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ArticleUncleared OTC margin settlement and why a centralized, utility solution wins over an âeveryone for themselvesâ approach. Will Thomey, Co-Head Business Development, AcadiaAs the much-written-about Uncleared Margin Rules (UMR) have been phased in since 2016, a significant number of derivative users now find themselves exchanging both regulatory Variation Margin (VM) and Initial Margin (IM) with their counterparties. As a result, there is both increasing volume and complexity around margin settlement.Â Â Layer on intermittent (but inevitable) market shocks, and the need for automated, efficient settlement processes becomes ever clearer.It is understandable that many market participants who have had their hands full with Average Aggregate Notional Amount (AANA) assessments, adopting new risk-based calculations(notably ISDA SIMM), and segregated account opening requirements (to mention just a few of the project deliverables associated with UMR) have settled for âgood-enoughâ solutions when it comes to settlement. Â Extreme examples of this include keying instructions into custodian or bank portals, sending faxes and maintaining authorized signatory lists, sending e-mails with spreadsheet attachments, and call-back protocols. Incremental improvements on these antiquated processes are offered by a few vendors. Â In most cases the vendor can take the agreed margin requirement - most commonly agreed in Acadiaâs Margin Manager and embed it into a SWIFT message for transmission to the relevant paying agent.Â Â  So far so good, but what if more was possible?Â  What if the margin settlement could be fundamentally transformed?The process described above requires every market participant to obtain and store standard settlement instructions (SSIs) for all of their counterparties within their own settlement platforms â it is well-documented that the principal cause of margin settlement fails is incorrect or missing SSIs. A major enhancement in this area is achieved if all parties maintain their own SSIs in one central utility.Â  This reduces the operational burden on all participants by ensuring that the correct SSIs for all types of collateral are available for all parties.In addition, the simple, unilateral approach to sending margin settlement instructions gives no real-time confirmation that margin has been received by the intended recipient on a timely basis â certainly not to both parties. Â  However, when both parties to a settlement use the central utility approach, they are able to benefit from a single shared view of final settlement status.Â Â  In other words, the wholly inadequate, exceptions-based approach to identifying failed collateral can be consigned to the past. 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Â Moreover, once the shared settlement utility approach is adopted, greater industry benefits can be achieved through improved settlement netting, faster and more efficient substitutions that unlock optimization opportunities, and a vastly improved risk and control framework by shortening the time between agreeing to settle and actual settlement. Â A utility will greatly simplify and speed-up industry adoption by connecting directly to new settlement venues on behalf of all market participants which can only be a positive outcome for the industry. This method is future proofed since it can extend to settlement of margin for other asset types and in the longer-term support connectivity of collateral tokens via digital assets. 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