

Clearstream

Liquidity Hub News – Initial margining

Triparty margining for OTC derivatives



Banu Apers, GSF Product Management, Luxembourg

Regulatory schedule

Customers will need to negotiate new legal agreements, mobilise different eligible collateral assets to cover margin requirements and establish industry practices to monitor and report their activities.

EMIR will be implemented in three phases:

- The mandatory exchange of variation margin for uncleared derivatives will be introduced on 1 September 2016 and will be applicable to all market participants as from 1 March 2017
- The exchange of initial margin will be phased in from 2016 to 2020, depending on the size of the average aggregate notional amounts
- Mandatory clearing through an authorised CCP such as Eurex for specific IRS and CDS products is to be phased in from 2016-2018.

Regulators are pushing for a greater collateralisation of uncleared OTC derivatives. As a result, both financial and non-financial counterparties will be required to post initial margin on a two-way gross basis. Clearstream customers can benefit from the triparty collateral management services under the Global Liquidity Hub for meeting these margin requirements from their existing account.

Upcoming regulations such as EMIR will strengthen central clearing requirements for standardised derivative transactions and introduce additional margin requirements on uncleared derivatives to reduce systemic risk.

Both financial and non-financial counterparties will be required to exchange two-way initial margin on a non-netted basis. The collateral needed for meeting the initial margin must be segregated at a non-affiliated third party custodian or triparty agent such as Clearstream.

Increased demand for collateral

These margin requirements are expected to increase the amount of collateral needed by counterparties for OTC derivative trading. Customers therefore need a clear overview of their collateral and access to different collateral pools in a timely manner.

Clearstream's triparty collateral management services under the Global Liquidity Hub help customers meet all their margin requirements in a one-stop-shop solution.

As a neutral agent, Clearstream is already operationally and legally set up to segregate the initial margin collateral for both cleared and uncleared transactions. This means that customers can benefit from their existing collateral account at Clearstream to meet these upcoming regulatory requirements with minimum operational impact and in a cost-efficient manner.

A single collateral pool

This account structure enables customers to hold multiple currencies and asset classes in a single location. In addition to their fixed income assets, customers looking to diversify their eligible collateral can include equities and money market funds. This single collateral pool effectively bridges bilateral and triparty trades to reduce inefficiencies from collateral fragmentation.

In addition, customers will benefit from collateral transformation and cash reinvestment opportunities. All this is part of Clearstream's ongoing efforts to make the market more liquid, transparent, standardised and secure.

For more information about GSF services, please contact the [Sales and Relationship Team](#) or call one of our offices:

[Luxembourg](#) +352-243-36868
[London](#) +44-(0)20-7862-7142
[Frankfurt](#) +49-(0)69-211-12757
[Singapore](#) +65-6597-1622

If you would prefer not to be on the mailing list for Liquidity Hub News, please let your relationship manager know.