

IT Budget Considerations 2023 – Margin, Collateral, Payments & Risk Management

By Mark Demo, Co-Head of Business Development at Acadia

Welcome to the 5th year that Acadia has published its IT budget planning insights. We write this annually to give our clients an idea where we are investing our resources and sharing where we see your peers investing, so you can, if you choose, factor these ideas into your planning effort. We are committed to providing you with no cost, low cost or cost mutualized options to drive down your operating expense and increase your Straight-Through Processing (STP). We strive to meet this commitment to you every day in our words and actions.

The Uncleared Margin Rules (UMR) have been a huge force for driving our product development roadmap over these last five years. In the last two years alone, we brought to market: .

- IM Risk Generator ([IMRG](#)) service for sensitivity and IM exposure calculation,
- IM Threshold Monitor ([IMTM](#)) for phase 5 and 6 firms who want to centrally monitor their IM exposure because they want to delay operational readiness by leveraging regulatory forbearance,
- [IM Backtesting and Benchmarking](#) (both Static and Dynamic) for firms who want to outsource the validation of their IM exposure calculation and
- [IM Pre-trade Analytics](#) for firms who want to estimate the marginal IM exposure of new trades that firms are contemplating.

But as you will read in the following text, times are changing. Without UMR regulation driving mandatory investment, firms are thinking much more strategically about where they spend their precious technology dollars – and so is Acadia.

Yes, we still see firms pushing to extend the transparency and timeliness benefits of ISDA SIMM™ into the calculation and exchange of non-regulatory initial margin. And yes, we see Phase 6 firms embracing the concept of threshold monitoring, maybe even more so than Phase 5 firms did.

But while the final year of UMR plays out, Acadia is busy returning to its messaging roots by working to extend its margin messaging network and STP benefits into the Collateral Management and Payment space by:

- Defining and implementing a messaging protocol with workflow automation for the [substitutions](#) and [collateral validation](#) processes and
- Building out its securities collateral and swap payment matching capabilities with an eye towards netting these payment types with margin to deliver true funding and liquidity benefits to the market which have so far been out of reach to current participants. Click [here](#) to learn more.



At the same time, Acadia has also been contemplating its role in a post-trade margin and collateral workflow that incorporates the settlement benefits of a digital collateral network that could transfer the ownership of collateral digitally without the burden of traditional market settlement. Look for more from Acadia on this topic soon.

Read further to understand how Acadia is investing in these additional areas:

- **Agreements:** 2022 was a breakthrough year for [Agreement Manager](#) as multiple large firms leveraged Acadia's digitization and contract analysis service to not only digitize their backlog of legal agreements but also to create a BAU process that incorporated the ongoing digitization of newly negotiated agreements. Acadia is investing to extend digitization capabilities beyond ISDA Master Agreements, CSAs and Account Control agreements to include GMRA, MSFTA, MRA and MSLA document types. Moreover, Acadia is also working to make bi-laterally agreed changes to documentation maintained in Agreement Manager legally binding. This means not only creating a technology platform to agree operational parameters but also putting in place the legal framework to support the operational process. Click [here](#) to read more about how Agreement Manager services are delivered under one seamless and cost-effective offering from Acadia.

- **Data Exploration:** [AcadiaPlus Data Exploration](#) (DX) is now available to provide a range of standard, premium and designer (i.e. custom) report services. This unique reporting platform provides an impressive list of reports and analysis reflecting every aspect of the Acadia services that you and your counterparties utilize, including some unique data perspectives like peer group and industry comparisons (on a blind basis) that will only ever be available from Acadia. Early platform adopters are using the available information in DX as support for investment to extend their lead in client service and operational alpha. Find out how you stack up versus your peers. Standard dashboards are free with your AcadiaPlus subscription. Visit our [website](#) to book a meeting to learn more about DX.

- **Optimization:** Building on the successful launch of Pre-Trade Analytics Acadia is continuing to expand its capability to offer services that control and optimize collateral and capital commitments. By expanding the number of indexes which Acadia can offer for decomposition of SIMM, more firms should be able to swap to the more efficient decomposition method of calculation, reducing their collateral costs. [SA-CCR Optimization](#) in partnership with Capitolis provides the interdealer bank network with the capability to reduce capital costs, Acadia will broaden that capability to the Buy-Side allowing optimization of posted SIMM, alongside dealer costs such as Credit, Capital and Collateral.

- **Risk:** Recent capital guidance from the Basel Committee on Banking Supervision (BCBS) requires prudentially regulated firms to implement a new, more standardized approach to capital calculation by January 2023. This guidance largely eliminates the use of internal models for capital calculation and recommends a more standardized approach for measuring counterparty credit risk and market risk capital (i.e., FRTB-SA). Moreover, new CFTC capital guidance (effective October 2021) also permits non-bank swap dealers to leverage their existing investments in risk based initial margin calculations for capital calculations. Where possible, firms are looking to leverage their existing infrastructure to perform SA-CCR and other standardized capital metrics like FRTB-SA for prudentially regulated firms. Click [here](#) to book a meeting to learn more about how Acadia can help standardize your capital calculation process.

- **Payments:** With costs increasing across funding, negative carry, and settlement failure; Acadia is enhancing existing workflow capabilities to automate the affirmation of all settlement details across a broader set of payment/settlement types before settlement is due to occur, with [Payments Manager](#). Normalizing payment data across industry participants into one workflow (similar to what we have accomplished in margin and collateral messaging) simplifies the operating environment for both buy and sell-side and focuses efforts on settlement exceptions in order to minimize future fails. This normalization will also unlock the ability to aggregate data for funding and improve netting across siloed markets and infrastructures. All of this will be enabled by a simple expansion to existing integration across the network.

We are grateful for the opportunity to partner with our clients, and we look forward to another great year working together.

About Mark Demo

Mark D. Demo is Co-Head of Business Development at Acadia and an integral part of the Strategic Development organization. After a 30+ year career in financial services spent primarily at JP Morgan and then Acadia, Mark is retiring at the end of 2022.

Marks business development role will be split into two parts, Risk and Margin, Collateral and Payments. Risk will be run by Stuart Smith who joins Acadia after leading product management efforts at FIS. Margin, Collateral and Payments will be run by Will Thomey who joins Acadia after two decades at JPMorgan in operations, business transformation and risk management roles.

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