



## Panel one: Uncleared Margin Rules - Getting ready for phases 5 and 6...now!

On the first panel of day two of the conference, panellists turned their attention to the Uncleared Margin Rules (UMR).

Asset managers, pension funds and insurance companies are scheduled to come in-scope of UMR based on their volume thresholds either with phase five on 1 September 2020 or with phase six on 1 September 2021.

Primarily, UMR initial margin (IM) requirements for non-centrally cleared derivatives seek to establish international standards for non-centrally cleared derivatives.

Panellists reviewed the challenges associated with UMR, and one speaker observed that although there were complications for the first four phases, there was funding from the banks and the process was not particularly painful.

However, it was noted that the next two phases are likely to be "a huge challenge" as there will be less funding available for margin requirements next time around.

The differences between the earlier

phases, the panellists identified, is that banks and broker-dealers were quite used to triparty securities lending and triparty repo.

It was highlighted that those coming into scope for phase five and six, they are not used to this kind of environment. Panellists stressed the need to conduct an analysis on which model of calculating and delivering margin is best suited for their needs.

"This is a complex new infrastructure with lots of new counterparties," explained a panellist. "Looking at collateral eligibility schedules as decisions will have to be made as to whether they want to go for a so-called "third party model" or go in-house or chose a triparty provider."

Another speaker added a word of warning that the third-party model can become "very complex and historically custodians have taken care of that for everybody".

Continuing on this point they said: "There are some very significant differences and one of the myths is that everyone's using triparty, but a that is not for everyone."

"There is a great deal of new developments out there but also you should go for something simple; you will have to live with this for a long time and no one will have the appetite to unpick it so give really careful thought to the model and what

is going to be most efficient to you," the speaker continued.

## UMR's ripple effect

Looking at UMR on a global scale, a panellist observed that there is a knock-on effect occurring in Asia. "If you look at the Asia environment, they generally don't deal in securities and even if they do it's not the right type of security, they also mainly deal in cash," explained a speaker.

"So it starts to crawl into how can they get the triparty infrastructure to accept that Asian world into the European environment and more importantly how do you start to facilitate it in the portfolio of clients, which I think is going to be another interesting challenge. It will add an additional layer to the decision process over which structure to use."

## Panel two: How can the industry take tokenisation forward?

At the panel's opening, it was stated that many conversations around distributed ledger technology (DLT) and tokenisation suffered from a lack of mutual understanding of what basic terms in the crypto world actually mean.

The panel set itself up to bring a realistic perspective of the value and applicability of tokenisation, highlight challenges to adoption and set expectations for the industry over the next few years.

A panellist opened the discussion by stating that the legal infrastructure that underpins any tokenised security must be almost identical (in terms of the rights it conveys) to the legal constructs used today, in order to avoid introducing new risks.

On the subject of risks, the controversial topic of cryptocurrencies was put to panellists. One speaker involved in a DLT project noted that a decision was made early on in development not to include any digital cash assets on the platform as they were too volatile and had liquidity issues.

Elsewhere, the question was put to panellists whether the introduction of DLT platforms would create new silos in the market.

The speakers were unanimous that their DLT solutions would in fact do the opposite as they would allow for the free flow of data between counterparties and would even create links between firms that currently struggle to interact.

"I'm optimistic that the direction of travel