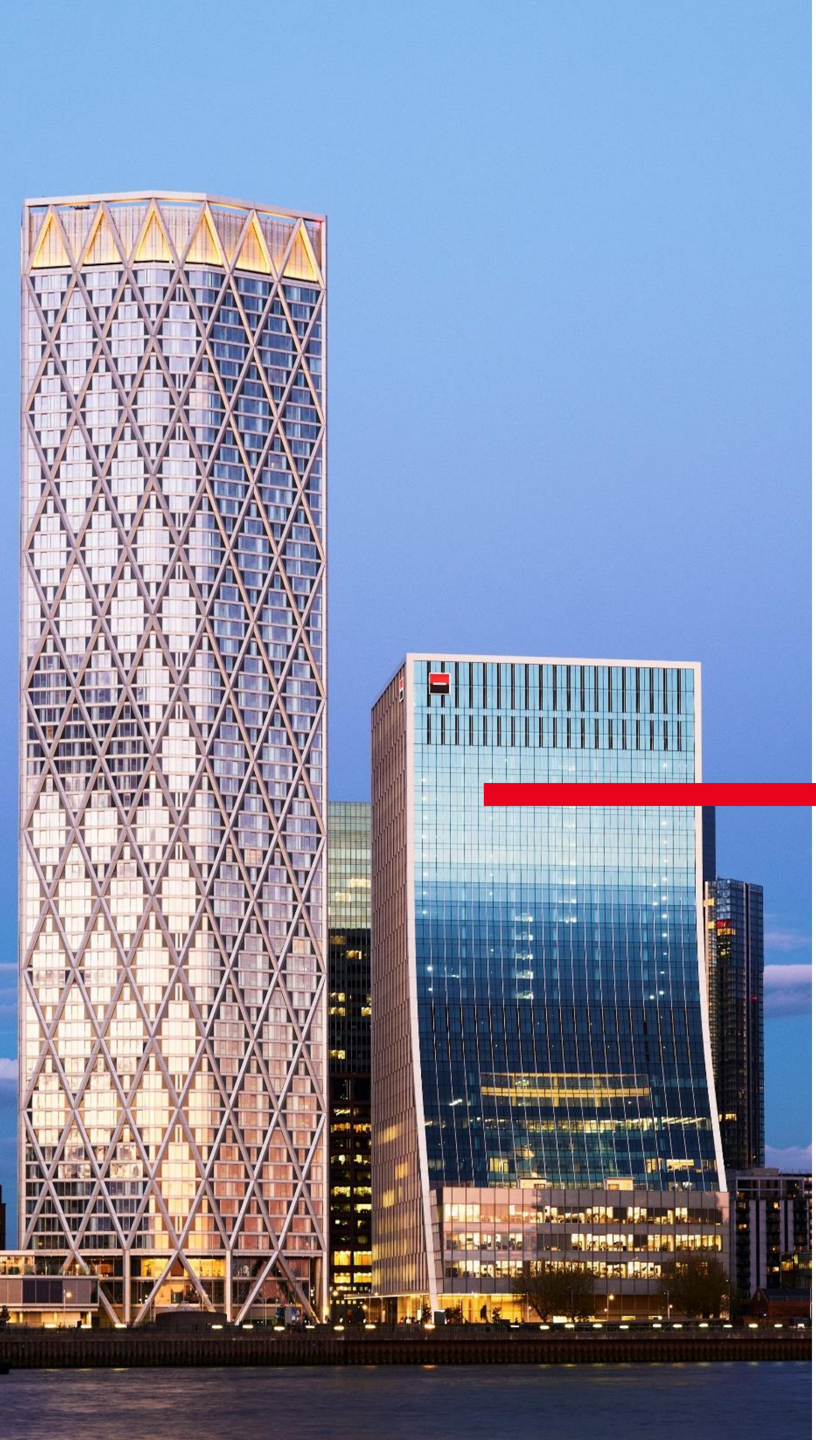

DECEMBER 2022

# EXPLORING THE IMPACT OF UMR AND SA-CCR



THE FUTURE IS YOU SOCIETE GENERALE

# UMR: OVERVIEW

## UNCLEARED MARGIN RULES: WHAT ARE THEY AND WHAT DERIVATIVES ARE IN SCOPE?

- The UMR rules aim to reduce systematic risk, promote central clearing and cover losses in the event of default
- Swap dealers and their counterparties are now required to post initial margin (IM) on non-cleared, over-the-counter (OTC) derivatives
- The implementation of UMR poses a material and resource intensive challenge for clients

## WHICH NON-CLEARED DERIVATIVES ARE IN-SCOPE

| | |
|---|---|
| **Interest Rates** | All interest rate derivatives (e.g. swaps, cap, floors, swaptions, etc.) |
| **Credit** | All credit derivatives (e.g. credit default swaps, swaps on bonds, credit options, etc.) |
| **FX** | All FX derivatives **except** FX spot**, physically** settled FX swaps/forwards, principal payments on cross currency swaps (CCS) |
| **Commodity** | All commodity derivatives **except physically** settled swaps/forwards/options |
| **Equity** | **Equity swaps, dividend swaps, equity forwards** while **equity options** are permanently exempt under US regulation and temporarily exempt under EU regulation until January 2024 |

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# BANK PERSPECTIVE

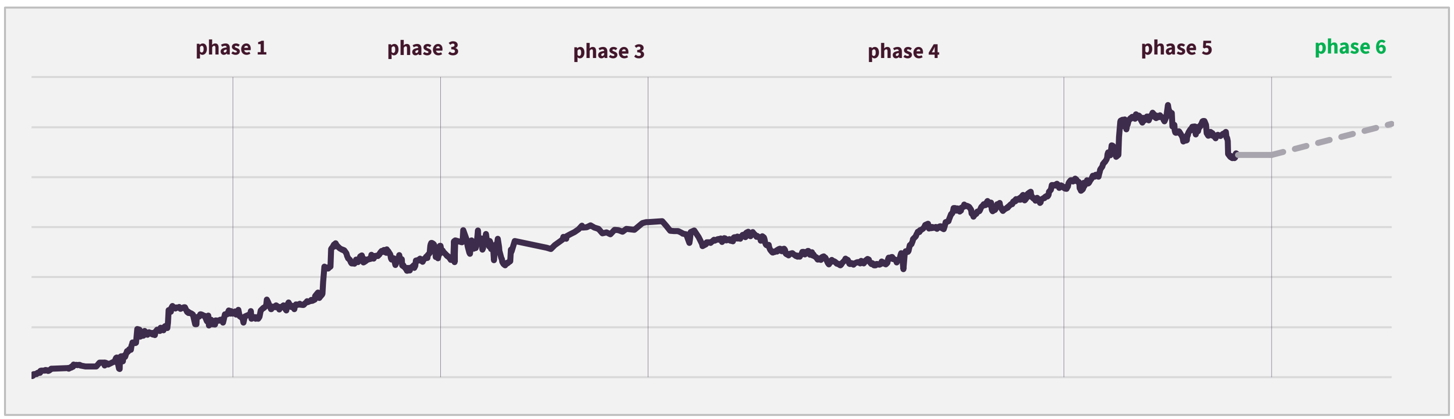
## WHAT IS AANA?

- AANA is based on the open gross notional value of all non-centrally cleared derivatives positions during the designated calculation observation period for the phase

| UMR Phase | AANA | IM Compliance Date |
|---|---|---|
| **Phase 5** | **> 50 billion** | **1-Sep-21** |
| **Phase 6** | **> 8 billion** | **1-Sep-22** |

- There is a regulatory maximum allowed IM threshold of EUR/USD 50mm in aggregate across all IM CSA between 2 counterparty Groups under which counterparties may decide not to exchange IM

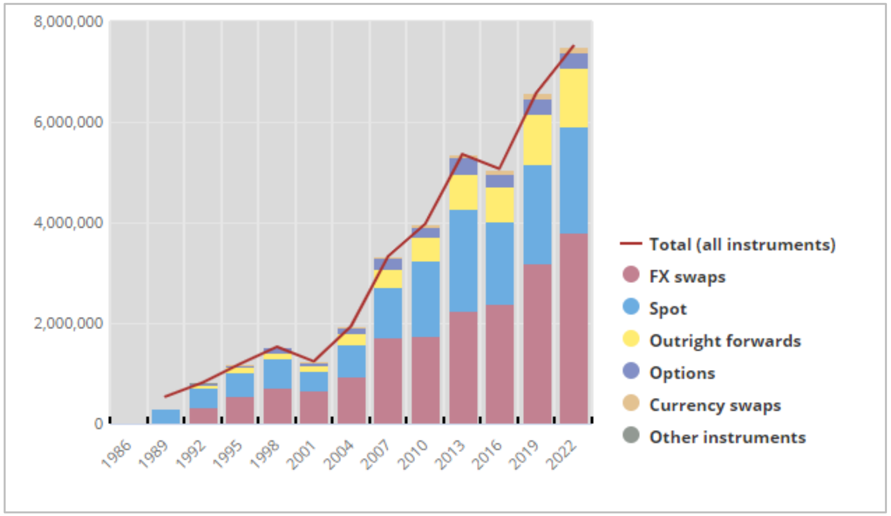
## IM EVOLUTION

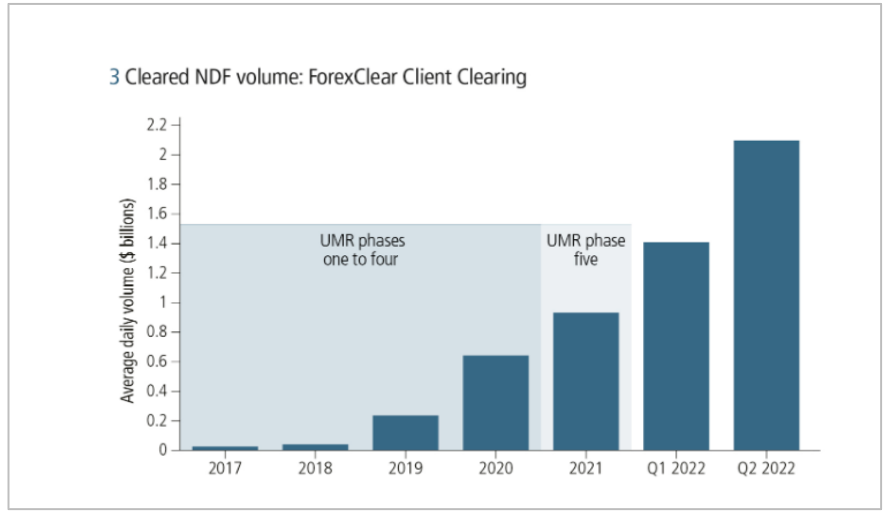



*Source: Societe Generale*

# LIQUIDITY & VENUES

## PRODUCTS




## CHANNELS

| PRODUCT | BILATERAL | OTC CLEARED | LISTED |
|---|---|---|---|
| | | Comprehensive central clearing offering with memberships of all major CCP venues | One of the largest execution & clearing brokers of ETDs in the world (9.7% global market share) with 2.5 billion contracts cleared & executed in 2020[1] |
| **Interest Rates** | - | ✓ | ✓ |
| **Credit** | - | ✓ | ✓ |
| **FX** | ✓ | ✓ | ✓ |
| **Commodities** | - | - | ✓ |
| **Equities** | Synthetic | - | ✓ |

**IMPROVING INITIAL MARGIN & COST EFFICIENCY**

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*Sources: Risk.net: UMR and the growth of client clearing & BIS*

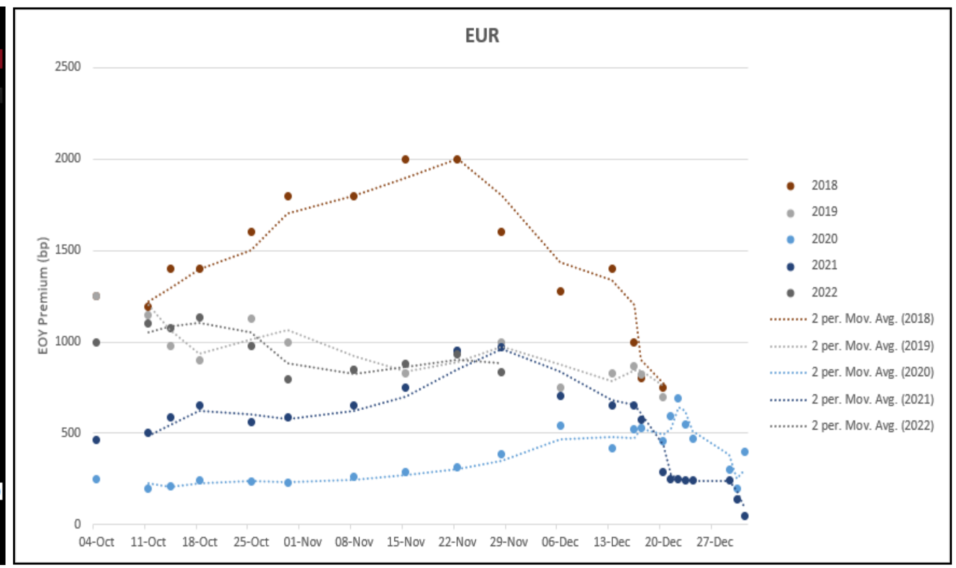
# SACCR / EUROPEAN BANK

**COST = Market B/O spread + CVA charges + Regulatory Charges**

**Regulatory Charge = Function of (NSFR, LR, SACCR,…)**

- Market B/O spreads are observable
- CVA charges are increasingly standardised
- Regulatory charges depend on various constraints

## Year End Turn

# Q&A

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# Effects of SA-CCR and UMR on FX trading and liquidity conditions
# Buy-side perspective

Elke Wenzler | 07. Dezember 2022

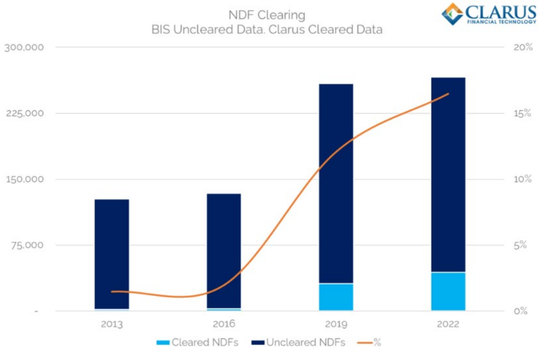
# UMR Impact observation

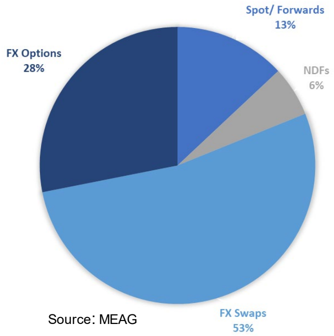
## Buy-side perspective

### Phase 6 – more buy-side firms in scope, but impact remains to be seen

#### In-scope versus impact

- UMR Phase 6 was and is expected to have the biggest impact on the buy-side. Approximately 1,100 firms have been affected by this final chapter of the regulation.
- However, AANA* is based on the size of derivative portfolio including FX Swaps and Forwards, which have no direct impact on margin requirements
- FX is a global market, not all market participants are affected




Source: MEAG

*AANA Average Aggregate Notional Amount

### New operational processing and contractual readiness

#### Legal considerations

- Determination of all legal entities in scope, based on AANA*
- Clarification of affected contractual relationships, incl. cross-border scenarios
- Waiver-Agreements allow trading up until an allowable IM threshold of 50 Million EUR
- Prioritization and optimization of contract negotiations based on historical trade pattern and projection as part of the analysis

#### Operational changes

- New set-up, includes using Tri-Party Agents. Increased importance and complexity in collateral management (asset-/ cash-pool optimization)
- Internal allocation and ongoing monitoring of thresholds

#### Strategies

- Optimized utilization of deductible thresholds
- Increase of the central clearing rates of traded credit default and interest rate swaps
- Get ready for further CCP instruments or ETD, with varity of factors drive the decision
  - Access to more liquidity and additional liquidity providers
  - Risk reduction and ease of contractual and operational processes
  - Optimization in collateral management and potential netting effects

# Observation on the Impact
## Buy-side perspective on SA-CCR

### Diverging and uneven impact between counterparts and instruments

#### Counterparts

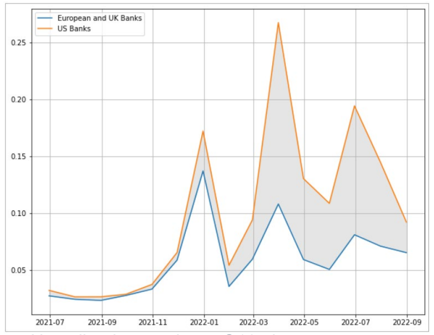
- Diverging impact for the EU and the US, due to the harsher impact of the lower limit for RWA, set by the standardized approach
- Counterparts exposed to high directional derivative transactions, are penalized for one-side directional exposures
- SA-CCR is a risk sensitive model – focus on net risk, instead using gross amount of notional at a point in time

#### Instruments

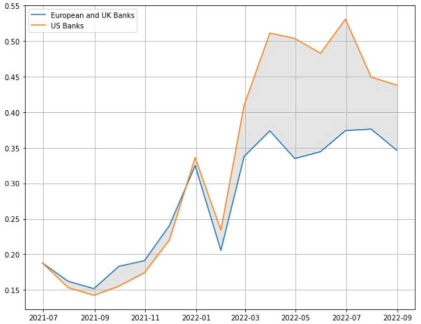
- Influence is particularly pronounced for short dated FX swaps and forward
- SA-CCR provides better recognition of risk offsets (netting) and collateralized trades, therefore cleared derivatives benefit under SA-CCR, as they face a single counterpart (the CCP)
- Under SA-CCR, volatility is factored in – that's especially significant for FX forwards, which uses a factor of 4%

### Divergence of quoted forward spreads

- Overall cost of trading FX forwards increased in 2022 for various reasons
- Noticeable are wider spreads for most US banks in G10 and EM countries, and an additional spread divergence for swaps with different maturities.



Nomalised spreads on G10 short-term swaps



Nomalised spreads on EM short-term swaps

Source: BestX

- Additionally, a significant change in the hit ratios and leaderboard of counterparties can be observed, especially in G10

#### Strategies

- Ensure transparency with the respective counterparties to understanding the effects
- Importance of netting agreements in place with all FX counterparts
- Addressing potential concentration risk, by adjusting the counterparty list
- Focus on cleared derivatives, as these benefit by SA-CCR

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