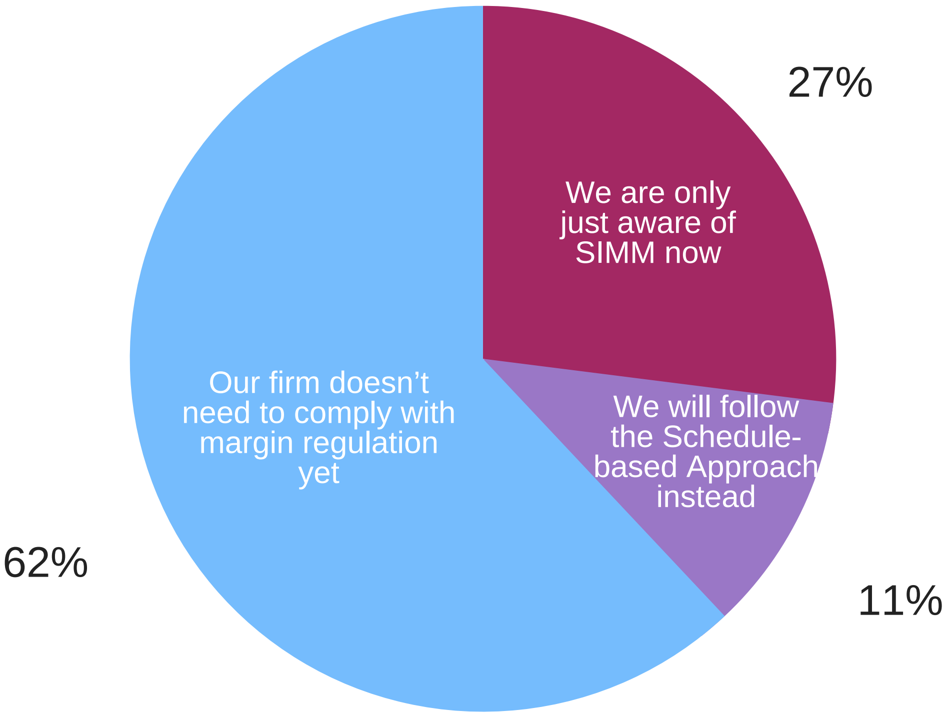
SIMM 2.0: How the Updated Model Helps Firms Prepare for the Next Phase of IM Requirements

Phase III of BCBS IOSCO's new margin rules for OTC non-cleared derivatives comes into force on September 1, 2018, and market participants are readying their collateral management operations to comply with the new initial margin (IM) requirements. For many firms that fall under the Phase III requirements, the newly updated common initial margin calculation methodology, the Standard Initial Margin Model (SIMM), will be a key part of their implementation strategy and their change plans.

In a recent DerivSource webinar, panellists from the International Swaps and Derivatives Association (ISDA), Standard Chartered Bank and Murex explored the typical operational and organisational challenges firms face as they prepare to comply with new IM requirements, and discussed the nuances of the recently updated SIMM model, and how it can assist firms in implementing the necessary collateral management changes. The charts below are based on live audience polls. Listen to the on-demand version of the webinar Margin Regulation & SIMM: Preparing for the Next Wave of Change.

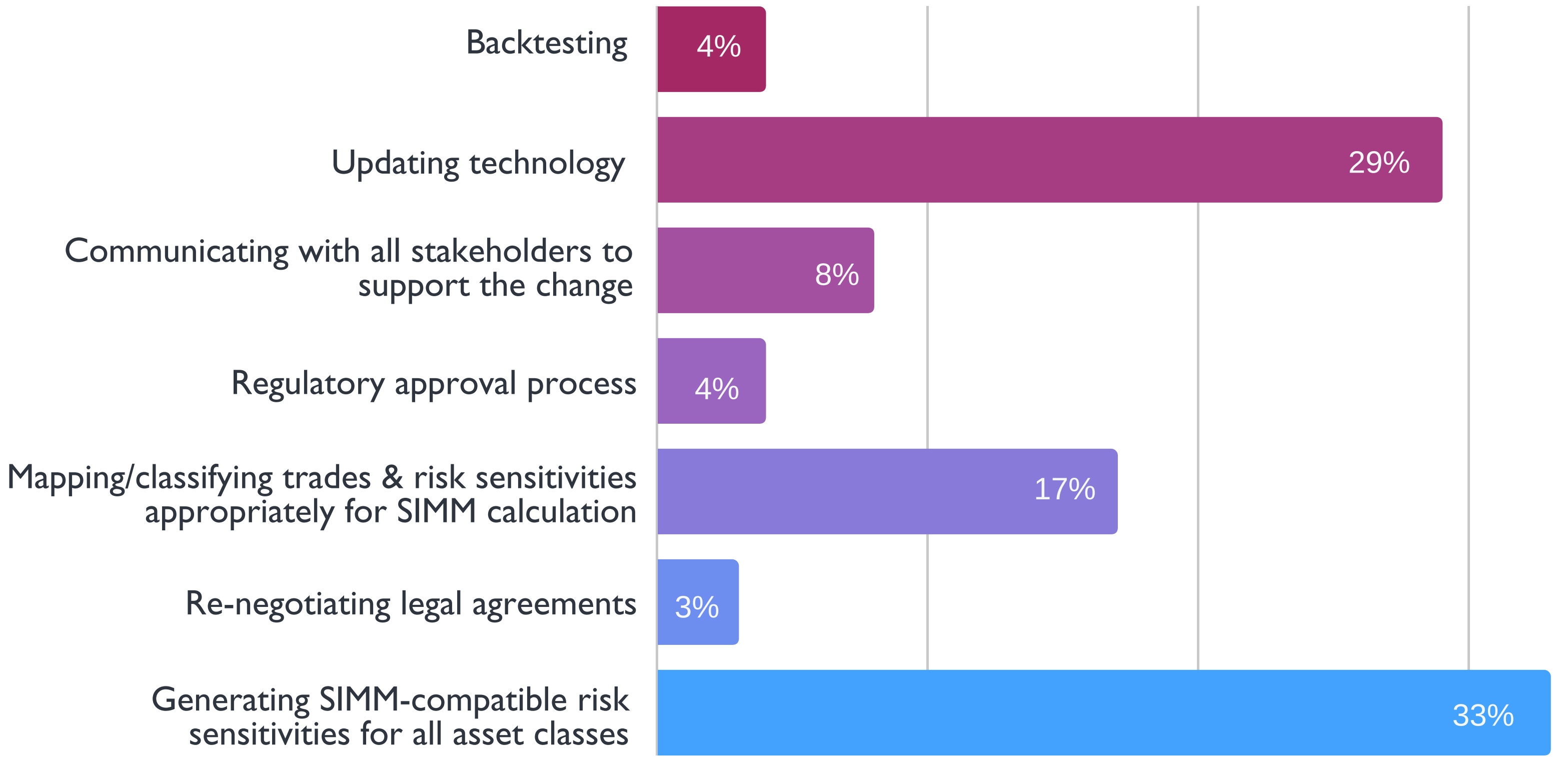
If you don't currently use SIMM, why not?



"The ISDA SIMM is meant to be as simple as possible. It is risk based, and it can deal with all trade types, so long as you can determine their sensitivities. The ISDA SIMM is a great example of the industry coming together to solve a common issue. Using a common model means the potential for disputes is reduced, because everyone uses the same methodology. If they do emerge, then in theory you can address them."

Nnamdi Okaeme, Director in the Risk and Capital Group, **ISDA**

If you've already implemented SIMM, what was your biggest challenge?



"The daily calculation and processing of initial margin calls is quite complex from an operational and technology perspective, impacting legal, risk, front office, operations, and IT and involving various type of systems and capabilities. There's a need for clear governance, and to ensure that systems used for trade pricing and intraday risk management can project and compute sensitivities across various predefined risk factors for rates, credit, FX, equity, and commodities and gather for SIMM specifics on top of existing usage."

Farid Rahba, Head of Product Management, Collateral Management Solutions, **Murex**

Where are you computing SIMM?

On-premises system other than collateral management system: 23%

Other: 14%

On-premises collateral management system: 27%

External utility or service provider: 36%

"The SIMM has evolved significantly in the last 18 months. Over the next two years, the aggregate average notional amount (AANA) threshold will go down. The number of SIMM users will increase, and the impacted firms are likely to be smaller, with smaller derivative books, and smaller technology budgets and resource pools from which to draw the expertise to deliver on SIMM. Before we get to 2019 and 2020, it's incumbent on Phase I and II dealers, and ISDA, to make sure they have done as much as possible to make it as simple as possible by the time large numbers of smaller firms are onboarding. Consistency of the SIMM model will be absolutely critical."

Shaun Murray, Managing Director, Head of Strategic Collateral Management, **Standard Chartered Bank**

Do you feel your collateral management systems are flexible enough to support any future changes to SIMM or additional margin regulatory requirements?