Understand how the requirements on margins will impact the pricing of derivatives, impact on counterparty credit risk and challenge operational process and procedures.

Initial Margin (IM) requirements and subsequent Margin Value Adjustment (MVA) is set to become a ‘Game Changer’ for the OTC Derivative Market. The requirements are set to draw in a large number of organisations that have previously not been required to post margin. Bilateral Initial Margin will require a substantial additional margin to be posted which unlike variation margin is not able to be rehypothecated (i.e. not able to be re-pledged). This represents an overall drain of financial resources for the banking system.

The impact of the IM requirements is however set to replace a number of existing complex adjustments such as the Credit Value Adjustment (CVA) and Capital Value Adjustment (KVA). However it comes with its own issues and could create significant operational challenges add that could materially impact the effectiveness and efficiency of firms.

HOW YOU WILL BENEFIT

» You will gain an insight into the increasingly important role of Initial Margin in the management and pricing of OTC Derivatives
» A worked example of the ISDA SIIM method will demonstrate how this model calculates Initial Margin
» Understand the issues surrounding the implementation of a bilateral initial margin framework
» Be able to appreciate the costs when trading bilaterally verses trading on a CCP
» Understand how MVA is priced and how this can be applied to the Inter-CCP basis (LCH/CME basis).
DELEGATE CHALLENGES/YOUR SOLUTIONS

- The bilateral rules on margins is one of the biggest changes in the way OTC derivatives are managed, and not just for the banks, but many financial institutions that previously have not been impacted by margin requirements. This program sets out how these changes will impact an institution in terms of the implementation of bilateral Initial margin and also daily operational issues.
- These rules are also forcing financial institutions to develop their own Initial Margin valuation capabilities and this course presents the main models that are used bilaterally as well as those being used by CCP’s.
- MVA is a relative new concept in the XVA suite of OTC pricing adjustments. This course will show how a rise in MVA is likely to be offset by a reduction in CVA and KVA.

WHO SHOULD ATTEND

- Traders who need to understand the pricing implication of the IM Requirements
- Collateral Management Staff who will be impacted by the IM Requirements
- XVA Desk Staff who need to understand the rising importance of MVA
- Trading Management who need to understand how the trading landscape will change
- Market and Credit Risk Practitioners who need to understand how the risk to a financial institution will change
- IT Managers and Developers who are working on Initial Margin related projects
- Quantitative Analysts who need to understand how the IM and MVA will impact pricing and risk measurements
- Regulatory Risk, Risk Governance and Compliance personnel who will oversee the implementation and operational aspects of the IM Requirements.

FACILITATOR

BEN WATSON is the CEO of Maroon Analytics Australia, a Quantitative Analytics Consultancy that helps Banks and Financial institutions with any aspect of their quant requirements. Maroon has been helping its clients with some of the more complex issues that they face today, such as OIS discounting, FVA, CVA/DVA and quantitative impacts of regulation.

Ben came to the Maroon business with 22+ years working for Investment Banks as a Quantitative Analyst. Up to 2012 he was the APAC regional head of the Quant function for RBS and before that the local head of Quant at ABN AMRO Australia. He has a long track record of building real time pricing and risk management systems for traders and risk management teams. In 2012 he managed the successful OIS migration of a large derivatives trading book for a global bank.

Since starting his own consultancy he has developed a number of industry training courses that have been run in Australia, New Zealand, Singapore and Taiwan. His courses include OIS Discounting, Counterparty Credit and CVA, Funding, Liquidity and FVA, Interest Rate Options and Stress Testing, Initial Margin and MVA, The Fundamental Review of the Trading Book and VaR.

PROGRAM SUMMARY

Background
- Credit Crisis
- Unsecured, Bilateral and Central Clearing of OTC
- Margin vs Capital
- Variation Margin vs Initial Margin
- Cost / Benefits of Over Collateralisation

The Role of Initial Margin for Managing Counterparty Credit Risk
- Roll of Margin in Mitigating Counterparty Risk
- Default-Pay vs Survivor-Pay
- Cross Margining
- Bilateral IM
- Bilateral vs Multilateral IM

Margin Requirements for Non-Centrally Cleared Derivatives
- Objectives of the Bilateral Margin Requirements
- Time Table, Phase in period, Scope and Covered Entities
- Exchange of Initial Margin
- Collateral Quality and Haircuts

Impact of Margin Requirements
- Impact on Capital
- Additional Margin
- Impact on Liquidity
- As a guarantor of Risk

IM Var/ES Models
- Normal Model
- Historic Simulation
- Filtered Historic Simulation

CCP Initial Margin Models
- SPAN Methodology for OTC Derivatives
- ASX IM Model

Worked Example
- LCH PARIS Methodology
  - Expected Shortfall Model
  - LCH / CME Basis
  - ISDA SIM Methodology
- Push for Standard Risk Sensitive Model
- SIMM Methodology
- Worked Example
- Comparison to Regulatory Defined IM Model

Cost of dealing on a CCP v’s Cost of Bilateral CSA

XVA and Margin Value Adjustment (MVA)
- XVA Primer
- What is MVA capturing
- Calculating MVA
- Incremental MVA
- Computational Issues.
- Using MVA to price Inter-CCP basis risk (LCH/CME basis).

Relationship of MVA to the other VA’s
- MVA and KVA
- MVA and FVA
- MVA and CVA

IM and MVA as a Game Changer