

AGREEMENT NEGOTIATION: CHANGING THE DYNAMICS

How AcadiaSoft's
AgreementManager is
building the foundations
for Stability, Efficiency
& Scale in on-line CSA
negotiation and beyond



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Chris Walsh
CEO

Foreword

A positive driver for change...

AcadiaSoft has been at the leading edge of margin and collateral management solutions for the past decade. We pride ourselves on creating the platform for industry collaboration and our working groups discuss and solve real problems through creative thinking and innovative design.

During 2018 we set up a Working Group to discuss Agreement Management. With the prospect of hundreds of firms being impacted by the Uncleared Margin Rules (UMR) by September 2020, it was clear that there was a documentation bottleneck that needed solving. We have been working with vendor partners, clients and lawyers over many months to establish the most efficient workflow combined with best of breed providers to contribute towards the creation of AgreementManager – AcadiaSoft's newest application to reengineer the CSA agreement creation, negotiation and amendment process within multiple regulatory jurisdictions.

We wanted to write this paper to explain not only the heritage of AgreementManager but also the important role that AcadiaSoft can play in leading the industry toward changes that improve client service, reduce operational risk and deliver more intelligent outcomes.

The regulatory landscape has highlighted the urgency for improving the Agreement Management process. The ongoing requirement for a digitized, golden source record of agreement data across all product types, not just OTC derivatives but Repo, MSFTA and others has long-term advantages to the industry. We need to adapt and embrace change in our constant drive for efficiency, profitability and ultimately improved client service.

I am proud to support my team as it works alongside our clients combining our experience and knowledge to develop a powerful service intent on creating value for the industry. We hope that you find this paper both insightful and inspirational as a positive driver for change.

With best regards,

Chris Walsh
CEO, AcadiaSoft

UMR's Market Impact on CSA Negotiation

Weaknesses exposed

The implementation of Uncleared Margin Rules¹ has caused the industry to examine the events between September 2016 and March 2017 and respond with a more scalable and efficient documentation process.

In September 2016 in-scope Initial Margin Phase 1² firms were required to put in place new legal agreements to cover the bilateral exchange of Initial Margin and Custodian Agreements to ensure the resulting IM Collateral was appropriately segregated.

Although each of the 26 firms in scope for this phase managed to get most of their documentation in place for 1st September 2016, Regulators still had to provide relief to the Phase 1 firms to finish the required custody setups. The experience highlighted two key areas for much needed improvement – first the process and time required to negotiate IM CSA and Custodian Agreements and second the subsequent custodian account set up was severely underestimated and not scalable.

In March 2017, though the industry made a valiant attempt to achieve full compliance ahead of the VM regulatory deadline, it became clear as March approached that many firms would fall short. The regulators relented and again gave the industry additional time to finish negotiating their documents. This experience re-exposed several key weaknesses in market practice:

1. The process was impacted by a lack of automated analytics for determining what agreements needed to be put in place. Existing agreements were not available in a digital format, regulations were not captured as digital rulesets and the resulting documentation required significant manual intervention.
2. Firms struggled with the volume of new or amended documents as the manual, paper-based process made it far too difficult to negotiate agreements efficiently, timely and accurately.
3. Once a CSA agreement was finalized by both parties, it still took too long to operationalize the information. With no mutually agreed “golden copy” between contractual parties feeding their respective downstream systems - differences and disputes based on their own firm's interpretation of the data occurred.

The outcome was something just short of chaos. It was a clear signal to the industry that the current process was broken, and something had to change.

1- BCBS-IOISCO Final Framework on Margin Requirements for Non-Centrally Cleared Derivatives (Sept. 2013), available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD423.pdf>.

2 - Phase 1 firms comprised of those with Initial Margin in excess of €3 trillion

Market Response: On-line Negotiating Platforms

Resolving only part of the problem

Since March 2017, some market participants attempted to address the problems by developing on-line CSA negotiation platforms.

Other market participants and custodians have begun to modify their client portals to support the negotiation of Eligibility Schedules and Account Control Agreements, while document digitization vendors have accelerated their efforts to market their services which “read” paper-based documentation and transforms them into digital records as part of the solution mix.

These services will indeed help ease the expected crush of new agreements that need to be put in place ahead of the well documented IM Big Bang in September of 2020. However, “digitizing” the legal terms that have been negotiated between contractual parties or simply moving the “back and forth” between lawyers negotiating via email and Microsoft Word to an on-line document exchange only resolves part of the problem.

Many of the fundamental issues which create operational complexity, layer in costs, cause delays in down-stream system setup and create disputes remain unsolved.

These issues include:

- Lack of interoperability between on-line negotiating platforms; proprietary web-based documentation portals and in-house document and collateral management systems
- No standardized data model for the exchange of agreement information
- No digitized operational preference and setup information to accelerate downstream setup of data

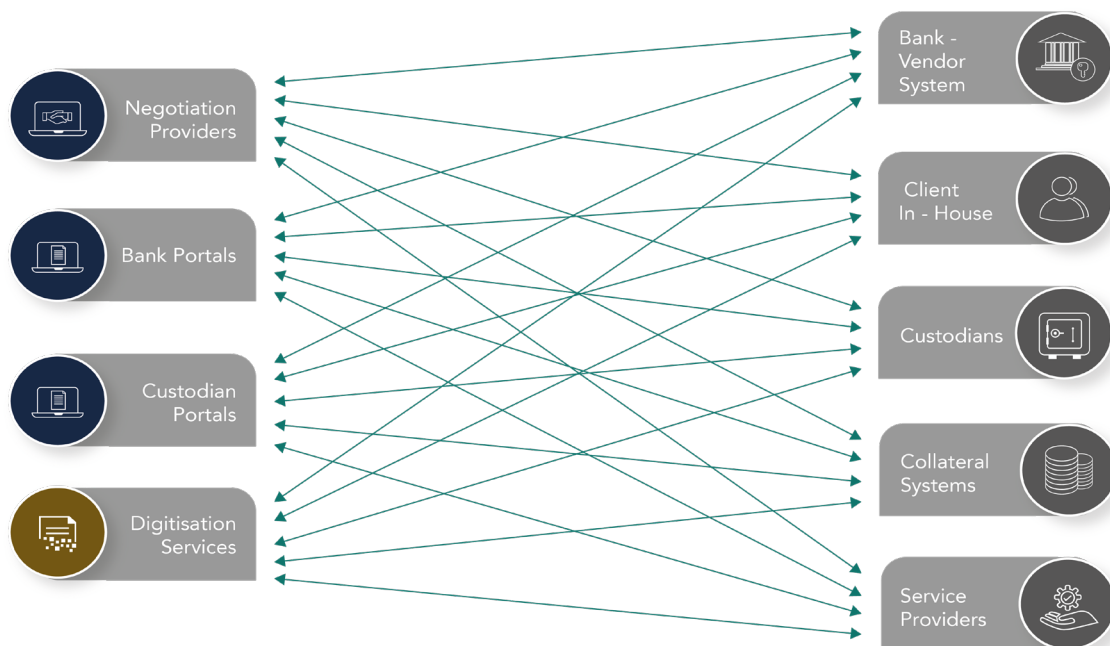
However, “digitizing” the legal terms that have been negotiated between two parties or simply moving the “back and forth” between lawyers negotiating via email and Microsoft Word to an on-line document exchange only resolves part of the problem.

Structural Change & Long-term Benefits

Taking a comprehensive approach

These key missing elements highlight the need to act quickly to avoid repeating data handling mistakes of the past. To truly go beyond current agreement automation limitations, market participants need an agreement infrastructure that facilitates interoperability, growth and adoption of these new technologies while maintaining client choice.

When these initial market efforts are evaluated collectively, they fall short of where the market needs to be. The solutions all take a “closed” or proprietary approach that requires their users to separately integrate or login. While each solution might improve one or more part of the negotiation process for an individual firm, they do not resolve the wider industry need for agreement data to be shared between multiple parties.



Integration Challenge

This is where AcadiaSoft's approach differs from that of other vendors.

Given our role as market infrastructure provider in the margin and collateral messaging space as well as in ISDA SIMM™ calculation and reconciliation, we understand the importance of common workflow and data.

We have worked and collaborated across the industry to realize our vision to bring to the market an Agreement Management solution that:

- Goes beyond on-line agreement negotiation
- Enables end-to-end processing across the enterprise
- Determines the relationships in scope for each IM phase and the types of agreements needed
- Delivers true system/market infrastructure integration through a standard API and adaptors
- Provides source agnostic consolidation of legal agreement data

AcadiaSoft's AgreementManager establishes a golden digital record of business critical legal and operational data with a single point of integration to a workflow that's wrapped around the data.

An easy to deploy solution with seamless integration and quick set-up for internal documentation and with margin systems for post agreement operationalization.

AgreementManager enables a firm to select its preferred negotiation solution provider; while at the same time communicating with their peers who choose to use another negotiation provider, vendor or proprietary doc portal.

Furthermore, in addition to new document setup, the platform also supports reconciliation of counterparty agreement details for legacy documents.

By industrializing the end to end process, AcadiaSoft has uniquely solved the following:

- "took too long to identify what agreements were needed"
- "took too long to negotiate"
- "took too long to setup"

AgreementManager establishes a common understanding of the terms defined in all legal agreements and ensures all firms use this common view in their day to day process. This is one step towards removing the drivers for disputes and moving to a more streamlined margining process that does not require agreement term reconciliation to resolve disputes.

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Conclusion

The market demands a shift from “data standards” to “standardized data”

From detailed discussions and collaboration with our Agreement Management Working Group, vendor partners, clients and lawyers there is a clear understanding across the industry of the need to shift from “data standards” to creating, storing and sharing “standardized data”. It’s only through standardized data that we can achieve greater certainty and capacity in operational processes that the industry truly demands.

The market now acknowledges that there is an inherent weakness with only adhering to data best practices as this results in firms implementing data in their own format, creating inconsistencies and disparities between each firm’s records. By moving to a standardized data model there is only one agreed format for all stakeholders to follow. The certainty that this brings is at the core of a more efficient workflow across the markets.

AcadiaSoft uniquely provides this shared common view of data. This is the foundation for the industry to achieve this certainty – delivered across the enterprise through a single model, so that different users can access the right data at the right time, increasing trust, removing friction and reducing costs.

It’s only through standardized data that we can achieve the benefits that market-wide data “certainty” will bring. ”

Benefits across the organization

Let's examine two examples of how the platform will deliver the benefits of transparency and data certainty to different market participants:

- a. Smaller, regional banks and fund managers face increased regulatory challenges and they need to have greater awareness of expanding regulation boundaries. This new regulatory landscape is reshaping their legal framework, custody relationships, negotiation practices, corporate structures and future business models.
- b. On the other side of the spectrum, the world's largest firms have a vast number of diverse legacy contracts that generate a relentless demand for amendments from both internal and external consumers – all requiring high-touch manual processing.



With AcadiaSoft's AgreementManager, manual, paper-based tasks can now be eliminated with technology that allows for a more efficient use of resources, enabling lawyers, SMEs and decision makers to focus their attention on exception processing and more intricate, commercial and complex aspects of contract negotiation.

An industry solution: Market momentum, collaborative forums and best of breed providers

AcadiaSoft is leading the market, working in collaborative forums with best of breed providers to build infrastructure that drives new industry standards of interoperability and ultimately goes beyond automation to reimagine the negotiation process and “get it right” – once and for all.

Contributions



Mark Demo

Head of Industry & Strategy

Mark D. Demo. is Head of Industry & Strategy at AcadiaSoft. Mark has more than 20 years' experience in the OTC Derivatives market and has served as a co-chair of the ISDA Collateral Steering Committee. He has participated on ISDA working groups and has been involved in developing changes in collateral operations associated with financial regulations under Dodd Frank and EMIR. Mark oversees AcadiaSoft's robust working group, client and prospect engagement programs. Mark also oversees AcadiaSoft's interactions with global regulators.



Richard Barton

Director Agreement Segment & Product

Richard Barton is responsible for AcadiaSoft's AgreementManager service. Richard has 20 years Collateral Management experience working within Banking and as a Software Vendor. As a Software Vendor with the Sentry/Algo/IBM/SmartStream Collateral Solution he held positions in Singapore, United Kingdom and United States setting up and managing Professional Services, Support, Pre-Sales, Product Management and Development teams. More recently Richard has been focused on the role of Collateral Hubs/Utilities as a model for managing Margin and Collateral.



Geoff Robinson

Business Development Consultant

Geoff Robinson is a business development consultant at AcadiaSoft. He is currently advising on the product roadmap and shaping industry advocacy for AgreementManager – AcadiaSoft's new platform for streamlining on-line CSA, ACA and Eligibility Schedule negotiations within an interoperable framework. Prior to working at AcadiaSoft, Geoff spent six years as Global head of Industry Initiatives, Change & Strategy, Collateral Services at HSBC. During his tenure at HSBC, Geoff was a Board observer to AcadiaSoft. Earlier on in his career, Geoff was EMEA Head of Enterprise Collateral Management & Client Valuations at Credit Suisse. Previous roles in his 32-year career included various middle office and trading roles at Morgan Stanley, Swiss Bank Corp and Merrill Lynch.

About AcadiaSoft, Inc

AcadiaSoft, Inc. is the leading industry provider of risk and collateral management services for the non-cleared derivatives community. The AcadiaSoft Hub encompasses a suite of applications and analytics that enable and measure the complete STP workflow from CSA Agreement Management, risk services, margin and collateral management through to settlement.

The AcadiaSoft Hub provides access to the only industry-wide solutions to directly address the operational and compliance challenges firms faced in fulfilling the initial margin (IM) requirements that were implemented in part in 2016 and the variation margin (VM) requirements that became effective in 2017. AcadiaSoft now processes tens of thousands of margin calls daily for several hundred thousand active agreements.

Owned and backed by the investment of 17 major industry participants and infrastructures, the AcadiaSoft community has grown to more than 650 client firms exchanging approximately \$400B of collateral on daily basis. AcadiaSoft's Advisory and Working Groups provide a unique framework for integrating the thought leadership and capabilities of market participants, market infrastructures and key service providers across the industry. AcadiaSoft is headquartered in Norwell, MA and has offices in London, New York and Tokyo.

To find out more contact info@acadiasoft.com

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