

# Uncleared Margin Rules for FX clearing – Questions & Answers



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### What are Uncleared Margin Rules (UMR)?

In response to the global financial crisis of 2008-2009, the G20 nations agreed to a financial regulatory reform agenda covering the over-the-counter derivatives markets and market participants. Among them were recommendations for implementing additional margin requirements for non-centrally cleared derivatives – also known as the Uncleared Margin Rules (UMR).

UMR impacts many market participants such as asset managers, hedge funds, corporates and pension funds: With phases 1–6 of UMR now in effect, firms with an Average Aggregate Notional Amount (AANA) greater than EUR 8 billion are required to post initial margin bilaterally with their counterparts.

	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6
	1 Sep 2016	1 Sep 2017	1 Sep 2018	1 Sep 2019	1 Sep 2021	1 Sep 2022
IM AANA* Threshold	> EUR 3 trillion	> EUR 2.25 trillion	> EUR 1.5 trillion	> EUR 750 billion	> EUR 50 billion	> EUR 8 billion
Counterparties					> 300	> 750

\* Amounts reflect an aggregate average notional amount (AANA) for March, April and May of each phase-in year. Counterparties are ISDA estimates.

### So, what does this mean for my business?

UMR implementation is a large undertaking for firms and likely to require upfront and ongoing costs to ensure continued compliance.

For firms in scope of UMR, several steps need to be taken. The ISDA Checklist available here <https://www.isda.org/a/P39TE/Getting-Ready-for-Initial-Margin-Regulatory-Requirements-2020.pdf> is a useful tool to help prepare from an operational, legal and technical standpoint.

### So how do I determine if I am in scope for UMR?

The first step to complying with UMR is determining if your firm is in scope by calculating your Average Aggregate Notional Amount (AANA). This is done by summing the total amount of outstanding non-cleared derivative notional over the observation period and then dividing this by the number of months in the observation period (3).

Any centrally cleared and exchange-traded products are exempt from the calculation.

### How does UMR relate specifically to FX NDFs?

FX NDFs are considered an in-scope product for UMR. This means that these products will require a two-way exchange on IM with each of your counterparts if left uncleared. Clearing NDFs can streamline this otherwise onerous and costly process.

## Which derivatives count towards my AANA?

Count towards my AANA:	Don't count towards my AANA:
Uncleared OTC derivatives including <ul style="list-style-type: none"><li>• Non-deliverable Forwards (NDFs)</li><li>• Physical FX Forwards</li><li>• Physical FX Swaps</li><li>• Swaptions</li><li>• Hedging Trades</li><li>• FX Options</li><li>• IR Caps and Floors</li><li>• Equity Swaps and Forwards</li></ul>	<ul style="list-style-type: none"><li>• Cleared instruments</li><li>• Exchange-traded derivatives</li></ul>

### I use a Prime Broker for my uncleared derivatives. Does that make me exempt?

Unfortunately, not. Please speak with your PB regarding this, as they will be impacted by UMR as well.

### I am a pension fund and have a clearing exemption. Does this exclude me from UMR?

No, UMR applies to all market participants above the AANA threshold. If you have a clearing exemption for IRS or other asset classes, you may wish to begin clearing these products to reduce your AANA further.

### So how can Eurex Clearing help me with UMR compliance?

Clearing FX products at Eurex Clearing can help you in several ways:

- **Remove firms from the scope of UMR** – By centrally clearing in-scope trades at Eurex Clearing, firms remove transactions from their AANA calculation, potentially removing them from the scope of UMR altogether.
- **Increased counterparty selection** – Clearing opens up access to all clearing member firms, without the need to go through protracted and costly legal negotiations.
- **Margin efficiencies** – Clearing removes the need to post regulatory IM to individual counterparties. Instead, participants post one net amount to the Clearing House.
- **Operational efficiencies** – Clearing provides a simple and elegant solution for firms. Users benefit from a single rulebook, one daily VM payment, improved counterparty risk management and zero IM disputes.
- **Regulatory compliance** – As well providing a solution to UMR, Eurex Clearing, a European domiciled CCP, guarantees clearing certainty within the EU regulatory framework.
- **Counterparty risk and default management** – Clearing significantly reduces counterparty credit risk and ensures markets can continue to operate smoothly in the event of a clearing member default.
- **Capital Benefits** – By clearing FX, you get capital benefits as the risk weight of Eurex Clearing as the counterparty is 2% and CVA charge is 0%.
- **Product Substitution** – by replacing your uncleared OTC FX with Exchange Traded FX, you can remove these trades from the scope of your AANA calculation as well.

### **How can I prepare to start clearing at Eurex Clearing?**

Come and talk to us! We will guide you through the onboarding process, making it as seamless and efficient as possible. Get started in three simple steps:

1. Engage with your clearing broker to onboard you and your funds to Eurex Clearing for NDFs\*.
2. Execute your NDFs as usual, and then send them to your preferred middleware provider for matching (either MarkitServ, Traiana) or submit directly from 360T.
3. Trades are novated, and Eurex Clearing becomes the legal counterparty to both sides of the trade.

You can find our contact details at the bottom of this document.

### **What if my firm already clears other asset classes via Eurex Clearing?**

Then it's even easier! Firms already clearing via Eurex Clearing for other asset classes will be able to maximize efficiencies through our single default fund, margin and collateral pool, as well as leveraging existing reporting functionality.

### **How much time should I plan for the Eurex Clearing onboarding process?**

The onboarding time varies from firm to firm. However, if your clearing broker is live with Eurex Clearing, it should be a quick process taking a couple of weeks to ensure all static data is set up at Eurex Clearing and middleware connectivity is in place.

\*Due to regulatory restrictions, Eurex Clearing AG is currently not able to offer NDF clearing services in the United Kingdom and the U.S. until further notice.

## **Useful Links**

### **ISDA resource hub**

[https://www.isda.org/category/margin/infohub/?\\_zs=2NF791&\\_zl=FqSh5](https://www.isda.org/category/margin/infohub/?_zs=2NF791&_zl=FqSh5)

### **BIS: Margin Requirements for non-centrally cleared derivatives**

<https://www.bis.org/bcbs/publ/d317.htm>

### **ISDA self-Disclosure Service for phase 5 and 6 entities**

<https://www.isda.org/2020/09/02/isda-self-disclosure-exercise-for-regulatory-im-phases-5-and-6/>

### **ISDA Regulatory IM Compliance Steps**

[https://www.isda.org/a/3vfTE/ISDA\\_CompplianceSteps\\_PostBCBS-IOSCO-12.17.20.pdf](https://www.isda.org/a/3vfTE/ISDA_CompplianceSteps_PostBCBS-IOSCO-12.17.20.pdf)

### **AANA Calculation Periods and Compliance Dates for Non-Cleared Margin Requirements**

<https://assets.isda.org/media/5e7ce0f1/4f4fc9ed-pdf/>

## Contact

### FX SALES AND BUSINESS DEVELOPMENT

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on NDF Clearing\* visit our website  
[Non-Deliverable Forwards \(eurex.com\)](https://www.eurex.com)**

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© Eurex, September 2022

**Published by**

Eurex Frankfurt AG  
Mergenthalerallee 61  
65760 Eschborn  
Germany

[www.eurex.com](http://www.eurex.com)

**ARBN Number**

Eurex Frankfurt AG ARBN 100 999 764