Risk.net Discusses EU Effort to Stave Off Bankruptcy Use of IM Accounts With Nathaniel Lalone

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Financial Markets and Funds partner Nathaniel Lalone spoke with *Risk.net* on recent documents revealing EU regulatory efforts to prohibit the use of non-defaulting clearing members' initial margin (IM) as part of a central counterparty's (CCP) default waterfall. Nate argues that use of IM in this way significantly changes what IM is designed for — to partly cover clearing member and end-user payments to counterparties in the event of their own default. He stated, “Superficially, going after initial margin may seem like a very tempting solution for resolution authorities, but the basic legal construct of clearing is that initial margin supports the clearing member's own portfolio and is not exposed to the losses of other clearing members. Haircutting initial margin would seriously weaken this principle of bankruptcy-remoteness and would be not just a material, but a fundamental, change in the legal construct of how clearing works.” (“Leaked doc: EU bans initial margin haircuts to resolve CCPs,” July 17, 2020)

CONTACTS

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