UMR threshold lift "not going to happen" - expert

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Buy side firms are showing greater interest in the standard initial margin model (SIMM) as they realise that the final uncleared margin rule threshold is not going to be lifted, according to SmartStream Technologies' head of collateral.

“One of the reasons why firms have recently been showing increased interest in SIMM systems is that previously there was an expectation that regulators might raise the threshold to $100 billion, giving them exemption from the rules.

“The market has realised that this is not going to happen and they will have to start implementing their calculation systems in time for September 2020,” Jason Ang, collateral business head, SmartStream, told FOW.

Last October, the International Swaps and Derivatives Association (Isda) called for the phase-five €8 billion threshold for uncleared margin rules to be raised to €100 billion in order to strike a balance between addressing systemic risk issues and avoiding adverse and unnecessary consequences for hundreds of smaller firms.

Uncleared margin rules are expected to capture around 1,000 buy side firms in September 2020 as they meet the €8 billion threshold that requires them to post initial margin against non-cleared derivatives transactions.

Ang explained that in stage five it is likely that nearly all firms will use the SIMM model devised by Isda in order to calculate initial margin as opposed to the schedule model. He said this was because firms want to avoid the budgets and timelines required for developing their own solutions.

Previously, in earlier phases of the uncleared margin rules only the largest sell side firms were included and they were able to afford to develop their own internal/schedule models.

“Additionally, firms will find that there will be fewer issues and potential conflicts between counterparties if the models used are all the same,” he added.

However Ang explained that implementing SIMM systems is "just the first step".

Marc Knapp, head of business development at UK-based fintech Cassini Systems explained that after calculating initial margin, the front office will need to be informed about the most cost effective route to execute the trade.

“In essence you need to expose all post-trade costs at pre-trade which means going across silos/different systems to combine front, middle and back office systems/data for pre-trade modelling analysis.

“This pre-trade analysis needs to be provided to the front-office before they trade so they can use this in their decision making to optimise these costs as much as possible,” Knapp explained.

Earlier in March, SmartStream Technologies and Cassini Systems partnered to help buy side firms comply with initial margin requirements.

In the same month Isda reiterated its calls for the uncleared margin threshold to be lifted to avoid imposing complex requirements of hundreds of small buy side firms.