



# EMIR Implementation: Accounting & Reporting Workshop – Summary Notes

August, 2013



## **DOCUMENT PURPOSE**

This is a Document of Record of the “FOA EMIR Implementation, Accounting and Reporting” workshop. This document reflects the discussion that took place in the workshop and has sought to collate the information in a logical format.

The intent is for the document to increase awareness of the implementation challenges that exist and provide a basis for constructive dialogue to address some of these challenges.

An Executive Presentation of the findings and themes drawn from the 4 FOA Segregation and Portability workshops will be shared with Regulators.

## **DISCLAIMER**

**THIS DOCUMENT REPRESENTS THE FOA’S INTERPRETATION OF THE DISCUSSION POINTS FROM THE APPLICABLE WORKSHOP AND SHOULD NOT BE VIEWED AS BEING ENDORSED IN ANY WAY BY THE PARTICIPATING FIRMS.**

## 1. EXECUTIVE SUMMARY

<b>Headlines</b>	<b>Significant change to CM statement content and reconciliation volumes</b>	<ul style="list-style-type: none"> <li>- CMs need to make changes to underlying statement data to reflect collateral, trades, cash postings by ISA accounts for each combination of CCP and currency. There are 15 CCPs and assuming 5 currencies and approximately 1000 accounts per CCP, it will take a minimum of 6 months to implement the required changes.</li> <li>- This includes the testing timeframe and development of new margin algorithms. It is estimated that the number of reconciliations will be 5 times greater than existing levels due to reconciliations per CCP, which will need to be factored into capacity planning.</li> </ul>
	<b>Client engagement and agreement needs to be factored into the implementation timeline</b>	<ul style="list-style-type: none"> <li>- Agreements with clients will have to be established before 'go-live' on excess posting and delivery instructions to be setup for cash movement. It is estimated that this could take between 3-8 weeks dependent on the CCPs, clients and account models for 1000 accounts.</li> <li>- This is assuming no delay in relation to the client response. This work will need to be completed regardless of the client demand and additional resources will be required to deliver this in the required timeframe.</li> </ul>
	<b>CM dependence on vendor products places additional pressure on implementing</b>	<ul style="list-style-type: none"> <li>- Given that most of the market uses vendor products, CMs are partly dependent on vendors to make the necessary changes and adapt their internal processes accordingly. Based on currently available information, some vendors are targeting the end of October for core changes around account type, segregation and collateral asset tagging. However, further information from CCPs could enhance vendor requirements and further development will be needed implying additional testing for CMs.</li> </ul>
	<b>Operational risk around manual asset tagging</b>	<ul style="list-style-type: none"> <li>- Some changes, such as asset tagging by CCPs, will not be ready on Day 1 and will have to be handled manually thereby increasing operational risk.</li> <li>- There could be a 5 fold increase in manual cash movements to each CCP. There is a reliance on ESMA to clarify the asset tagging requirements and CCPs to interpret them and create a scalable process.</li> </ul>
	<b>Implementation timeline is a challenge given the degree of change required</b>	<ul style="list-style-type: none"> <li>- It will be a challenge to complete all operational changes and test prior to go-live based on a timeline of 6 months. CMs and vendors have completed some of the work based on available CCP information. However there will be further changes required once CCPs are authorized and CMs will have to wait for vendors to complete their changes. Big bang migration will pose significant operational risks.</li> </ul>
<b>Key Changes</b>	<b>Significant operational requirements to support statement content change</b>	<ul style="list-style-type: none"> <li>- Changes will be required across collateral statements, and trade and position statements to reflect ISA requirements for excess allocation, applicable haircut and fees, which will be presented and reconciled at a more granular level.</li> <li>- This is operationally complex due to the combination of 15 CCPs and 5 major currencies. Changes will also be</li> </ul>

		required in the BAU process to cope with different CCP models and client relationships.
	<b>Detailed information limits</b>	- Changes are being made by vendors/CMs based on existing information available. However, it is expected that further development work will be required as more CCP information is released.
	<b>Operational planning</b>	
	<b>Client output changes</b>	- Client output will have to be changed to reflect ISA changes and could take considerable effort (~6 months) with regards implementation planning. Client readiness will also be a key consideration as CMs cannot migrate changes until the client is ready.
	<b>General ledger</b>	- Changes will be required in the general ledger and sub-ledger to reflect new accounts and fees in different currencies charged by different CCPs. In order to effect changes in GL, it is estimated that a 2 quarter notice period is required to begin the testing phase. This implies that the earliest point at which these changes can be tested is March 2014.
<b>Key Challenges</b>	<b>Lack of detailed information from some CCPs on their account models</b>	- So far only 3 of 15 CCPs have submitted their applications. Some CCP's are reluctant to confirm account models and costs until authorisation is obtained. This information is an important pre-requisite for setup/account opening process and vendor development
	<b>Understanding of vendor and CCP build timeline</b>	- Dependency on information required from CCPs and vendor build is making planning process difficult and could potentially cause delays in implementation by CMs. Given the 6 month estimated timeline, CMs will not be ready for first CCP authorization for NASDAQ which is expected in November 2013
	<b>Effective testing timeline</b>	- Testing statement changes will be time consuming and costly for CMs and clients. CMs may need to develop test packs and provide sample statements to clients to optimize on available time, resources and money.
	<b>CMs need more insight to support effective client engagement</b>	- For effective engagement to take place, CMs need to be able to approach clients with operational details, pricing information and risk disclosures so that clients can make an informed decision.
<b>Implications: Client</b>	<b>Process change implications for client</b>	<ul style="list-style-type: none"> <li>- Almost all clients take automated feeds for trade, position and cash statements from the CM. Therefore clients' BAU processes will have to change to maintain the level of control.</li> <li>- The increased amount and different types of data they will now receive along with a higher reconciliation burden (each ISA to be reconciled). Funding requirements will also change due to separate funding for multiple ISA accounts.</li> </ul>

<b>Implications: Operational</b>	<b>Transition impact</b>	<ul style="list-style-type: none"> <li>- The highest levels of transition impact will be felt across: account opening and setup of client preference for excess treatment, fee changes and end-to-end testing of client statements.</li> <li>- In the past decade, the focus for ETD has been on automation but now with fundamental operational changes in a relatively short timeframe, the industry will have to rely on manual solutions to achieve compliance until automated solutions are developed.</li> </ul>
	<b>BAU impact</b>	<ul style="list-style-type: none"> <li>- High impact due to changes required in general ledger and sub-ledger. Changes need to be implemented to reflect new model in web driven output which will impact go-live timelines. The number of reconciliations will grow and more resources will be required to manage the process.</li> </ul>
<b>Key areas of uncertainty</b>	<b>Low level detail of some CCP “Go Live” proposition</b>	<ul style="list-style-type: none"> <li>- Some uncertainty exists regarding the specific details of the CCP models offered for Day 1. Much of this detail will drive the vendor and CM implementation and testing plan to mitigate operational risks.</li> </ul>
	<b>Implementation scenarios</b>	<ul style="list-style-type: none"> <li>- Uncertainty exists around agreed protocol for some implementation scenarios. For example will CMs need to migrate as soon as CCPs are authorised or will there be a transition timeframe after CCP authorisation.</li> </ul>

## 2. WORKING ASSUMPTIONS

In order to provide the appropriate framework for discussion and analysis of the regulation impact the group made a number of assumptions when working through issues across the various categories;

#	Assumption	Detail
1	Client P&L will remain segregated	<ul style="list-style-type: none"> <li>All P&amp;L withdrawn and held for customer in segregation or paid out under client instruction.</li> </ul>
2	Collateral will be tagged by asset	<ul style="list-style-type: none"> <li>For ISA model, collateral will be tagged by assets, not value: At present, there is no clarity from the regulator on whether collateral will be tagged by asset. However, CMs believe that it will be tagged by asset and working on the basis of this assumption.</li> </ul>
3	Fees will not be in CM account at CCP level	<ul style="list-style-type: none"> <li>Fees won't be in CM account at CCP level unless already posted daily e.g. LCH SA. (no change from present day)</li> </ul>
4	CM will charge fees out of client funds	<ul style="list-style-type: none"> <li>CM will take reasonable fees and charges out of the client funds before placing collateral onto CCP's account</li> </ul>
5	CM to ensure compliance for naming convention	<ul style="list-style-type: none"> <li>Each CM firm ensures their statements have compliance for naming conventions: naming convention could be different for each broker and the broker's legal department should decide the naming convention. However the basic details like name, address, account number, CCP and account model should be displayed.</li> </ul>
6	GL Changes to be undertaken by each CM	<ul style="list-style-type: none"> <li>Changes to General Ledger were not included in the discussion. This is additional work CM firms will need to undertake; Most firms have a Quarterly Release Cycle (with a 2 quarter notification) and this will require extensive testing with CCPs.</li> </ul>
7	Changes will be done to draw commission from new currency bucket	<ul style="list-style-type: none"> <li>Broker commissions being pulled from a new currency bucket – Extensive piece of change work and static data update</li> </ul>
8	Cash will be distinguished between margin and other cash	<ul style="list-style-type: none"> <li>We will have to distinguish clearly between Margin and other Cash types (fees, excess, VM, other) and by CCP model</li> </ul>
9	Vendor development	<ul style="list-style-type: none"> <li>The dates for vendor development mentioned in the document are based on inputs from one of the large vendors. Discussion with other major vendors is in progress</li> </ul>

The above assumptions were discussed at the beginning of the session to ensure all participating CMs had the same understanding of account models and required changes.

### 3. REQUIREMENTS, CHALLENGES AND IMPLICATIONS

#### 3.1 Workshop Summary – Headline themes and implications

● Major stumbling block      ○ Limited challenge

Key Area / Theme	Perceived Degree of Challenge	Implementation Challenge: for the industry and its partners to address	Client impact
Collateral [Excess, haircut, asset tagging]	●	<ul style="list-style-type: none"> <li>• <b>Operational risk</b> due to changes required and manual update to tag assets.</li> <li>• Excess allocation will have to be agreed with the client</li> </ul>	<ul style="list-style-type: none"> <li>• <b>High.</b> Client need to make decision on excess allocation daily and will be exposed to more intraday calls Clients will have to understand changes in statement which reflect excess and haircut</li> </ul>
Statements Content [Back office changes to Collateral, Trade & position, fees, daily and monthly statements data]	●	<ul style="list-style-type: none"> <li>• Changes need to be made underlying content for collateral statements to reflect ISA model by account (seg/non-seg), CCP and currency.</li> <li>• Changes required by Vendors to report trade, position and cash by CCP</li> <li>• Static changes required in fees for currencies per CCP. CM will also need to provide a breakdown of fees charged in statements</li> </ul>	<ul style="list-style-type: none"> <li>• <b>High.</b> Due to new content and data in Collateral statements and required levels of understanding to process internally by clients</li> </ul>
Client output	◐	<ul style="list-style-type: none"> <li>• CMs need to make changes in sub-ledger for web driven output as this is key differentiator in terms of CM service</li> </ul>	<ul style="list-style-type: none"> <li>• <b>High.</b> Most clients use this output Due to changes in web UI and possible impact on client processes (e.g. reconciliation)</li> </ul>
Accounting changes [General Ledger , sub-ledger]	◑	<ul style="list-style-type: none"> <li>• All CMs need to <b>make changes in GL</b> to reflect new account model and test the changes. Quarterly release and planning cycle will have time implications for CM</li> <li>• <b>Operational Risk</b> - Changes required to classify; CASS / TTCA accounts and their administration.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Medium</b> – Clients need to make corresponding changes to their internal processes and systems, undertaking the relevant testing prior to ‘go-live’. in making changes and testing</li> </ul>
BAU processes	◒	<ul style="list-style-type: none"> <li>• Small impact on BAU processes for new account opening for Individual clients rather than bulk upload of accounts</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Small impact on clients</b></li> </ul>
Go-live	◑	<ul style="list-style-type: none"> <li>• Large effort for will be required testing changes in cash, position, collateral statements</li> <li>• Big bang migration of all CM accounts at various CCPs will be logistically challenging</li> <li>• Any issue would get amplified due to no. of CMs and timing (simultaneous go-live). A previous Eurex 5 upgrade in 2004 was delayed significantly due to an issue with a vendor software (Clearvision)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>High</b> – Clients face similar systems challenges to CM’s should ‘go-live’ take place in a ‘big bang’ format. Operational risk arises if sufficient testing cannot take place.</li> </ul>

### 3.2 Collateral: Requirements and implications

#### Collateral: Section Summary

- Large scale changes and challenge for CMs.** Excess posting protocol needs to be agreed with client and client statements, which should reflect excess and haircut breakdown at a granular level. Changes also need to be made for manual asset tagging of collateral as automated process will not be available (medium impact)
- Vendor dependency and concentration risk.** Level of change is assessed to be high for CMs as processing changes are comparatively moderate. However, it is recognised that some changes will need to be made by the vendors e.g. SunGard/ ION/ Fastfill. Given there are 2-3 vendors used by 90% of the market, there is a large concentration risk on these vendors
- Specific challenge around Asset-Tagging.** The required changes are expected to create a high level of challenge for implementation. Asset tagging may be a challenge initially until CCPs automate the process but some CCPs (e.g. Eurex) will provide option for manual tagging via GUI. There will be a 5 fold increase in number of cash movements by CM to post clients collateral in different CCP accounts. While the focus of the ETD Industry has been on automation to handle high trading volumes over last decade, the current Regulatory changes are fundamental in nature and will bring back manual processing for some activities.

Topic	Area	Implementation requirements and challenges	Options for addressing challenge	Headline Implications	Level/type of external dependency
Collateral	Excess Posting	<b>Requirement:</b> <ul style="list-style-type: none"> <li> <b>CM Excess Obligation</b> - Must pay excess balance from a client to the CCP. CMs need to understand how this should be allocated to CCPs and documented on the customer statements.               </li> <li> <b>Vendor.</b> Needs to understand excess calculations as             </li> </ul>	<ul style="list-style-type: none"> <li> <b>Preference for Excess</b> For Client clearing with multiple CCPs, CM needs to agree the protocol with the customer upfront as to how the customer wants to allocate excess.           </li> </ul>	<b>Operational Risk –</b> Medium level of systems change required.	Dependency on vendor to make changes in statement to reflect excess allocation.

		<p>there could be different ways of calculating the excess value across CCPs.</p>	<p>The same should be reflected on the client statements.</p> <ul style="list-style-type: none"> <li>• One of the possible options for CM is to agree with the Client to use a default CCP to allocate excess</li> </ul>		
Collateral	Value Model	<p><b>Requirement:</b></p> <ul style="list-style-type: none"> <li>• CM may wish to use a different haircut for its client valuation and calculation than the haircut applied by the CCP for the same asset. As today this can be a risk mitigation decision made by the CM. CM will need to understand the implication of this activity.</li> </ul> <p><b>Challenge</b></p> <ul style="list-style-type: none"> <li>• If 'tagging by value model' is used, then for securities with higher haircut more amount will need to be posted and there will be no impact on CMs. For example, instead of providing USD 1 ml of T bills if BP shares are used which have higher haircut applicable, you could use USD 3 ml of BP shares</li> </ul>		<p>The client may see 2 values applied to the same collateral, and the client may need to place a sum greater than the CCP base margin requirement. The CM should explain to the client that the CM is responsible for the risk on the position.</p>	
Collateral	Asset Mode	<p><b>Requirement:</b></p> <ul style="list-style-type: none"> <li>• Based on the information available currently, CMs believe that that 'tagging by asset model' will be used for collateral.</li> </ul> <p><b>Challenge:</b></p> <ul style="list-style-type: none"> <li>• The challenge is that CCPs do not have automated solution for asset tagging of client collateral. Some CCPs</li> </ul>	<p>Workaround options Eurex will allow 2 options in the mean time for asset tagging:</p> <ul style="list-style-type: none"> <li>• Upload of a CSV file</li> <li>• Manual update to tag assets</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Capacity constraints</b> for implementing on multiple CCPs in parallel</li> <li>• <b>Increased resourcing requirement</b></li> </ul>	<p>CCPs to develop automated 'Tagging by Asset' by mid-2014.</p> <p>Available workaround could take a few months for CMs and differs depending on</p>

		<p>plan to develop automated solution for 'Tagging by Asset' by mid-2014.</p> <ul style="list-style-type: none"> <li>• It is expected that the number of cash movements will grow by 5 times as CM will have to move clients' collateral in different CCP accounts</li> </ul>			CCP offering (~2 months/CCP)
Collateral	Haircut	<p><b>Requirement:</b></p> <ul style="list-style-type: none"> <li>• Currently the Market value of the collateral piece is shown. In the new model a breakdown of the haircut will need to be shown given that each piece of collateral can have different haircuts based on its application for example CCPs will not all give the same valuation to the same security</li> </ul>			
Collateral	Cash Collateral	<p><b>Requirement:</b></p> <p>CMs need to understand the impact and challenges around using cash as collateral:</p> <ul style="list-style-type: none"> <li>• CM may need to book cash as a security in vendor systems</li> <li>• Some CCPs also apply haircut on cash as collateral in different currency than the currency of the contract. E.g.: ICE</li> <li>• Cash in one currency account can be used to cover a margin call in another currency, however, this will be a challenge to administer</li> <li>• CM should be able to take out reasonable fees and charges from the amount before passing the collateral to the CCP. E.g.: total 50k posted by client out of which CM posted 48k to CCP and deducts 2k as fees</li> </ul>			

### 3.3 Statement Content: Requirements and implications

#### Statements content: Section Summary

- **Operational change required to back office data.** Numerous changes will have to be made in underlying data for collateral statements generated for clients to reflect ISA accounts by CCP and currency. Changes will also be required by vendors to display trade & position statement by CCP.
- **Type of change to statements is wide ranging.** Level of changes is high as the statement content will need to reflect activity for 10-15 CCPs with 5 major currencies possible for each CCP and around 1000 accounts/ CCP. The overall effort to implement changes and test will be approx.. 6 months based on current information from CCPs. Some CMs are concerned about managing the large number of ISA accounts.
- **Change will impact vendors, clients and CMs.** There is a level of dependency on vendors and CMs also need to make changes. This will be a high impact area for clients since statements are a key feature used by them.

Topic	Area	Implementation requirements and challenges	Options for addressing challenge	Headline Implications	Level/type of external dependency
Statements content	Collateral data	<p><b>Requirement:</b> CMs need to understand how client collateral reports will be impacted/ changed due to the introduction of new account structures at each CCP. A number of requirements were identified by the group:</p> <ul style="list-style-type: none"> <li>• Collateral and cash by currency should be clearly identifiable to the benefit of each CCP.</li> <li>• CM should list the account model chosen by the client for each CCP</li> <li>• Segregated and non-segregated accounts should be displayed separately. E.g.: If a</li> </ul>		<p>Large scale system change for 10-15 CCPs and 5 major currencies per CCP. Each CM will have around 1000 accounts at a CCP – Overall effort would be around 6 months assuming majority of development can be re-used for each CCP.</p>	<p>High - vendor targeting end of October as best case. This is contingent on the fact that requirements are completed by August end and there are no further changes requiring development.</p> <p>This will be followed by integration/testing with CMs for 4 months. Discussion with other vendors on-going</p>

		<p>legal entity has 100 accounts, collateral would be shown at the legal entity level rather than splitting into 100. Some CMs are concerned about the sheer number of accounts and operational challenges to manage them</p> <ul style="list-style-type: none"> <li>• User should key in the Exchange code for Collateral booking in the vendor system (a collateral allocation report will need to be produced)</li> <li>• Cash for margin purpose should be differentiated from cash used for other purposes (fees, VM, excess etc.)</li> <li>• Currency should be displayed by CCP and also a non ISA balance. E.g.: EUR ICE, EUR Eurex, EUR LME and EUR non seg</li> <li>• All collateral moves should be recorded, even if that move is from the CM's custodian to the CCP and the client's value is unchanged. This will identify the location of the collateral for the client.</li> </ul>			
Statements content	Trade and Position data	<p><b>Requirement:</b></p> <ul style="list-style-type: none"> <li>• CMs need to understand if trade and position reporting will be impacted and if any additional reports/statements will need to be developed.</li> <li>• Trade, position and money need to be reported by CCP. For this, 'account type' will need to be built in vendor system for each trading account.</li> </ul>	<p>Mapping tables will be required and vendors will try to leverage on-going work for this.</p> <p>vendors could possibly add msgs at the bottom of statements if feasible</p>		October end (This is subject to completion of vendor requirements by August end)

		<ul style="list-style-type: none"> <li>• Money did not have 'exchange code' earlier but the new 'account type' in vendor system will have the exchange code.</li> </ul>			
Statements content	Difference in CCP and CM (P&L)	<p><b>Requirement:</b></p> <ul style="list-style-type: none"> <li>• CM should note that most CCP return cash each day to satisfy variation margin. However, a great number of CM hold open trade equity within their sub ledger plus a cash balance. The overall impact should be considered.</li> </ul>	CMs need to explain this difference to their clients	Prior to Go-live	
Statements content	Daily	<p><b>Requirement:</b></p> <ul style="list-style-type: none"> <li>• Statements should not change based on CCP models e.g. Omnibus vs ICE Sponsored</li> <li>• Statements can be by client or by account type</li> <li>• The address of the client should be clearly stated at the top of the statement</li> </ul>			
Statements content	Monthly	<p><b>Requirement:</b></p> <ul style="list-style-type: none"> <li>• The title and account type changes will be reflected in the month end statements. As discussed with the vendors, the monthly statement is less flexible than the daily statement and will flow down from daily statement</li> </ul>			

Statements content	Fees/Commissions	<b>Requirement:</b> <ul style="list-style-type: none"><li>• Static changes will be required in fees and commissions records (as additional currency types needs to be taken into consideration per CCPs). This change will impact vendors and subsequently general ledger set ups.</li><li>• Also CCP fees will be charged on a monthly basis. The CM will need to provide a breakdown of its fees and commissions.</li></ul>			
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### 3.4 Online Client Output: Requirements and implications

Web Driven Client Output: Section Summary	
<ul style="list-style-type: none"> <li> <b>Key differentiating service for CMs.</b> This is one of the key differentiating service offered by CMs to their and changes will be required to reflect account changes in web driven output         </li> </ul>	
<ul style="list-style-type: none"> <li> <b>Significant change and effort requires.</b> Level of change is high as this is a high focus area and different CMs will spend different amount of time/ effort to produce their output (one of the CMs in the workshop provided a high level estimate of 6 months' worth of effort)         </li> </ul>	
<ul style="list-style-type: none"> <li>           Impact is high to CM as well as to Clients since they may have to make changes to their internal processes to reconcile the web driven output at ISA account level. There will be a considerable operational change for Clients to match CMs automation and consequently clients will incur costs to implement the changes.         </li> </ul>	

Topic	Area	Implementation requirements and challenges	Options for addressing challenge	Headline Implications	Level/type of external dependency
Web Driven Client Output	Web Driven Client Output	<b>Requirement:</b> <ul style="list-style-type: none"> <li>CMs need to understand the impact and changes required in sub-ledger for the web driven client output.</li> <li>This is a key differentiator between CMs and timelines depend on models offered/ internal development; extensive testing will be required</li> <li>Client's internal process will be impacted as there will be more line items to reconcile if client choses the ISA model and the costs/effort involved in making those changes could also drive Client demand</li> </ul>		<b>Operational Risk -</b> Approximately 6 months required for full implementation.  <b>Client Impact –</b> All clients use automated CSV file upload from CM and will have to make changes to their operational process to match CM's level of automation	Dependency on vendor development (approximately 4 months)

### 3.5 Go-Live: Requirements and implications

Go Live: Section Summary	
<ul style="list-style-type: none"> <li> <b>Significant level of update and planning required.</b> Account setup and agreements will need to be updated prior to go-live. It could take 3-8 weeks for establishing client agreements. This timeframe will depend on clients’ responsiveness as delays from client end could impact overall setup timeline. Detailed migration planning and risk management will be required across CMs, CCPs, vendors and Clients as some past migrations have been delayed due to issues (Vendor systems and middleware) that gets amplified due to large scale of change </li> </ul>	
<ul style="list-style-type: none"> <li>Level of change will be significant as all changes need to be implemented in short timeframe and should be fully tested with all participants for about 3-4 months</li> </ul>	
<ul style="list-style-type: none"> <li>Level of impact will be high. The size of the migration challenge in terms of systems and process change, statement alteration and client education in advance of ‘go-live’ poses significant operational risk for CMs and high impact for clients from a time/ cost perspective</li> </ul>	

Topic	Area	Implementation requirements and challenges	Options for addressing challenge	Headline Implications	Level/type of external dependency
Go-Live	Planning	<b>Requirements:</b> <ul style="list-style-type: none"> <li>The CCPs are expected to be authorized to use the new account models by March 2014.</li> <li>CMs need to take into account the key considerations for Go-live planning and assess readiness by the stipulated timeframe <ul style="list-style-type: none"> <li>Large testing effort for CMs with CCP, Vendors and Clients with resourcing constraints to ensure all changes have been tested properly given that risk to migration timelines could be high in case of any issues uncovered later</li> <li>Big bang migration will have large operational risk in</li> </ul> </li> </ul>	A phased or staggered migration could be undertaken if the regulator allows a Transition timeframe after CCP authorisation	<b>Operational risk</b> – Size of the migration challenge in terms of systems and process change, statement	High dependency on middleware and vendors. One of the previous Eurex 5 upgrades was significantly delayed due to an issue with a vendor software that impacted

		<p>transformation of several accounts at several CCPs in multiple currencies - migration of trades, position and money should be automated</p> <ul style="list-style-type: none"> <li>- Client preferences on ISA accounts should be taken earlier and accounts should be opened at CCPs beforehand</li> <li>- It could take 3-8 weeks for setting up client agreements prior to go-live</li> <li>- New statements can be migrated prior to go live and will come into effect once accounts are migrated</li> <li>- Strict data controls need to be put in place to avoid incorrect bookings</li> <li>- Process should be agreed for updates on historical data</li> </ul>		<p>alteration and client education to take place in advance of go-live.</p>	<p>all CMs</p>
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### 3.6 Accounting changes: Requirements and implications

#### Accounting Changes: Section Summary

- **General and sub-ledger change requirements** - All CMs will need to make changes in General ledger to add new ISA accounts and will have to also test the changes. Changes will also be required in the sub-ledger to classify CASS and TTCA accounts
- Level of impact will also be medium as the changes are not complex but there is a quarterly cycle for GL changes with a 2 quarter notice period for most CMs. This implies that the earliest these changes can be implemented is March 2014.

Topic	Area	Implementation requirements and challenges	Options for addressing challenge	Headline Implications	Level/type of external dependency
Accounting changes	GL Changes	<p><b>Requirement:</b></p> <ul style="list-style-type: none"> <li>• All CMs will need to make changes in GL to accommodate the new account model. The effort would vary depending on each firm but would require extensive testing with CCPs. CMs need to assess the impact on GL and how long it will take to implement the changes in their books and records</li> </ul> <p><b>Challenge:</b></p> <ul style="list-style-type: none"> <li>• Most firms have a quarterly release cycle that works with a 2 quarter notice. Therefore earliest timeframe to get the changes would be March 2014</li> </ul>		<p><b>Operational Risk</b> – At the earliest, GL changes are affected with a 2 quarter notice period. Therefore the earliest point at which these changes can be made is March 2014.</p>	Exact impact and effort for making GL changes need to be assessed by the experts

Accounting changes	Sub-ledger setup	<p><b>Requirement:</b></p> <ul style="list-style-type: none"> <li>• From an Accounting/ Reporting perspective there will be no need to re-classify clients on the sub ledger/ CCP.</li> <li>• Classification will be required between CASS and TTCA accounts. Apart from this, the current setup is sufficient to handle all required changes by CMs however planning for reconciliations needs to be considered.</li> <li>• Number of reconciliations will be 5 times more due to recs at each currency level</li> </ul>			Dependency on vendors to make changes in sub-ledger
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### 3.7 CCP Communication: Requirements and implications

#### CCP Transparency: Section Summary

- **Continued dialogue with CCPs is critical.** CMs need to establish a communication channel with CCPs to understand the account models they plan to offer and other changes (fees, operational changes, migration plans) they are making. This will help CMs in creating a robust change and migration plan. So far, only 3 of the 15 European CCPs have submitted their applications and hence most of the CM and vendor changes are being made on the basis of information available from these 3 CCPs. As and when further details are provided by other CCPs, there could be changes in requirements and technical build timelines.
- Level of impact is high as it will provide CMs with important insights in CCP changes and will also help progress dialogue with the clients. Clients can then be provided details about the new models being offered and fees to be charged.

Topic	Area	Implementation requirements and challenges	Options for addressing challenge	Headline Implications	Level/type of external dependency
CCP Transparency	Client Interaction	<p><b>Challenge:</b></p> <ul style="list-style-type: none"> <li>• CCPs have had detailed dialogue with Regulator about the account structure/models but there could be changes later. It is difficult for the CM to explain to the clients the models offered and fees required for each ISA offered.</li> <li>• The clients do not have all the information available to make an informed decision/choice. For clients, there could be additional work and changes to their processes based on their choice of account structure which will eventually impact the uptake/demand for the ISA service offered</li> </ul>		Due to uncertainties around low level operational details, CMs are unable to provide precise pricing information and risk disclosures to client	

### 3.8 Cash Segregation: Requirements and implications

<p><b>Cash Segregation: Section Summary</b></p> <ul style="list-style-type: none"> <li>• Changes may be required to create segregated client cash account with broker and setup delivery instructions for cash transfer</li> <li>• Level of change is expected to be small as effort required will be relatively small.</li> <li>• Level of impact is also small given the small effort and less impact on time line</li> </ul>
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Topic	Area	Implementation requirements and challenges	Options for addressing challenge	Headline Implications	Level/type of external dependency
Cash Segregation	Cash Segregation	<p><b>Requirement:</b></p> <ul style="list-style-type: none"> <li>• It can be assumed that there will be 1 additional currency bucket within the account for each currency the client holds. The purpose is to allow the CM to post non CCP amounts to this line, such as its own commissions.</li> <li>• There will be a single delivery instruction by the client. Initial booking will be into a blank exchange or will go to a separate statement event account and will be moved thereafter into various CCPs</li> </ul>			

## 4. OUTSTANDING QUESTIONS FOR REGULATORS AND CCPs

### 4.1 Questions for the Regulator

#	Question Area	Question
1	Migration approach	<ul style="list-style-type: none"> <li>• What is migration approach proposed/ suggested by the regulator? Is there a big-bang migration stipulated or there will be a transition timeframe allowed after CCP is authorised?</li> <li>• This will help CMs plan for go-live and mitigate operational risk associated with a big-bang migration</li> </ul>
2	ISA Account Closure Process	<ul style="list-style-type: none"> <li>• Understand the impact of closure of ISA account by a client. Is there a regulatory requirement for the CCP account to be open until the CM has it open?</li> <li>• Response from workshop 2 – EMIR does not stipulate any such requirement for CCP account to remain open. Each CM firm will make independent decision on handling of account closures</li> </ul>

## 5. CONCLUSION

### 5.1 Key messages for Regulators

- **Level of preparatory work for implementation is being undertaken.** CMs are in process of assessing the change requirements and implementing the accounting & reporting changes to meet EMIR segmentation and portability deadlines.
- **Level of uncertainty around the Migration approach required.** There is uncertainty regards the migration approach that will be adopted e.g. What happens in the case of rejected applications for authorisation? If multiple CCP's are authorised simultaneously, will go-live be staggered or happen in a 'big-bang' format? and this poses a significant challenge for planning process.
- **Request to explore alternatives to a "Big Bang" re-authorisation.** Recognition that more thinking needs to be done across the industry and with regulators to identify a feasible, low risk transition model, which provides CMs with sufficient time to design, build and test their responses

### 5.2 Key messages for FOA members

- **Continued engagement with CCPs is critical for meeting EMIR Timelines.** From an accounting and reporting perspective, many of the changes to be implemented are dependent upon CCP and vendor information and development. FOA members should continue their dialogue with CCPs to understand in detail, the changes and features they plan to offer on Day 1 (account models, fees charged, haircut applied, statements provided and communication with clients)
- **CM and vendor dialogue is also crucial for meeting EMIR Timelines.** CMs need to also have regular communication channels with vendors to keep abreast of the changes they are making and include any specific requirements that are crucial from CM viewpoint

### 5.3 Key implications for other Working Groups

- **Collateral process questions.** Open questions exist regarding collateral process in terms of excess posting, applicable haircuts on collateral and eligible collateral from an Accounting & Reporting perspective. Similar questions have also been discussed in the Banking & Treasury workshop.
- **Knock on testing impacts.** Accounting and reporting is somewhat dependant on clearing and vice-versa. Clearing already estimate a large effort to test operational changes and there will be a knock on effect in terms of statement tests required e.g. For various scenarios across each product, with different account models and at various CCPs.
- **Position transfer at go-live: (For legal)** are CMs required to show a close of position in the omnibus account and a new opening in ISA? Also, what is the impact of ISA32 regulation on accounting process?