A Knowledge Base Mapping Cross-Border Margin Requirements

1st Workshop on Technologies for Regulatory Compliance

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Background to the Regulatory Landscape

- Use case in the field of Financial Regulation
- EU Companies face wave of regulation following Financial Crisis 2007
- Many elements to regulatory reform
- Global initiatives impact cross-border business
- G20 Pittsburgh 2009 – Goal to reduce Counterparty and Systemic Risk

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Focus on Derivatives

- Key area of risk is over-the-counter ("OTC") derivatives
  - Total outstanding OTC notional US$483 trillion at 31 December 2016[1]

  - *"All standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and <u>cleared</u> through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to <u>higher capital requirements</u>"*[2]

1. Bank for International Settlements, Statistical Release, May 2017
2. G20 Summit Pittsburgh 2009 - Statement

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How were the G20 Goals Implemented?

- In Europe - EMIR (European Market Infrastructure Regulation)
- Globally - Dodd Frank / Global Equivalents

- Central Clearing for commoditised OTCs
- Risk mitigation measures for non-centrally cleared OTCs
  - Exchange of Collateral, Confirmation, Reconciliation, Capital Requirements etc
- Reporting to Repositories

- Binding on financial and non-financial entities

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What are the Issues for EU Entities

- Which rules apply to a cross-border counterparty relationship?

- Which Rules Govern (equivalence, "*strictest of*")?

- Scope of Application (VM/IM, party status, AANA/JAAN, Groups)?

- Is documentation compliant (Thresholds, Minimum Transfers, Eligible Collateral, timing, segregation)?

- What amount of margin is required (based on various factors, "Haircuts")?

- What margin is eligible?

- How to fulfil/validate reporting?

- Optimisation (Margin, Netting, Regulatory)

Lynx a Possible Solution

- Position for SMEs is complex and uncertain
- Centralised Mapping of cross-border Rules (and entity data)
- Cut through complexity (queriable knowledgebase, impact analysis)
- Facilitates Optimisation (margin, netting, regulatory, balance sheet)
- Informs compliance process (maps instance data to rules)
- Reduces impact of regulatory update cycle (updating is centralised)
- Reduces cost
- Removes hurdles to entry

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Collateral Benefits

- Supports an ecosystem of service providers

- Supports development of new functionality (optimisation, real time)

- Compliments Blockchain and similar developments

- Greater conformity supports interoperability and objectives for Capital Markets and Banking Union

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Looking to the Future

- Strong APIs for interoperability

- Sustainable support structure

- Industry collaboration for common utility

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Thank you.

- Any questions?

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