

100 days since Phase 5 UMR Implementation Extension.

How has the market responded?

Following on from our last interview with John Pucciarelli 'Market Update: Phase 5 UMR Implementation Extension', we caught up with the Director of Strategic Initiatives at AcadiaSoft to recap on the last 100 days since the BCBS and IOSCO recommended delay, its impact on the market and AcadiaSoft's monitoring solution.



John Pucciarelli

Director of Strategic Initiatives
AcadiaSoft

Can you recap on the Phase 5 UMR Implementation Extension and why it was recommended by BCBS and IOSCO?

100 days have gone by so quickly, and a lot has happened since the extension. To recap, BCBS and IOSCO has recommended a change to the original compliance schedule for firms who were originally in Phase 5. Now firms who are above \$50BIL (or equivalent) Average Aggregate Notional (AANA) will be in scope for the rules in September of 2020 and firms above \$8BIL (or equivalent) AANA will be in scope for the rules in September of 2021. This gives smaller firms a little bit more time to get compliant. Furthermore, the \$50 million threshold relief stated that the rules do not specify documentation, custodial or operational requirements if the initial margin amount does not exceed the \$50 million-dollar threshold. That's where we are up to now.

"Time is on your side until it's not" What has been the impact of this extension on Phase 5 clients from your view in the market over the last 100 days?

Firms have now had an opportunity to digest it all. We have heard the responses from regulators in various jurisdictions to date, things seem to be inline and as expected. The HKMA in Hong Kong, JFSA in Japan, the CFTC and US Prudential Regulators in the US and OFSI in Canada have all come out with their agreements on the BCBS and IOSCO recommendation from 100 days ago. Some of the regulators are in the process of receiving comments, but largely it was what we expected in terms of the regulators agreeing to the threshold relief and agreeing to Phase 6. AcadiaSoft is now at the point of educating clients that these regulations exist, we coach them through the solutions that are out there, to help with both the extension and the threshold relief.

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Clients haven't deferred their project work, they haven't become complacent?

Phase 5 firms are working diligently through their project plans. Phase 6 however is a little more mixed from what I am seeing. There are clients now that know they are in Phase 6 who are taking more of a step back to assess their plans, however there is a fair amount in Phase 6 who are full speed ahead.

“At AcadiaSoft we’ve listened and worked with market participants to create our IM Threshold Monitoring service.”

What does the threshold relief mean for the industry and for AcadiaSoft?

The threshold relief has created a requirement for firms who are in scope for Phase 5 or 6. If they aren’t going to reach \$50 million there is now a requirement to monitor their threshold. A lot of the firms are looking at solutions to handle this bilaterally with clients which would mean a lot of communication back and forth. However, at AcadiaSoft we’ve listened and worked with market participants to create our IM Threshold Monitoring service. This gives a centralized location for all buy-side and sell-side clients to view their threshold against their exposures with data that their dealers can upload using CRIF data into a user interface which gives them a view across all of their dealer relationships. It enables certainty to know they are either below that threshold or that they are getting close to the threshold and will give them ample time to start the repapering and operational process. The solutions are extremely cost effective with very little development on the end user side. We created the IM Threshold Monitoring service (IMTM) as a direct response to regulatory guidelines, and it’s important to note that this service will also be part of our AcadiaPlus offering. It’s a complete view in one place, so that dealers can see all their client relationships and vice versa, and can appropriately take the steps to get compliant. This is one of the stand out features that has emerged from the project.

What has the market response been to AcadiaSoft IM Threshold Monitoring?

It has been very positive, as soon as we heard about the BCBS-IOSCO relief we began working groups with our owner banks and other sell-side institutions to get their opinion on the service. We are in the stage now of development and are very close to putting a product to market. There are a few different stages and features to build on top of this. The new IM Threshold Monitoring Service will address IM threshold transparency challenges around separately managed accounts in the asset manager space.

Coming to the end of 2019, what are the important three things for in scope Phase 5 firms?

You definitely need your project in place to calculate and reconcile SIMM™. Are you going to do it in house or are you going to use a vendor like AcadiaSoft? Talk to your custodians and make sure your legal documentation is moving forward, it’s not just regulatory CSA’s but also your account control agreements, how will you negotiate this? Will you go paper based or will you leverage the digitized offerings that are available to make the process easier? Finally, talk to your dealers and make sure that you are testing and collaborating with working groups. Heading into the new year there is a lot of work to do, especially for Phase 5, as we see the largest number ever in terms of compliance schedule and its only going to get bigger. We have the solutions for clients, it is now a matter of getting them ready to do it and get over the finish line for full compliance.

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For more in-depth information about the AcadiaPlus platform visit www.acadiasoft.com or email info@acadiasoft.com to book a demo with one of our experts.