The rules requiring financial institutions to post bilateral initial margin are being phased in over the next two years until 2020 and will require the majority of financial institutions with derivatives to post a new initial margin figure; affecting both liquidity and trading profitability. The industry standard for financial institutions is to calculate these numbers with the ISDA Standard Initial Margin Methodology (SIMM). Although still a couple of years off for most institutions, you need to understand the impact of the rules now to plan your post-implementation strategy.

Here are three things to think about:

1. Regulators and internal management will want to know the impact of the new methodologies and if there should be any changes to the business. Voluntary margining now may be profitable already.

   You’ll need strong capabilities to perform business-strategic “what-if” scenarios and explain impacts. Strategic repositioning can take years, so the analysis has to happen now.

2. There’s no competitive advantage to doing standard calculations yourself.

   Unlike some types of calculations, standard calculations are, by definition, the same across the industry. Where you can differentiate yourself is by providing the best tooling around the calculation at a lowest cost.

3. Why invest a lot upfront in creating a solution in-house or licensing software, when the requirements are still in flux?

   The ISDA SIMM methodology is constantly evolving and in regional variations exist across jurisdictions. So start with a minimal “no regrets” investment where the maintenance of the calculation to the rules is outsourced.

   It’s easy to put off addressing requirements that aren’t immediate, but as we know – it is much better to fix a leak now than to wait. If the last few years have taught us anything, it’s to think ahead, invest carefully and be prepared – both for the requirements themselves and the likelihood of change.