

Global Master Agreement: The ONE-STOP APPROACH

Vision or fiction?

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AGENDA

- Status quo – is enough enough?
- Pros & Cons
- Conclusion

Status quo – is enough enough?

Key drivers & observations

- We run market, liquidity and credit risk with our clients on a consolidated figure basis calculated alongside with state of the art uniform methods and models – but we maintain for products and transactions creating market and counterparty risk different fragmented Master Agreements.
- Best practice in the international capital markets (see i.e. "Counterpart Risk Management Policy Group II, Towards Greater Financial Stability") is to mitigate counterparty risk by entering into Master Agreements and supplementing margin provisions to the largest possible and legally enforceable extent.
- Close-out netting and margining provisions are standard for any given Master Agreement template as of today.
- A prudent and sound liquidity management is of paramount importance. Thus, margining across asset classes might turn out to be a trigger and the best way to avoid what is perceived as a contingent threat in case of liquidity crunches
- Given the gained importance of margining provisions associated with such master agreement it is key to have cross product netting and cross margining provisions effectively running and being enforceable in times of stress.
- Whilst originally independent organizations promoted the emergence and development for their clientele (and the respective products) it appears to be time to concentrate activities beyond individual interests

Pros & Cons

	Multiple Product Specific Master Agreements		Master-Master /Bridge Solution		Global Master Agreement	
Usage & coverage	International, regional and domestic compete	↓	only within the international markets	↙	both national & international	↑
Valuation Methods	different	↓	adjusted	→	uniform	↑
Termination Clauses	different	↓	adjusted, Cross default need complex hierarchy	→	uniform	↑
Notice & Grace Periods	different	↓	adjusted	↗	uniform	↑
Margining and Collateral	segregated	↓	segregated but open for cross calculation	→	single but opt-out for segregated calculation	↑
Ready to up-date and open for amendments	to be done individually, burdensome in case of amendments, mergers etc.	↓	to be done individually	↓	one – stop approach	↑
Acceptance in regional & domestic markets	yes, providing national fragmentation	↑	only within the international context	→	yes without limitation	↑
Enforceability in Courts and eligibility in administrative regulatory proceedings	yes	↑	yes, translation needed – in some jurisdictions Master-Master concept not recognized	→	yes	↑
Maintenance of Legal Opinions	multiple legal opinions to be up-dated – high cost	↓	for each Master needed and in addition for the Master-Master	↓	single opinion	↑

Conclusion

- The EMA is the living proof to implement different legal concepts in one single contractual framework
- Create a documentation structure which follows such concept and adopt its multi lingual, multi jurisdictional approach which is simple, cost efficient and a flexible approach to add new products of whatsoever kind and nature.
- combine Industry organization approaches, built on tested and market standards.
- Elaborate technical and systematic alternatives for a smooth migration
- In doing so reduce liquidity-, counterparty- and operational risk including basis risk with the vision to provide a comprehensive solution to cater for a truly all-in risk mitigation tool
- support and incentives by and from regulators / supervisory authorities appreciated and needed

Your contacts

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