

Uncleared Margin Rules for FX clearing – Questions & Answers



Uncleared Margin Rules for FX clearing – Questions & Answers

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).

While phases 1 to 4 of UMR only effected a small number of firms, phases 5 and 6 in September 2021 and 2022 are estimated to impact over 1,000 firms, ranging from asset managers, hedge funds, corporates and pension funds.

	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 counterparties 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">• Non-deliverable Forwards (NDFs)• Physical FX Forwards• Physical FX Swaps• Swaptions• Hedging Trades• FX Options• IR Caps and Floors• Equity Swaps and Forwards	<ul style="list-style-type: none">• Cleared instruments• Exchange-traded derivatives

Ok, so what is the deadline for compliance?

For EU firms, important dates to note for phase 6 are as follows:

Phase	AANA Threshold	Period of calculation	Start date
6	> EUR 8 billion	Mar, Apr and May 2022	1 Sep 2022

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.

* available soon

Useful Links

ISDA resource hub

https://www.isda.org/category/margin/infocenter/?_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

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

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

Contact

FX SALES AND BUSINESS DEVELOPMENT

fx@eurex.com

© 2022 by Deutsche Börse AG. Eurex®, the EX® and EC®-Logo are registered trademarks of Deutsche Börse AG. This publication is published for information purposes only and does not constitute accounting advice, investment advice or an offer, solicitation or recommendation to acquire or dispose of any investment or to engage in any other transaction. While reasonable care

has been taken in the preparation of this publication neither Eurex Frankfurt AG, nor any of its affiliates make any representation or warranty regarding the information contained herein. Customers should consider the legal, accounting and regulatory requirements in the jurisdictions relevant to them before using Eurex® products or services.

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

* available soon

© Eurex, January 2022

Published by

Eurex Frankfurt AG
Mergenthalerallee 61
65760 Eschborn
Germany

www.eurex.com

ARBN Number

Eurex Frankfurt AG ARBN 100 999 764