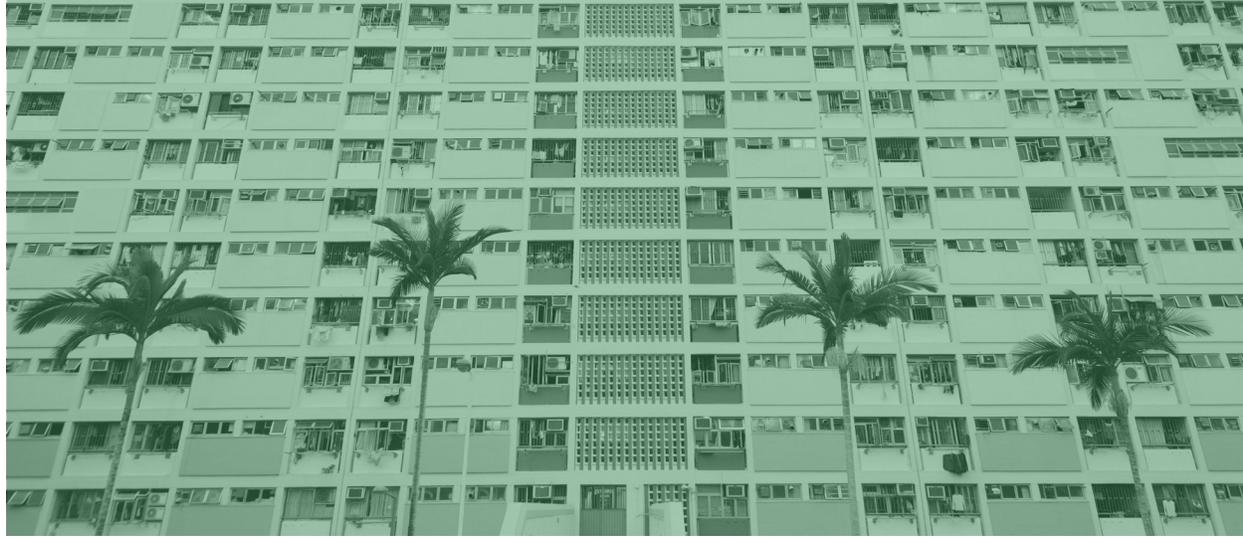


Case Study: Initial Margin Compliance

A top Asian bank solves for Initial Margin requirements using CloudMargin and Clearstream



A top bank in Asia leverages CloudMargin and Clearstream partnership to implement fully automated Initial Margin (IM) Solution before UMR Phase 5 deadline.



Background

Headquartered in Hong Kong, this large international bank provides a full range of investment banking products and services in Hong Kong, mainland China and overseas capital markets, attaining a leading position in the market based on its stronghold in cross-border banking services.

Before migrating to CloudMargin in 2020, the firm was using costly and inefficient internal systems to manage all activity relating to collateral. The process was highly manual and time-consuming to perform and was growing more laborious as its collateral activity, number of clients and counterparties increased.

The bank was captured in Phase 5 of the Uncleared Margin Rules (UMR) because its aggregate bilateral OTC derivative gross notional amount was more than €/\$50 bn (400bn HKD). This caused the bank to seek a more automated and robust system to address the new regulatory requirements and the increased obligations they would bring.

UMR - a driver for change

The deadline for Phase 5 of UMR was originally September 1, 2020, requiring the bank to calculate and exchange Initial Margin (IM) on a segregated basis after that date.

Rather than postponing their Phase 5 readiness, the bank decided to keep up the project's momentum and put together a robust plan to drive operational change, which included migrating to a solution that could help facilitate its compliance.

The bank's target high-level IM workflow



To achieve this desired workflow, the bank needed to add the following actions:

- Calculate IM via ISDA SIMM™
- Monitor exposure against its counterparties with full transparency of exposure versus thresholds
- Calculate IM Pledgor and IM Secured margin calls upon threshold breach
- Connect to AcadiaSoft's MarginManager, the global market leader in messaging
- Move collateral on a segregated basis, connecting its desired workflow through to the settlement instruction in the most efficient way possible
- Utilise algorithmic collateral optimisation to get the most out of its inventory of assets

Why CloudMargin and Clearstream?

In order to meet all these needs, the bank chose to combine CloudMargin's ability to deliver a fully automated IM workflow with Clearstream's market-leading Triparty Collateral Management Service (TCMS).

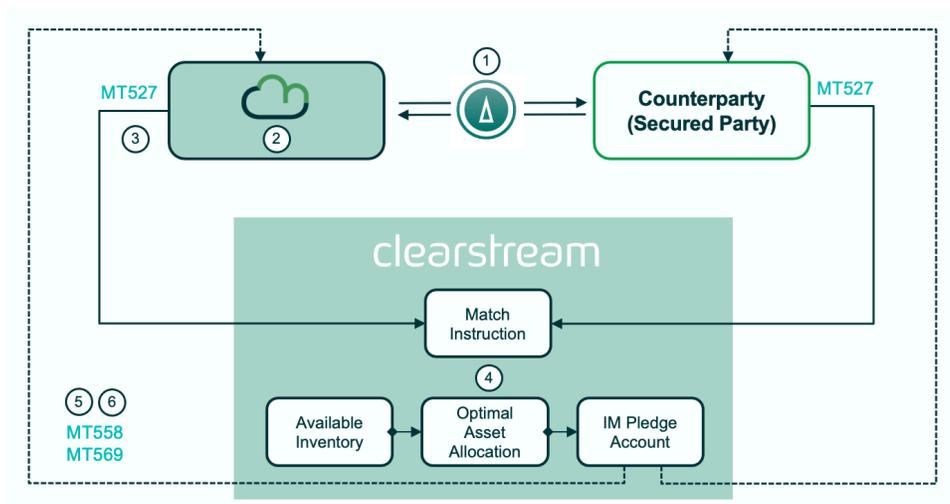
With CloudMargin, the bank could obtain full STP call processing with out-of-the-box connectivity to AcadiaSoft's MarginManager and Clearstream's collateral optimisation and triparty settlement capabilities with an implementation of only a couple of weeks. At the same time, the bank was able to eliminate maintenance and keep costs low through its all-encompassing pricing model. The bank chose to utilise CloudMargin's direct SWIFT connectivity. Clearstream performed collateral eligibility checks and provided a best-in-class optimisation algorithm and a wider pool of inventory. CloudMargin's UI ensured transparency of the Required Value (RQV) through its new real-time Settlement Dashboard where the RQV is displayed even after it goes to Clearstream.

Critical functionality

- There is an Initial Margin calculation and then an automated margin call exchange with counterparties via MarginManager.
- CloudMargin instructs Clearstream to move the RQV, the total agreed IM exposure (minus threshold).
- Clearstream then optimally allocates assets from either the bank's client or counterparty Longbox account of equal value to the RQV that has been agreed by the client and the counterparty.
- The Clearstream collateral account can be held in the name of the Security-provider or Security-taker. The latter is suggested where parties wish to incorporate the Recommended Amendment Provisions with respect to Japanese Collateral ("Shichiken").
- After the initial opening of the collateral transaction, operational lifecycle events are managed by Clearstream as triparty agent. This includes margin calls, substitutions, corporate action processing and optimisation.
- Clearstream will then provide reporting to both the Pledgor and Secured Party.



Example Workflow: Client is using Clearstream to initiate an IM pledge



1. Via AcadiaSoft, MarginManager messages client and agrees IM value with counterparty through the CloudMargin platform
2. Client approves IM required value within CloudMargin
3. CloudMargin platform sends triparty message with agreed IM values to Clearstream. Counterparty will send a matching triparty message to Clearstream
4. Based on agreed eligibility and available inventory (in the Long Box), Clearstream allocates required collateral
5. Clearstream Triparty Agent sends triparty status update to Client and Counterparty
6. Clearstream Triparty Agent sends triparty allocation to CloudMargin and Counterparty

Outcomes

With CloudMargin and Clearstream's TCMS, the bank will comply fully with UMR by the Phase 5 deadline and greatly reduce cost and risk, and more broadly, will generate unprecedented efficiencies.

After implementing with CloudMargin and Clearstream, the operations and settlement teams had the ability to:

- Save significant time and increase efficiency from automating IM settlement with Clearstream's triparty collateral management services via CloudMargin's out-of-the-box connectivity
- Centralise its entire collateral program across multiple asset classes, workflow and data
- Access Clearstream's other Banking, Funding and Financing services, including the ability to raise or invest cash via triparty repo, and to source and transform collateral through upgrade/downgrade transactions.
- Mobilise cash and non-cash collateral, including fixed income, equities and investment fund units
- Connect to other critical market infrastructures and the most innovative fintech vendors out-of-the-box
- Automate its entire end-to-end workflow to achieve full STP, as well as the maintenance, never having to deal with upgrades
- Optimise its use of collateral by automating exceptions and surfacing hidden collateral assets across a global consolidated program
- Automate compliance with UMR, all in one platform
- Utilise its new operating model to deliver the same efficiencies across Variation Margin agreements and adjacent product classes

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