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September 27, 2018 waterstechnology.com/inside-market-data

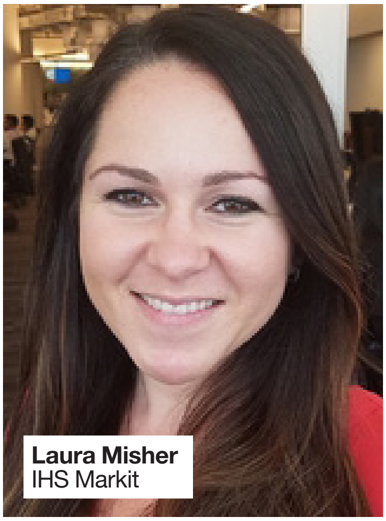
IHS Markit Unveils Initial Margin Calculation Service to Aid ISDA Margin Rule Compliance

The new service will help firms struggling with the complex calculation requirements resulting from the implementation of new initial margin calculation rules by global derivatives governing body ISDA.

IHS Markit has released an Initial Margin Calculation Service that will help investment firms calculate and post accurate and compliant amounts when trading over-the-counter derivatives.

The service currently supports credit default swaps, interest-rate swaps and vanilla equity products, and will soon support currency forwards and other products, as part of an "aggressive" ramp-up to support most instrument types by the end of this year, says Laura Misher, managing director of derivatives data and valuation services at IHS Markit.

The vendor rolled out the service in June, based on its existing valuation services for non-cleared interest-rate, currency, credit, equities, and commodities derivatives—which the vendor has offered since 2005, and which are used by more than 400 direct clients and "thousands" of indirect clients (such as those who receive valuations via find administrator clients) to support net asset value reporting and margin calculation—and expects to go live with its first client by year-end.



Misher says the service was driven by client demand primarily from fund administrators that offer the service on behalf of clients and who already use Markit for valuations, but—because of the complexity surrounding the number of calculations associated with a portfolio compared to calculating margin for a single option contract—are looking to offload that requirement ahead of new rules governing the posting of initial margin from the International Swaps and Derivatives Association that will take full effect in 2020.

"We're already sourcing the full dataset required for the sensitivities calculations as part of our valuations service, including CDS curves, swap and inflation curves, and volatility and inflation surfaces," Misher says. "The newest piece has been the implementation of the ISDA SIMM (Standard Initial Margin Model). That was a milestone for us. We had to license it, be approved, and make sure that we keep up with any changes to the model."

Markit offers Initial Margin as a managed service, running in Amazon Web Services' cloud. Clients send their positions data to the vendor, and it sends them back initial margin calculations as a feed or file. Existing clients of Markit's valuations services don't even need to re-send their data.

But that doesn't mean creating the service was without challenges: "We ran into hurdles around scale of processing because so many calculations need to be run on a position level. We were running into instances

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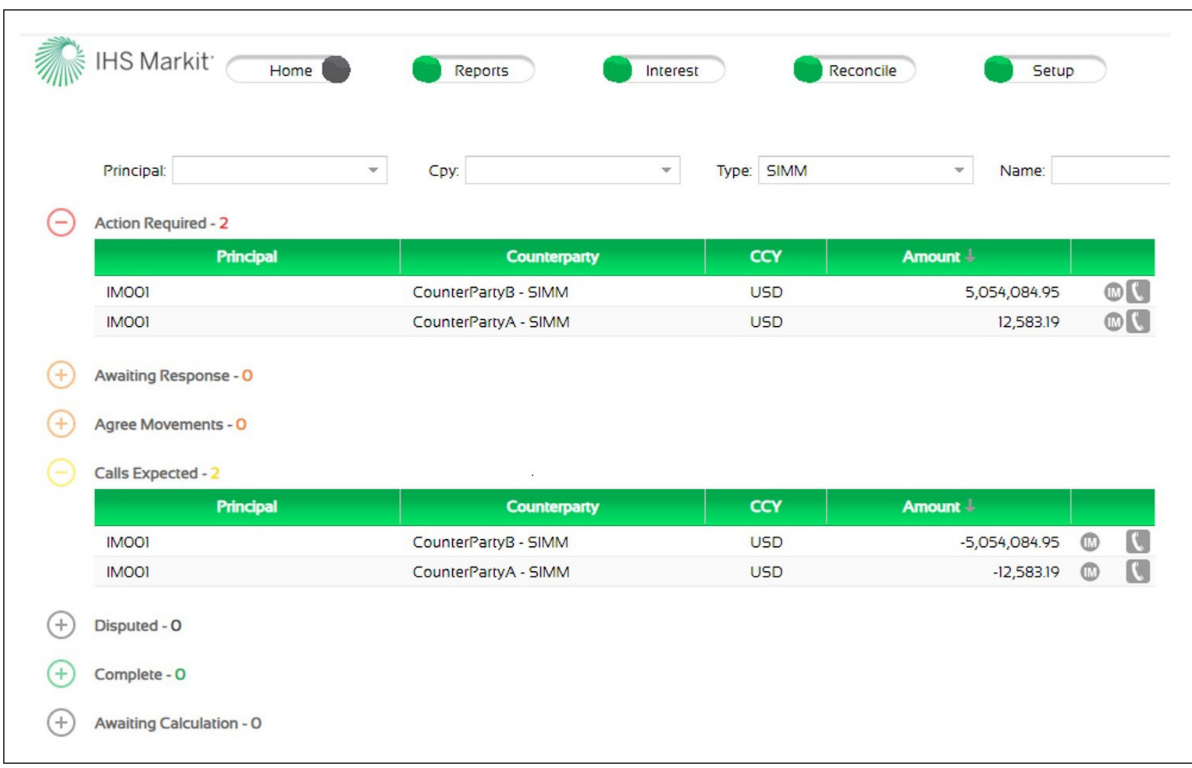

where it was taking a long time to complete," she says. "So we implemented an advanced algorithmic approach [Adjoint Algorithmic Differentiation (AAD), which is already widely used to calculate banks' valuation adjustments (XVA) risk] that allowed us to speed up the calculations in a scalable fashion, and as a result, the benchmark calculation time is now between a few minutes and two hours for a standard portfolio of a typical size, depending on the size of the portfolio and the complexity of the derivatives."

And there will be further developments going forward. During the development process, the vendor learned about the importance of back-testing requirements, so plans to roll that out at some point in the future, and will either build reconciliation capabilities or—because of the complexity of reconciling all the items underlying the derivatives—partner with a third party that's already a reconciliation expert to provide that functionality.

Max Bowie