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European Market  
Infrastructure  
Regulation (EMIR)  
**Derivatives  
Management  
Center**

Ein Unternehmen der



# THE SITUATION

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In 2009, the G20 cleared the way for the mandatory clearing and reporting of standardized OTC derivatives by the end of 2012. The key instrument for this change, the European Market Infrastructure Regulation (EMIR), has been in place since August 16, 2012. All relevant technical standards were adopted on March 15, 2013.

However, an element of uncertainty remains!

Though EMIR was established on August 16, 2012, the clearing and reporting obligations it regulates did not take effect immediately. The clearing requirement is set to begin with OTC interest rate derivatives. Further asset classes are to be added to the clearing requirement incrementally. As of Q1 2017 the current scope of reporting requirements is anticipated to be extended to include further derivatives.

## WHAT APPLIES NOW THAT EMIR HAS TAKEN EFFECT?

EMIR is not only the legal framework for your clearing and reporting obligation. The European Market Infrastructure Regulation also contains regulations for non-centrally cleared OTC derivatives. The risk mitigation techniques for non-centrally cleared derivatives (see Article 11) required by EMIR are especially challenging. These are further specified in the technical standards with deadlines for implementation.

In detail, the regulation stipulates that "appropriate procedures and provisions" be in place for the finalization of non-centrally cleared derivatives contracts for financial and non-financial institutions. These are intended to measure, monitor, and reduce the operational as well as the counterparty credit risk. Among others\*, these include:

- » the timely confirmation of new transactions,
- » regular portfolio reconciliation,
- » appropriate dispute resolution

Risk mitigation techniques must be implemented by all financial and non-financial counterparties as of September 15, 2013.

\*Others: portfolio compression, mark to market, mark to model valuations

## WHAT EMIR REQUIRES.

Fulfilling EMIR requirements efficiently and on time in cooperation with third parties and regulatory bodies poses an especially difficult challenge to both financial and non-financial institutions.

An automated process that makes prompt confirmations possible within the prescribed time limits is essential to making timely confirmations.

A regular portfolio analysis is absolutely essential for mandatory portfolio reconciliations with the counterparty. This enables a process scheme that is focused on confirmations and potential discrepancies. In comparison, manual processes are associated with a great deal of operational risk, especially when financial and non-financial institutions work together.

### **This must be solved efficiently!**

Additional procedures and processes to identify, record, monitor, and quickly resolve discrepancies within the confirmation and reconciliation processes must be developed. Differences that cannot be resolved within the time limit must be processed and reported to the authorities.

Ultimately, the development and implementation of such processes that do more than report verified transactions t+1 to the trade repository are needed. Modifications to contracts must also be transmitted t+1 to the trade repository. Daily transmissions to the trade repository go hand in hand with the ESMA requirement to conduct mark-to-market valuations on a daily basis\*.

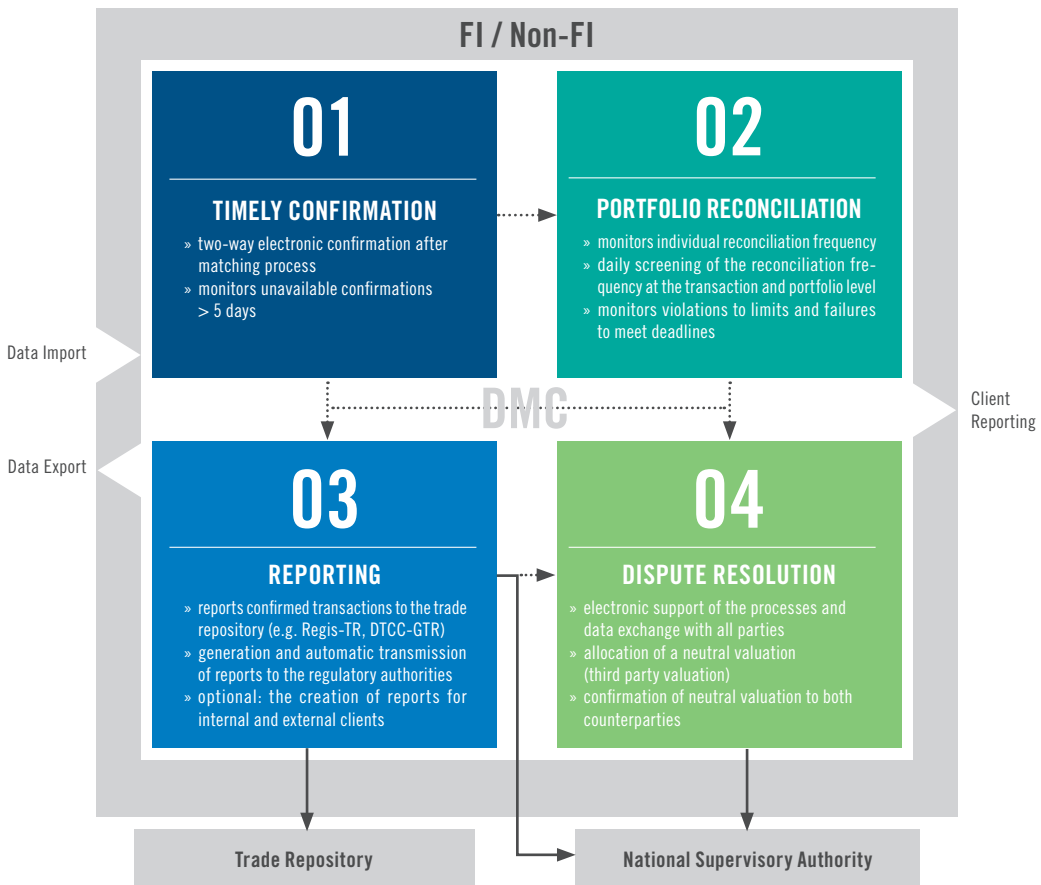
In summary, it is clear that financial and non-financial institutions alike are posed with major challenges that must be met and overcome as cost efficiently as possible.

\* required only for financial institutions and non-financial institutions exceeding the clearing threshold.

## WHAT WE CAN DO FOR YOU.

To support the optimal, and, above all, timely implementation of the above-listed requirements, the SKS Group in cooperation with interexa AG has developed the Derivatives Management Center (DMC). This web-based solution provides financial and non-financial institutions with an easy and cost-effective means of automatically implementing the required processes.

### FOUR MODULES, ONE SOLUTION: DMC



## WHAT DMC PROVIDES.

DMC serves many other functions in addition to providing an automated means of ensuring on-time compliance with all regulations.

### MONITORING

status monitoring (confirmation / reconciliation)

monitors deadline and valuation differences (timestamp)

automated timing (e.g. of traffic light functions, reminder functions before escalations, etc.)

configurable encrypted email messaging

### MAINTAINS HISTORICAL RECORD

revision-proof audit trail with complete activity logs

saves all reports and confirmations including time travel

serves as concrete evidence in the event of disputes

### EVENT- AND TIME- CONTROLLED REPORTING

reporting confirmed transactions to the trade repository

monthly reporting of unconfirmed transactions > 5 days to the national supervisory authority

reporting of unconfirmed reconciliations ≥ 15 days and valuation differences ≥ 15 million Euro to the national supervisory authority

provision of data/reports for accounting and risk management purposes

## THAT'S DMC

DMC is the market leader for the centralized management of OTC derivative transactions in terms of the regulatory requirements of EMIR. As such, DMC represents the optimal solution for financial institutions, as well as non-financial institutions such as public utilities and insurance providers.

# CONTACTS

**Edgar Ahrens**

Senior Manager Financial Markets

Mobil +49 172 674 10 60

edgar.ahrens@sks-group.eu

**Oliver Lutermann**

Managing Consultant

Mobil +49 162 286 20 52

oliver.lutermann@sks-group.eu

**Florian Neu**

Consultant

Mobil +49 162 286 20 49

florian.neu@sks-group.eu

**Pascal Demaré**

Product Manager

Mobil +49 151 11 77 60 56

p.demare@interexa.de

**SKS Unternehmensberatung GmbH & Co. KG**

Geheimrat-Hummel-Platz 4

65239 Hochheim am Main

Tel +49 700 360 17 000

Fax +49 700 360 17 011

[www.sks-group.eu](http://www.sks-group.eu)

**interexa AG**

Wilhelm-Theodor-Römheld-Straße 30

55130 Mainz

Tel +49 6131 144 07 000

[www.interexa.de](http://www.interexa.de)