www.pwc.nl

Hot topics treasury seminar

EMIR – Here to stay

13 juni 2013

pwc

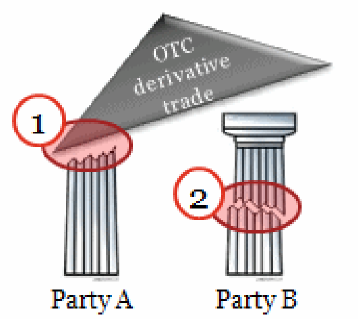
Agenda

- EMIR refreshment
- Timelines
- Your challenges
    - Documentation
    - Hedging exemption
    - Data to be reported
    - Discrepancies with Dodd-Frank Act
- Summary

EMIR Refreshment

EMIR objectives

EU reform of the OTC derivatives market



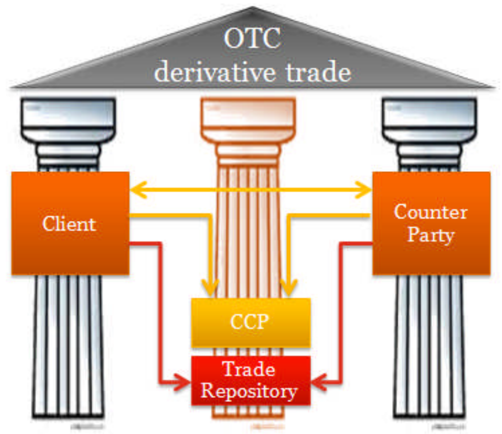
EMIR is designed to promote:

Reduction of counterparty risk

- By a mandatory requirement directed to all actors to clear standardised (or 'eligible') OTC derivatives through CCPs

Reduction of operational risks

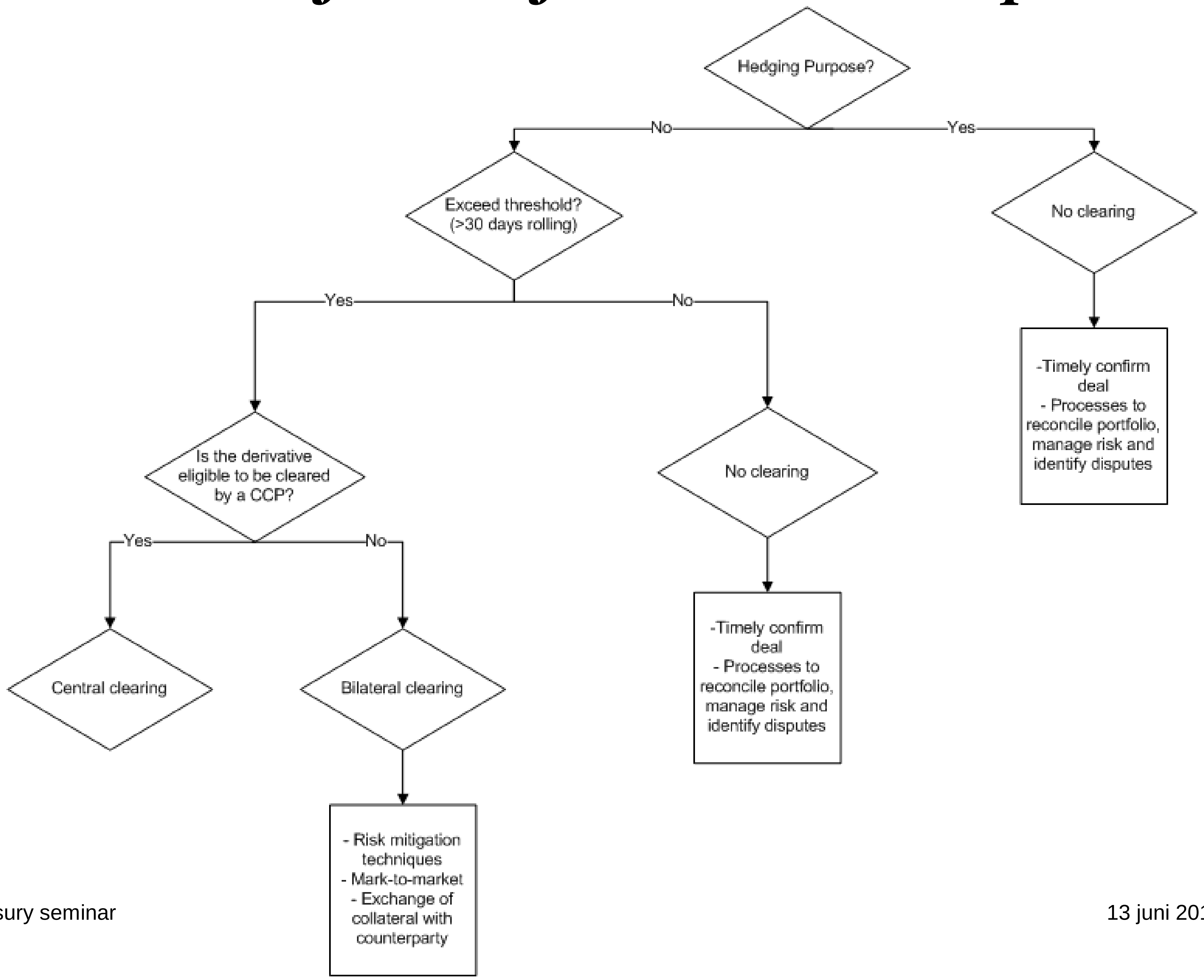
- By the use of electronic means



Transparency

- By reporting each derivative contract to trade repositories (TRs)

The decision tree for non-financial counterparties



The hedging exemption

a. It covers the **risks arising** from the potential change in the value of assets, services, inputs, products, commodities or liabilities that the **non-financial counterparty** or its group owns, produces, manufactures, processes, provides, purchases, merchandises, leases, sells or incurs or reasonably anticipates owning, producing, manufacturing, processing, providing, purchasing, merchandising, leasing, selling or incurring **in the ordinary course of business**;

b. It covers the **risks arising** from the potential **indirect** impact on the value of assets, services, inputs, products, commodities or liabilities referred to in subparagraph (a), **resulting from fluctuation of interest rates, inflation rates or foreign exchange rates**;

c. It qualifies as a hedging contract pursuant to **International Financial Reporting Standards (IFRS)** adopted in accordance with Article 3 of Regulation (EC) No 1606/2002

Thresholds are set per type of derivative

• Credit derivatives	€ 1 billion
• Equity derivatives	€ 1 billion
• Interest rate derivatives	€ 3 billion
• Foreign exchange derivatives	€ 3 billion
• Commodity and other OTC derivatives	€ 3 billion

Risk – mitigation techniques for OTC derivatives not centrally cleared

Latest update:
Technical standards on collateral requirements expected in December 2013

Financial counterparties and non- financial counterparties <u>(above and below threshold)</u>

- Timely confirmation
- Formalised risk management processes (robust, resilient and auditable)

Financial counterparties and non- financial counterparties <u>(above the threshold)</u>

- MtM of outstanding contracts on a daily basis
- **Exchange and proper segregation of collateral**

Financial counterparties

- Hold appropriate and proportionate amount of capital to manage risk not covered by exchange of collateral

Timely confirmation

Financial counterparties & Non-financial counterparties above threshold

CDS and IRS

- Until 28/02/14

  By end of 2nd business day

- After 28/02/14

  By end of next business day

Other derivatives

- Until 31/08/13

  By end of 3rd business day

- Until 31/08/14

  By end of 2nd business day

- After 31/08/14

  By end of next business day

The above deadlines are extended by one day when the transaction is concluded after 16h00 or with a counterparty in another timezone.

Timely confirmation

Non-financial counterparties below threshold

CDS and IRS

- Until 31/08/13

  By end of 5th business day
- Until 31/08/14

  By end of 3rd business day
- After 31/08/14

  By end of 2nd business day

Other derivatives

- Until 31/08/13

  By end of 7th business day
- Until 31/08/14

  By end of 4th business day
- After 31/08/14

  By end of 2nd business day

The above deadlines are extended by one day when the transaction is concluded after 16h00 or with a counterparty in another timezone.

Portfolio reconciliation

- Portfolio reconciliation can be executed by the counterparties or a qualified third party
- Reconciliation covers key trade terms including its valuation

Financial counterparties &

Non-financial counterparties above threshold

- Each business day when 500 or more contracts are outstanding
- Each week when 51 to 499 contracts are outstanding
- Each quarter when 50 or less contracts are outstanding

Non-financial counterparties below threshold

- Each quarter when more than 100 contracts are outstanding
- Each year when 100 or less contracts are outstanding

Reporting obligation

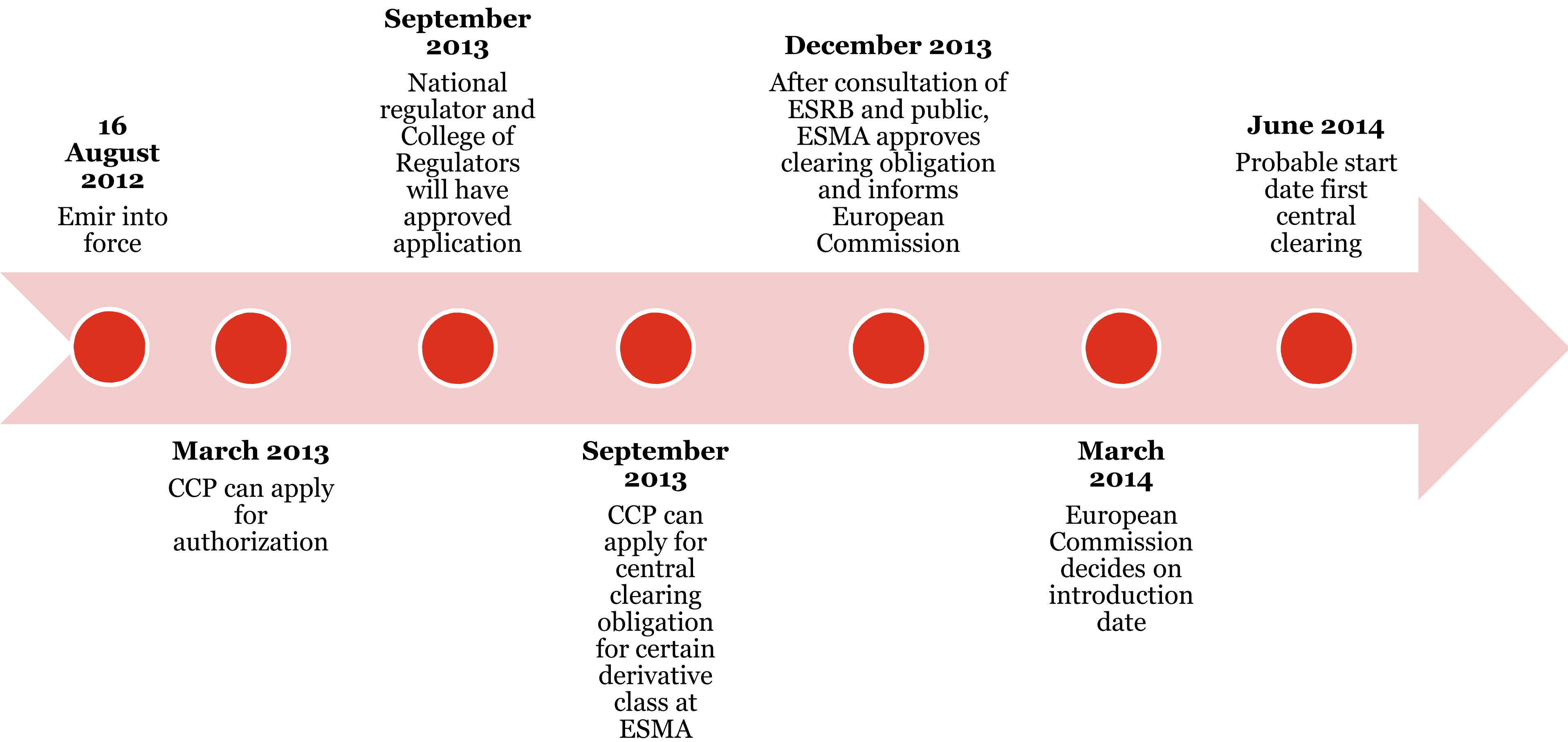
All derivatives not just OTC derivatives

- EMIR requires that both CCP cleared and non- CCP cleared derivatives must be reported to a trade repository
- Also applicable to intercompany transactions

Timelines

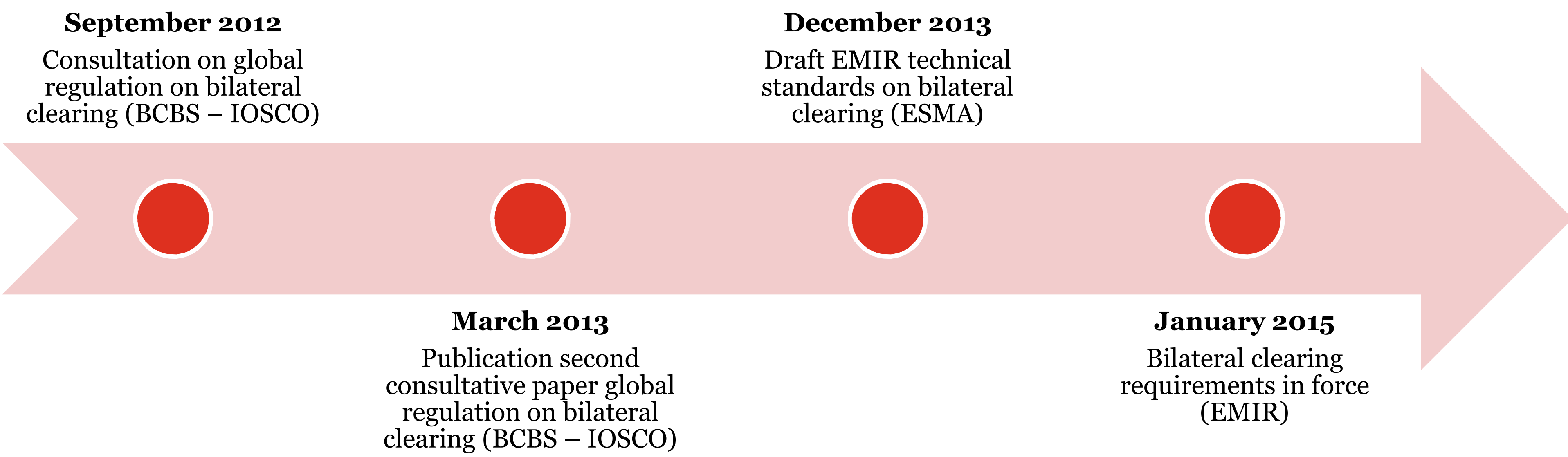
Timelines

Central Counterparties/ Central clearing



** This timeline is an indication only and is dependent on the approval of relevant Central Counterparties and turnaround of certain procedures.*

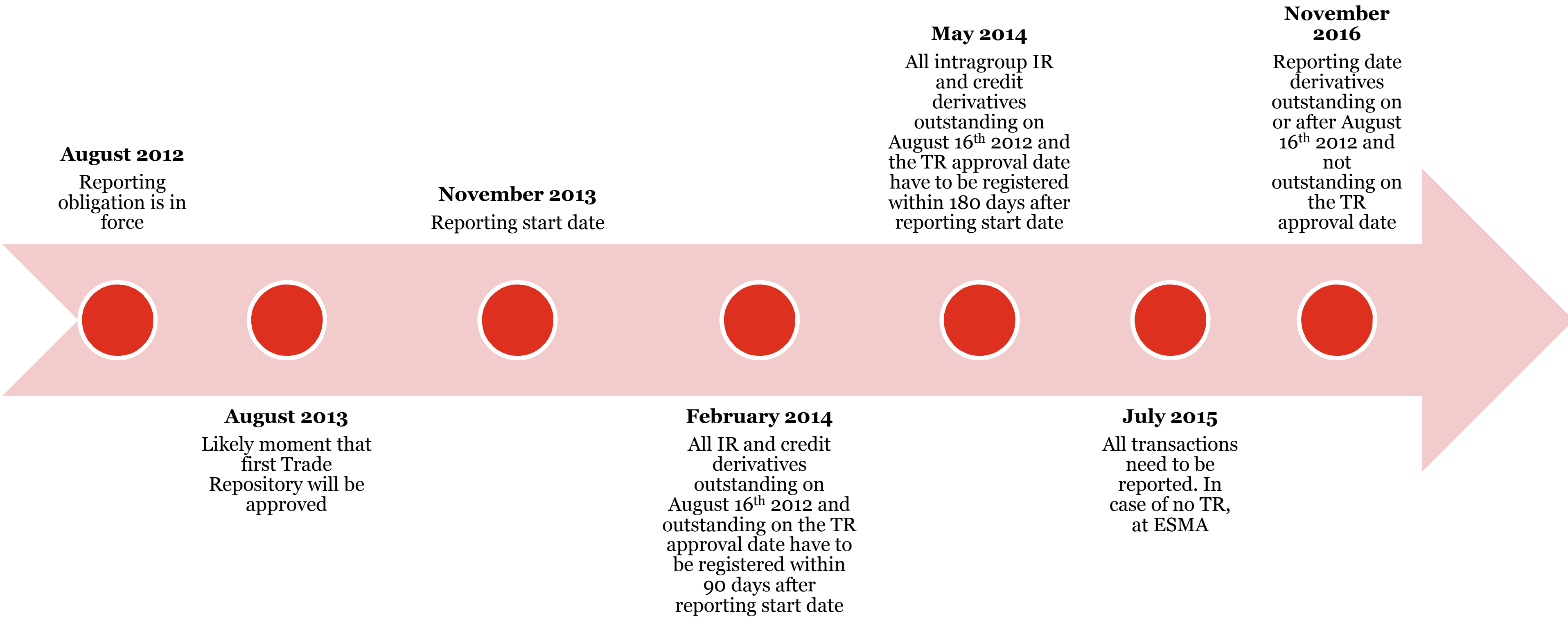
Timelines
Bilateral clearing/ Margin requirements



** This timeline is an indication only and is dependent on the turnaround time of certain procedures.*

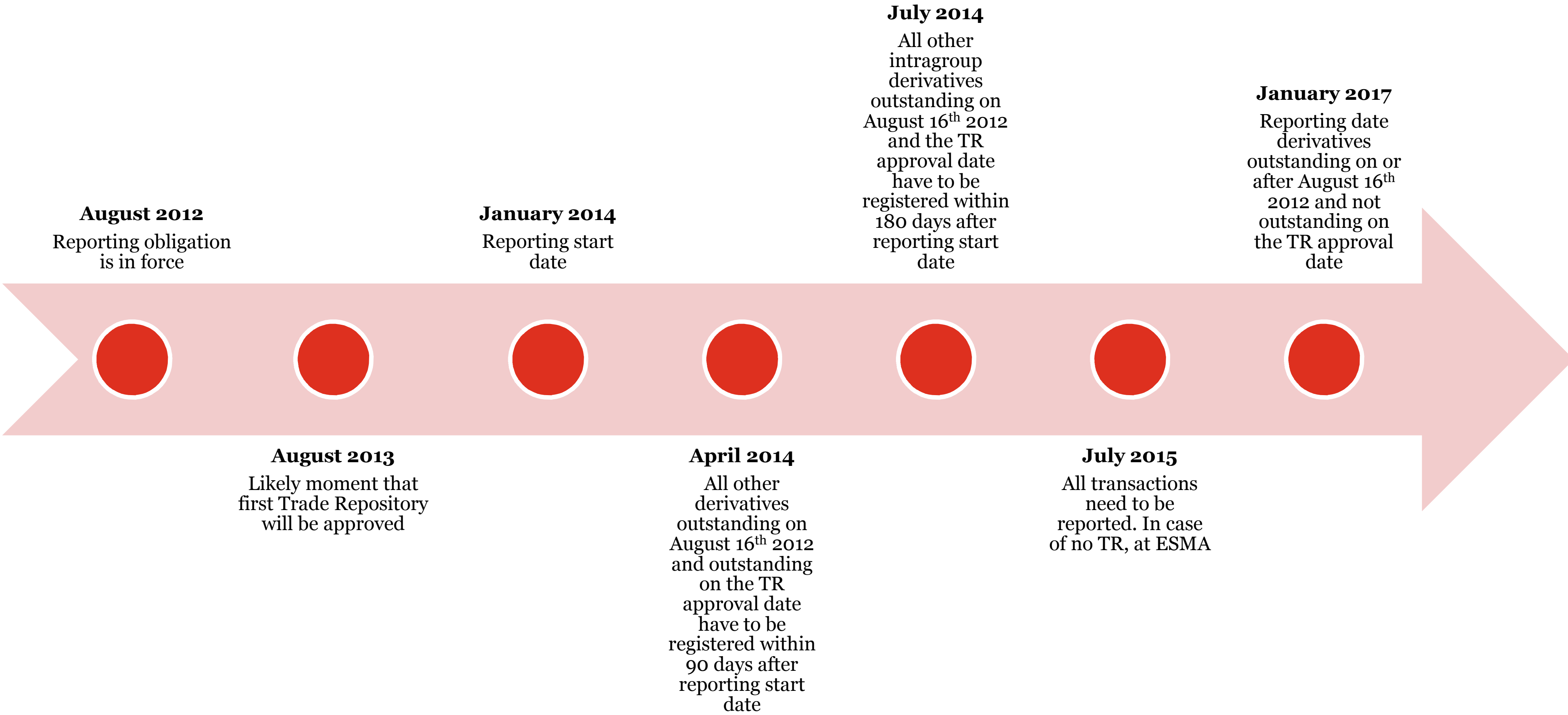
Timelines

Reporting obligation: Credit and interest rate derivatives



** This timeline is an indication only and is dependent on the approval of relevant Trade Repositories.*

Timelines
Reporting obligation: Other derivatives



** This timeline is an indication only and is dependent on the approval of relevant Trade Repositories.*

Challenges

Liquidity risk

Liquidity risk
Counterparty risk traded for liquidity risk

- The clearing obligation, either central or bilateral, brings a liquidity risk to the corporate world
- Besides difficulties to monitor and measure liquidity risk, this will also affect existing credit lines

Challenges

Documentation

Several documents need to be in place

Mandatory

- Written agreement on how portfolio reconciliation will be executed
- Written agreement on dispute resolution

Optional

- Update ISDA protocol regarding *negative affirmation*
- Update treasury policy and processes and procedures to be EMIR-compliant with respect to confirmation and reporting requirements
- Notification for intragroup exemption

Challenges

Hedging exemption

Correctly claim the hedging exemption

Very important if hedge accounting is not applied

- Update treasury and hedging policy
- Ensure your hedging table is up to date
- Update policies and procedures
- Increase use of your treasury management system to clearly link derivatives with hedged items
- Keep minutes of meeting and decisions of Treasury/ Finance committee, especially if these conflict with treasury policy

Challenges

Data to be reported

Counterparty data to be reported
26 data fields

1	Reporting time stamp	14	Trade with non-EEA counterparty
2	Counterparty ID	15	Directly linked to commercial activity or treasury financing
3	ID of the other counterparty	16	Clearing threshold (above/ below)
4	Name of the counterparty	17	Mark-to-market value of contract
5	Domicile of the counterparty	18	Currency of mark-to-market value
6	Corporate sector of the counterparty	19	Valuation date
7	Financial or non-financial nature of the counterparty	20	Valuation time
8	Broker ID	26	Valuation type
9	Reporting entity ID	22	Collateralisation
10	Clearing member ID	23	Collateral portfolio
11	Beneficiary ID	24	Collateral portfolio code
12	Trading capacity	26	Value of the collateral
13	Counterparty side (buyer/ seller)	26	Currency of the collateral value

Common data to be reported

59 potential fields; at least 32 per transaction

1	Taxonomy of the reported contract	23	Date of settlement of the underlying	42	Exchange rate 1
2/3	Unique product ID	24	Master agreement type (if applicable)	43	Forward exchange rate
4	Unique ID for any underlying instruments (including baskets or indices)	25	Master agreement version date (if applicable)	44	Exchange rate basis
5/6	Notional currency	26	Date and time of confirmation	For commodity derivatives	
7	Deliverable currency	27	(non-)electronically confirmed/unconfirmed	45	Name of the commodity base, e.g. agriculture or metals.
8	Internationally agreed trade ID	28	Subject to the clearing obligation	46	Details of the particular commodity, e.g. livestock or oil
9	Transaction reference number	29	Whether clearing has taken place	47	Delivery point or zone: physical or virtual point where the delivery takes place
10	Unique ID of trading venue (or note that It was concluded OTC)	If cleared		48	Interconnection point
11	Does the contract result from compression?	30	Time and date of clearing	49	Load type: product delivery profile: peak baseload, off-peak, block hours or other
12	Price/rate per derivative	31	CCP's unique ID code	50	Delivery start date
13	Price notation	32	Whether contract part of an intra-group transaction	51	Delivery end date and time
14	Notional amount	For Interest rate derivatives		52	Contract capacity
15	Price multiplier	33/34	level of the fixed rate leg	53	Quantity unit
16	Quantity	35	Fixed rate day count fraction	54	Price/time interval quantities
17	Amount of any up-front payment	36	Frequency of payments for the fixed rate leg	For option contracts	
18	Delivery type	37	Frequency of payments for the floating rate leg	55	Put or call
19	Time and date of the contract	38	Frequency of floating rate leg resets	56	Option style
20	Date when obligations under the contract come into effect	39/40	Name of floating rate index	57	Strike price of the option
21	Maturity date	For currency derivatives		58	Action type (new, modified…)
22	Termination date	41	The cross currency,	59	Details of the action type.

Trade Repository connection needs to be set up

- Additional data requirements might be demanded by the Trade Repository
- Connection with Trade Repository needs to be set up
    - DTCC indicated that the main challenge in Europe is the number of market participants that need to be served

- Later today a workshop is organized regarding EMIR and IFRS compliancy of different treasury management systems

Challenges

Discrepancies with Dodd-Frank Act

Requirements for Non-Financial Companies

Typical end-users of derivative transactions will face significant differences in requirements between Dodd-Frank and EMIR.

Requirements	Dodd-Frank (commercial End-Users)	EMIR (NFCs below clearing threshold)
TR Reporting/Record Keeping	√	√
Central Clearing	**End User Exemption** (only available to non-financial companies)	
Exchange/MTF Trading		
Margining/Collateral Exchange for Non-Cleared Swaps	√	*
Confirmation	*	√
Reconciliation	*	√
Compression	*	√**
Dispute Resolution	*	√

* These rules do not directly apply to End-Users/ NFC's. However, End-Users/ NFC's might be indirectly impacted as a result of rules imposed on SDs/MSPs.
** Applicable if NFC has 500 or more derivatives outstanding with a single counterparty

Reporting and Recordkeeping Requirements

Both regulatory regimes require companies to meet extensive reporting and recordkeeping requirements. However, certain key differences can be identified, especially in the area of reporting of swap/derivative data.

Aspects of Reporting	**Dodd-Frank (commercial End-Users)**	**EMIR (NFC below clearing threshold)**
Transactions to be Reported	All transactions in scope, exemption for inter-affiliate swaps if certain conditions are met	All transactions in scope, including exchange traded derivatives
Reporting Responsibility	One counterparty, based on reporting hierarchy	Each counterparty must report, however task may be outsourced
Reporting Timeframe	1st year: within 48 business hours 2nd year: within 36 business hours 3rd year: within 24 business hours	Working day following day of trade execution
Historical Transaction Population	Swaps in existence on or after July 21, 2010	Swaps in existence on or after Aug 16, 2012
Record Retention Period	5 Years after termination of the trade	5 Years after termination of the trade
Record Keeping Responsibility	Both counterparties	Both counterparties

Challenges

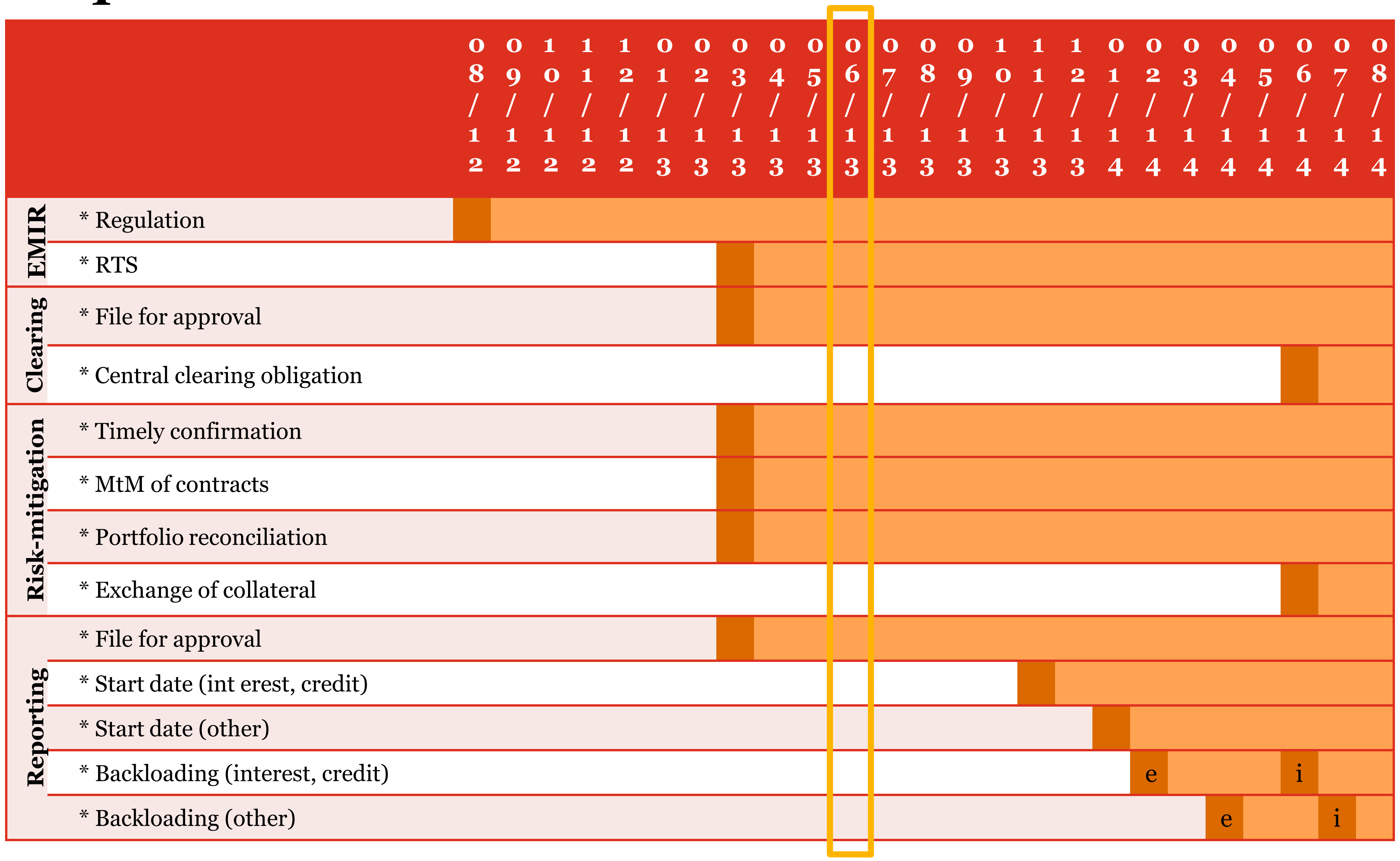
Secondary effects

Secondary effects of EMIR
Potentially large implications on daily treasury operations

- Counterparties might only be willing to deal with NFC- when they agree a CSA
- Increase in price of derivatives
- “Futurization”: Standardisation of derivatives

Summary

Impact calendar



EMIR – Here to stay, whether you like it or not...

T: +31 (0) 8879 26035
karin.meijer@nl.pwc.com

Karin Meijer
Manager

T: +31 (0) 8879 24413
erwin.bastianen@nl.pwc.com

Erwin Bastianen
Senior Associate