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# PRIME BROKERAGE MARGIN, COLLATERAL AND DATA

Round Table Summary



# Prime Brokerage Margin, Collateral and Data

This document provides a summary of the discussion during the Prime Brokerage Margin, Collateral and Data Round Table, sponsored by Imagine Software, and held online on Thursday 25th March 2021. The session was attended by 21 senior experts representing 17 institutions based across North America and EMEA.

A number of key areas were covered:

- Current environment
- Move to intraday margin
- Change of Margin Rules
- Other regulatory changes (Libor, UMR)
- Blockchain Initiatives (including collateral optimisation, HQLAx)
- Transition from high touch to digital client services
- Data Streams vs Portals
- Data Management issues

The discussion is summarised in more detail on the following pages.

The roundtable was preceded by a wider industry survey. For a copy of the survey results please email [marketing@htfcorporate.com](mailto:marketing@htfcorporate.com).

## **Current Environment**

Firstly, in this area we discussed what are the current highest priorities. The regulators have been contacting banks a lot looking at areas such as the risk tools used and margin monitoring. Regulators wanted to make sure that banks have robust risk management systems in place. This includes pre- and post-trade acceptance, client limit monitoring, intraday capability and the ability to run stress and gap analysis with all this moving to a near real-time basis. Output from the risk systems on an intraday basis is needed by the risk, treasury, and liquidity areas. Market volatility (with swings of up to 10% being seen) has meant that managing liquidity and borrowing on an intraday basis is a key aspect.

Next, we had a look at the effect of the pandemic. Working from home did not have that much of an impact. The largest impact was due to the market volatility and the effects of it. In the last big market moves of 2008, there were a lot of counterparty defaults and the initial stress scenarios reflected that. Now banks are looking more at a time horizon of 5- to 10-days (e.g. when running stress tests) looking at liquidity defaults and calculating values on an intraday basis.

With T+1 margin calls there is a one day drag from a risk to liquidity perspective. Intraday risk monitoring can help address this and lets you better manage your risk and liquidity, but you need the right tools to do this. You also need one day stress scenarios to help better manage your short-term liquidity.

## Move to Intraday Margin

We first discussed intraday calls versus intraday monitoring. In the Prime Brokerage space intraday monitoring has been there for a while but you do not have the ability to do intraday margin calls with clients in certain businesses and there are regulatory limitations, at least in the US.

One bank has seen more and more of their Prime Brokerage clients looking for their margin requirements at 7AM. These clients are no longer prepared to wait until 2PM, 3PM, or 4PM in the afternoon for their margin numbers. This has created a lot of pressure as the margin calculation is run after the valuations have all been done, and all the checks and balances must be put in place to ensure an accurate call. This is causing banks to move away from overnight batch processing systems to more intraday event streaming. This is not needed just for margin but for data reporting - indeed data is seen as much more of an asset.

The third-party systems being used now were then discussed and what banks are looking at for intraday margin as opposed to the more traditional T+1. One US Bank mentioned that they built their own portfolio margin indicator in-house that gave them this capability, but the question was raised again if you have the ability to make that call. The margin calculation is just one of several calculations that are done each day for risk exposure.

It was also raised that the margin computation is just one of the steps. Getting the data in is key and sometimes trade and booking information can be a bottleneck, although market prices tend to be easier.

A few vendors are offering alternatives to siloed legacy systems that can eliminate bottlenecks and provide a real-time view of trades, margin, risks, limits, PnL and other indicators. Imagine Software was mentioned as being one of these solutions. However only a small proportion of firms had these capabilities; the majority were still reconciling multiple systems in overnight batches and managing risk and margin exposures the following day.

## Change of Margin Rules

It is one thing to manage the margin when you have the rules but what happens when the margin rules are changing? Some of the exchanges for example are changing their initial margin levels. In one bank the risk teams themselves are monitoring the changing methodologies.

There are also problems where exchanges are changing their position and not exposing their margin algorithms. Instead, they are giving APIs which is harder to integrate into a bank's environment making it very hard to model risk and exposures when the rules are changing.

## Other Regulatory Changes

One bank brought up the Libor transition subject and the fact that they are not getting much engagement on their bilateral CSA's. It was mentioned that with the new uncleared margin rules that a lot of agreements were needing to be changed which was taking a lot of time and effort and this may delay Libor work until the Autumn/Fall.

## Blockchain Initiatives

There was discussion about new initiatives and technologies. One big move was seen as HQLAx in terms of transferring title without movement on underlying assets. One of the banks mentioned they are one of the founders and that led onto a discussion of the area of collateral optimisation.

This raised a number of issues such as understanding what assets they have, where and how they can be best utilised, and how that affected the balance sheet, P&L, cost drivers etc. Banks are looking at this with profitability and risk lenses. Since it is DLT-based (Distributed Ledger Technology i.e. Blockchain) there will be a slow ramp up on it. Bank's clients are recognising the benefits of new technologies and are pushing the banks to reveal their strategies in this area.

From an Asset Provider standpoint, the buy side are focusing on managing liquidity and the DLT aspect of removing nearly all the latency out of asset movements is seen as revolutionary. As always though the hard part is getting the buy-in particularly from major buy-side firms.

In terms of how much it is being used now it is still only a small percentage of the overall business and is still really in proof-of-concept stage.

## Moving From High-Touch Client Interactions to Digital

Given the general move from high touch to digital what are banks doing in this area? Banks are changing their internal systems from batch to more real time so they can provide more timely reports to clients. Banks are also changing from providing not only the standardised reports but also the underlying data. Data is becoming an asset that is being sold to clients. This brings a lot of challenges though in making sure that the data is easily accessible by the clients, including security.

There were a couple of other areas that were discussed. The first was portals as larger clients generally have multiple prime brokers. They must remember multiple logins and how to use multiple different user interfaces. There was general agreement that while the move to digital is great, the physical face to face is very important too in building the relationship. The physical face to face also allows you to move from the initial point being discussed to multiple further areas.

## Data Streams vs. Portals

There was then a discussion on Data Streams vs Portals. They were not mutually exclusive - you can either have a portal or an API-based data stream or provide data access through the portal. There does typically have to be a transformation layer so that the client gets the data in the way they want and expect. Clients pulling in the data either do it from their prime broker(s) and/or from the exchanges and clearing houses. Whilst the trades are typically available there is also real-time event data needed which is harder to get. Industry standards are good to make it easier for both banks and clients.

The discussion then moved to data sources and where these come from - where do clients get their "golden source" of data? Will it be internal, from OMS's or from their prime brokers? It was agreed that standardisation is needed (which also addresses the issue of having multiple prime brokers) and that bespoke was not good for the industry but it was questioned how many sources you could cut down too.

## Data Management Issues

The next area covered was Data Management and the changing trends there. The vast majority of the data being managed by prime brokers is structured, and a lot of banks are now moving their data environment to the cloud. Some of the key areas it is being used for include supporting analytics and optimisation routines using the compute on demand capability. In the cloud there are a lot of different types of services and products that you can use depending on what your focus with the data is.

Another point that was mentioned was taking advantage of the capabilities of the various cloud providers so going more in this scenario with PaaS (Platform as a Service) rather than IaaS (Infrastructure as a Service). The focus is with the main cloud providers - AWS, Azure and Google. There were a couple of vendors mentioned who were gaining traction and providing help in the data management space - Snowflake and Crux.

Data Governance is seen as a big issue and it can be either a friend or an enemy. The opinion is that the data needs to be heavily governed and principles firmly established, some examples were provided:

- Data needs to be sourced from the master without having multiple copies of the same data.
- It is critical to have a repository that understands what data you have.
- All data needs to be owned and anything that you generate inside your data environment of itself becomes a registered data set.
- It is important that the services in the cloud can process the data confidentially.

It was mentioned that Martin Fowler has written some very good papers in this area on different data environments (including data lakes).

The final point that was raised was entitlement layers and this is seen as key. All data needs to be registered and there are typically role-based entitlements. Within applications it will be finer grained, even down to row and column level. It is complicated depending on the sensitivity of the data and banks are only at the start of the journey on this.



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