



Risk factors
Initial Margin computation
Exposures management
Margin calls

YOUR
COUNTERPARTIES



IM amounts (requested value or RQV)

Instructions matching



Collateral selection and allocation

Collateral Giver
Your main a/c

Pledge account
In your name / in favour
of your counterparties

€

€



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2

“THANKS, BUT I DON’T
HAVE TO POST INITIAL
MARGIN...”

NOT SO FAST... THERE ARE STILL
PLENTY OF OPPORTUNITIES
TO EXPLORE!



TRIPARTY COLLATERAL SOLUTIONS

- A triparty agent is custodian to both parties, acts as an agent and ensures instructed exposures are covered with eligible assets



The triparty agent will manage: the processing of **exposure notification**, exposure **matching, net exposure calculation** (including valuation of collateral), **collateral selection, settlement instruction, substitutions...**



Our video explaining the tri-party collateral management basics:

http://bit.ly/BiTri_collateral



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KEY BENEFITS OF A TRI-PARTY AGENT

TRI-PARTY
ALLOWS TO
EXPAND TRADING
OPPORTUNITIES
AND REDUCE
OPERATIONAL
COSTS



BNP PARIBAS SECURITIES SERVICES TRIPARTY COLLATERAL MANAGEMENT

TRI-PARTY COLLATERAL SERVICES

Underlying transactions

REPO, SECURITIES LENDING, OTC DERIVATIVES...
CLEARED AND UN-CLEARED TRANSACTIONS

Type of collateral

FIXED INCOME, EQUITIES, CASH



OUR SOLUTION IS

- Cross-asset
- Cross-product
- Cross-segment
- Global and multi-local



IT'S NEITHER A SPRINT, NOR A MARATHON IT'S A JOURNEY



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QUESTIONS ?



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