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Margining solution of the year
IHS Markit

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As a holistic, end-to-end, complete margin solution, IHS Markit's platform covers everything from pre-trade analysis, initial margin (IM) calculation and portfolio reconciliation to collateral management, with seamless connectivity between each of the various components.

Describing what makes this solution unique, Sage Patel, head of pricing, valuations and reference data for Asia, says: "Recognising that different clients have different needs, we provide flexibility for clients to choose only those components (or modules) that they require to build an optimal solution. While some firms may require an all-in end-to-end solution, others may wish to outsource, for example, only IM calculation to us, which in itself requires substantial effort and investment to perfect."

This ultimately points to the flexibility in the solution, which is appreciated by its clients in Asia and around the world. "Global presence gives us unrivalled domain expertise and access to a wealth of data and analytics, and a strong local presence in [the Asia-Pacific region] gives our clients [the] quality customer service that they deserve," says Patel.

Differentiating itself from other providers, IHS Markit maintains fully staffed offices in most of the major cities in the region, providing it with access to its clients in real time and in local languages. This client-focused approach is another aspect that helps the firm stand out in the market.

The focus on collateral management has been growing substantially over the past few years, coinciding with the introduction of mandatory exchange of variation and initial margins. These new rules have prompted organisations to implement more systematic solutions as they demonstrated that the old manual processes were no longer fit for purpose.

"This is where we, as a provider of comprehensive margin solutions, come in," says Patel. "Creating a solution for exchanging IM daily is a very challenging task, with multiple elements to consider. Accurate and reliable IM calculations must be performed, and the collateral management process must be streamlined with a modern and efficient margin platform."

Even though the International Swaps and Derivatives Association standard initial margin model – the industry-adopted portfolio margin model – can help to standardise and simplify the calculation of initial margin, the risk sensitivities themselves are not standardised, and need to be calculated independently. IM calculation then becomes a major pain point for firms if they have complex figures or larger portfolios.

Patel says: "We won the trust of our clients thanks to our capability to handle complex over-the-counter derivatives and to process large portfolios efficiently. Our 15-year track record in derivatives valuation with a reputation for accurate valuation and [an] ability to handle complex products has been a differentiating factor."

When it comes to collateral management, he says that clients' existing solutions no longer work with the addition of the IM exchanges imple-



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mented on 1 September, and, as the volume in margin calls grows, existing systems need updating.

"Progressive firms are taking the opportunity to upgrade their collateral management systems by, for example, eliminating the use of emails for exchanging instructions and adding a systematic approach to handling cheapest-to-deliver securities to post. We help our firms achieve these objectives with our Collateral Manager solution," says Patel.

IHS Markit feels confident in the breadth of its solution, with all the key functionalities and features already in place. It made some refinements after the September 1 uncleared margin rules rollout to help make the solution more robust overall. "Having comprehensive coverage and making our service robust is important," says Patel. "As some firms trade highly complex products, we plan to fill any small gaps we may have in terms of analytics and market data."

Looking forward, there will be a more concerted focus on increasing the capability for backtesting among various service providers. Some firms find it challenging to source quality historical data (and proxying where necessary if data is missing) and to perform accurate and efficient calculations. "Issues with backtesting may prove difficult to overcome in the short term, so timely and strategic development much in advance is crucial to avoid setbacks and to offer reliable service to the client," says Patel.

With this, IHS Markit will continue this focus on having a holistic, end-to-end workflow solution covering its clients' needs throughout the collateral management workflow. ■