

The Implementation of Initial Margin Requirements – the documentation landscape

Nordic Capital Markets Forum

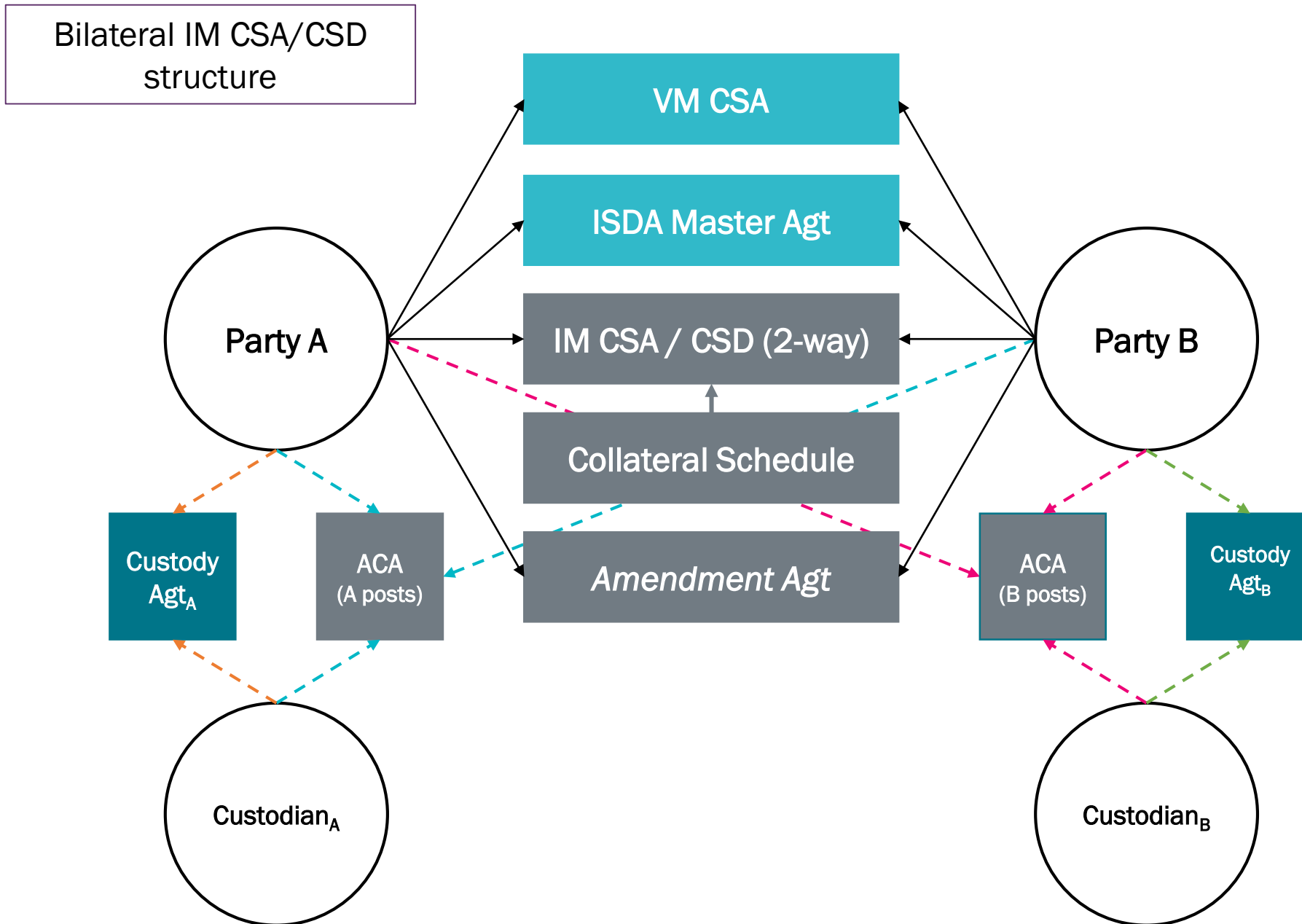
10th October 2019, Copenhagen

IM documentation architecture

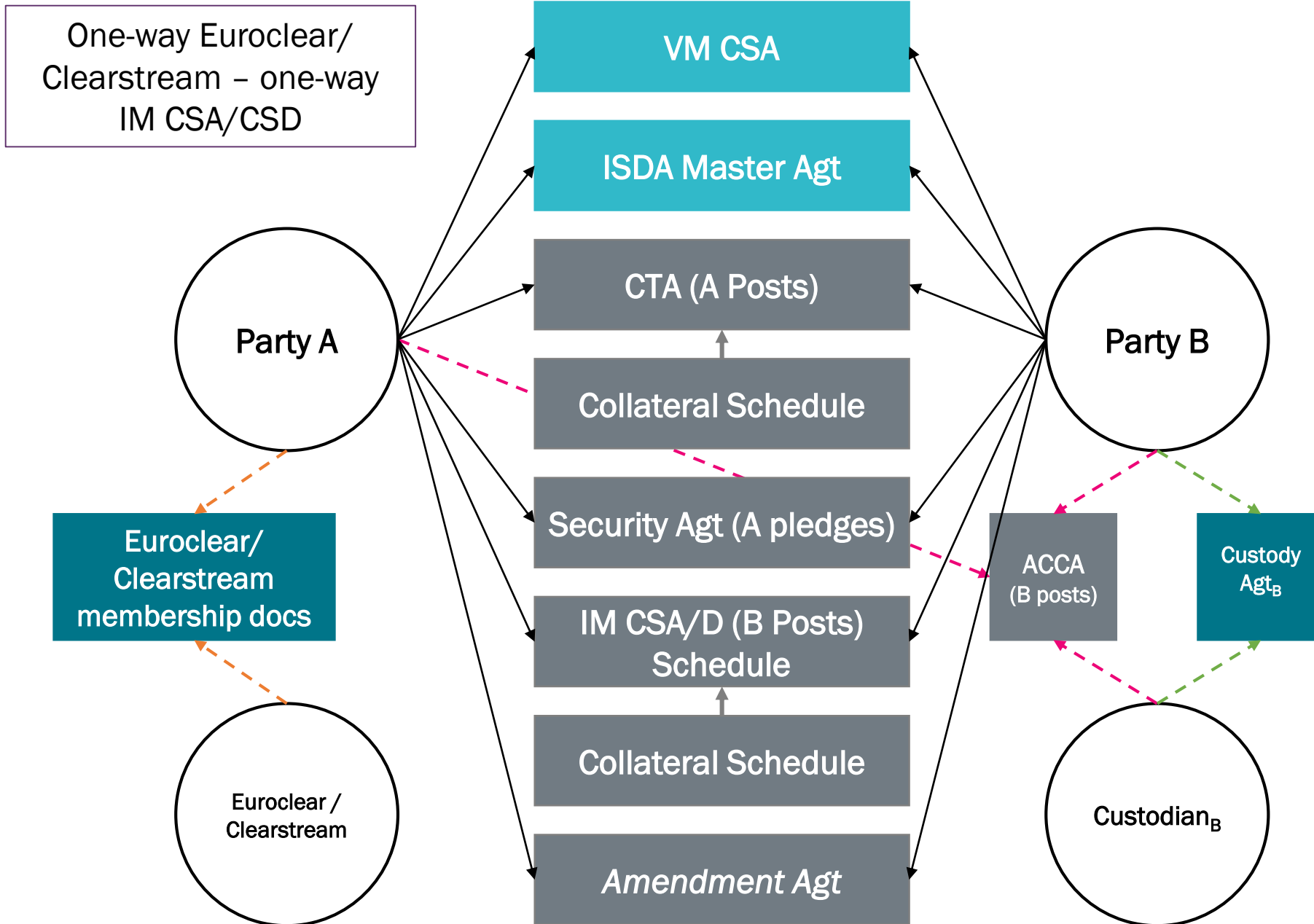
Provider	Phase 1 Docs	'Next Gen' Docs
ISDA	2016 IM CSA (New York law)	2018 IM CSA (New York law)
	2016 IM CSD (English law)	2018 IM CSD (English law)
	2016 IM CSA (Japanese law)	
Clearstream	2016 CTA (New York law)	2019 CTA (Universal)
	2016 CTA (English law)	2019 CTA (Universal)
		French law rider to CTA*
	2016 Security Agreement (security provider)	2019 Security Agreement (sec provider/taker)
	2017 Security Agreement (security taker)	2019 Security Agreement (sec provider/taker)
Euroclear	2016/17/18 CTA (New York law)	2019 CTA (Universal)
	2016/17/18 CTA (English law)	2019 CTA (Universal)
		French law rider to CTA*
	2016/18 Security Agreement	2019 Security Agreement
Bank Custodians	Account Control Agreements	2019 CTA
		French law rider to CTA*
		2019 Security Agreement (NY law)
		2019 Security Agreement (Eng law)
		2019 Security Agreement (Lux law)
		2019 Security Agreement (Irish law)

* For parties using a French-law governed ISDA Master Agreement

IM document structure I



IM document structure II



The custodian landscape

Phases 1 - 4	Euroclear	Clearstream	JP Morgan	BNY Mellon
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Phase 5 (completed)	BNY Trust Co.	BBH	Citigroup	Northern Trust
	State Street	US Bank	Wilmington	

Phase 5 (In progress)	BNP Paribas	HSBC	Northern Trust (Ontario)	State Street (Lux)
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Phase 5 (to be reviewed)	BBH (Ireland/Lux)	CACEIS Lux	CIBC Mellon	Citigroup (HK)
	Deutsche Bank	KAS Bank	NAB	NT (Australia)
	Pictet & Cie	RBC	SIX	SEB AB
	Soc Gen	State Street (IT)	Svenska	Wells Fargo

Tri-party vs third party custody model

Tri-party Custodian	Third party Custodian
Outsourcing of collateral management process	Each party establishes custody accounts
Active collateral management by custodian	Parties agree eligible collateral and exposure limits
Three-way agreement on eligible collateral	Collateral giver instructs collateral movements to segregated account
Parties notify custodian of TARGET collateral value	Secured party typically approves withdrawals from segregated account
Tri-party custodian values collateral	One of the parties values the collateral

Tri-party vs third party custody model

Service	Tri-party	Third party
Custody of underlying cash & securities	Yes	Yes
Segregation of underlying collateral	Yes	Yes
Collateral transfers and returns	Yes	Yes
Control over collateral withdrawals	Yes	Yes
Collateral selection	Yes	No
Collateral eligibility checks	Yes	No
Concentration limit monitoring & verification	Yes	No
Haircut monitoring & verification	Yes	No
Collateral (re)valuation	Yes	No
Reinvestment of cash collateral	Yes	No
Automated collateral substitutions	Yes	No
Corporate actions management	Yes	No
Collateral optimisation	Yes	No

Key lessons from IM phases 1 - 4



The custodial process takes a long time
– start early



Agreeing commercial terms and eligible
collateral is time-consuming



Don't wait for AANA numbers to be
confirmed – it's too late to start then

Phases 5 and 6 – how might they be different?

IM documentation architecture becoming more voluminous/complex

New issues/features being road tested (e.g. Margin Allocation options, custodial arrangements & structures)

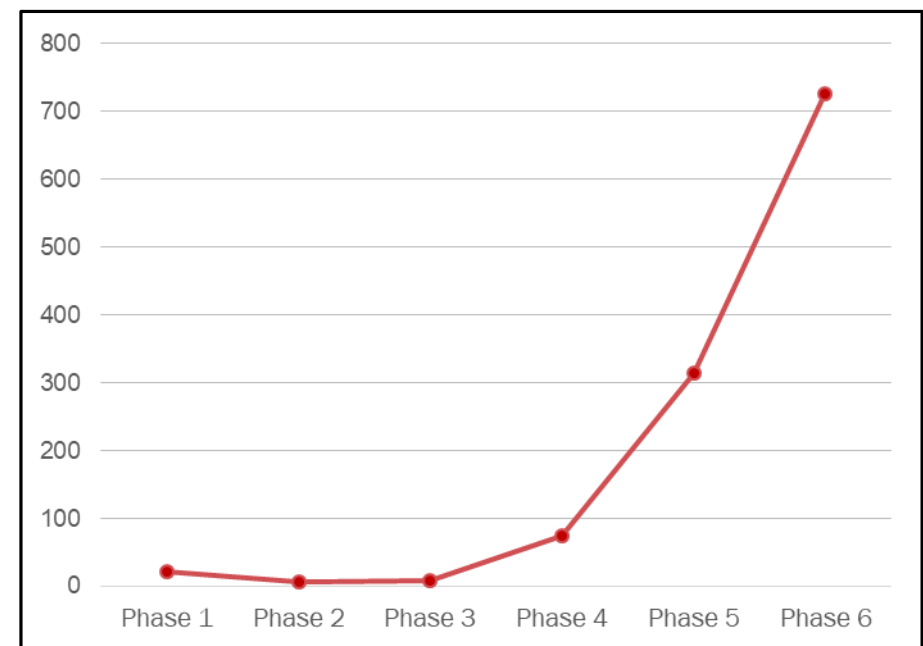
Custodian field becoming potentially more crowded

New weapons to combat IM emerging (i.e. threshold monitoring arrangements)

New eligible collateral types (e.g. money market funds)

Pressures on capacity and bandwidth at dealers and custodians is only going to increase...

No. of in scope IM entities





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