FAQs

Limits, Credit and Collateral Facilities

Rationale and Benefits of the New Facility Structure

Fairness and Flexibility

Using a percentage of the open notional amount tailors the margin requirement to the specific size of each contract. This is fairer and more flexible than a one-size-fits-all absolute threshold, which might not accurately reflect the risk of smaller or requirements larger trades.

Simplified Management

As part of the update, clients can now access and accept the new margin credit agreement through a provided authorisation link embedded within an email. This streamlines the process for signing the agreement, including for any changes to the facilities.

In addition, the margin requirement adjusts automatically, you won't have to constantly renegotiate or calculate absolute thresholds for each contract variation or renewal. This can save you time and administrative effort.

Creditworthiness Consideration

This approach allows for more nuanced consideration of your creditworthiness. For clients with strong credit profiles, the percentage required as variation margin might be lower, reflecting the lower perceived risk. This nuanced approach is not as easily achievable with a flat absolute value threshold.

Proportional Security

A percentage-based approach ensures that the security (collateral) you provide is always proportional to the current risk exposure of your contracts. This is more efficient than an absolute value threshold, which could either be too high, locking up unnecessary funds, or too low, not providing enough security.

Dynamic Risk Management

By calculating variation margin as a percentage of the open notional amount, we ensure that the margin requirement adjusts automatically with changes in the market value of your foreign exchange forward and option contracts. This dynamic adjustment helps manage risk more effectively, as the margin requirement will increase when the market value of the contract increases, reflecting higher potential exposure, and decrease when the market value falls.

FAQs on Margin Call Arrangement

Rationale

What is the reason for changing the facility structure?

Determining the variation margin as a percentage of the open notional amount aligns the margin requirements more closely with the actual risk profile of your foreign exchange contracts. It offers a flexible, fair, and efficient way to manage potential exposure and protect against market volatility.

We have added a more detailed explanation under the benefits section of the FAQs.

Explanation

What is a forward trading limit?

It specifies the maximum notional amount of exposure that you can hold with ALT 21 in forward and option contracts at any given time.

What is open notional amount (the total value) of the foreign exchange forward and option contracts?

The open notional amount in the context of foreign exchange (FX) forward and option contracts refers to the total value of these contracts that are currently active or "open." It represents the underlying value of the currencies that are subject to exchange in these contracts, calculated in a base currency of the facility, Sterling (GBP).

What is a variation margin in relation to foreign exchange forward and option contracts?

The variation margin is determined as a percentage of the open notional amount (the total value) of the foreign exchange forward and option contracts. The specific percentage used can vary based on the agreement between ALT 21 and you, it is intended to cover potential market value changes of the contracts.

What is the difference between an Initial Margin and a Variation Margin?

The Initial Margin represents the minimum cash collateral required when booking a foreign exchange contract with ALT 21. The collateral is required upfront to open a new contract. The initial margin requirements differ depending on the currency pair being traded. For a comprehensive list of the requirements, please refer to ALT 21's website at www.alt21.com. Please note that while the list represents the standard initial margin requirement, individual trade confirmations take precedence when determining the amount of initial margin due on each trade. Please refer to FAQs for a working example.

Is Initial Margin always required?

Initial margin requirements depend on a customer's creditworthiness and the currency pair the customer is looking to trade. Customers with higher credit ratings may not be required to post initial margin, or the amount required may be lower, reflecting the reduced risk of default.

What is a Variation Margin Limit?

The Variation Margin Limit is the amount by which the MTM value of your open foreign exchange contracts can be negative without the need for you to post variation margin. The Variation Margin Limit is expressed as a percentage of the notional amount of the open foreign exchange contracts.

Explanation

What is a Variation Margin Increment?

The Variation Margin Increment is the additional amount of variation margin necessary to address any breach of the Variation Margin Limit resulting from fluctuations in the MTM value of all open contracts. The Variation Margin Increment is expressed as a percentage of the notional amount of the open foreign exchange contracts.

Please refer to the **Examples section** if the FAQs for an illustrative calculation.

What determines the size of the Variation Margin Limit and Increment?

The granting of a Variation Margin Limit and Increment is based on a customer's creditworthiness. This assessment can include a review of financial standing, credit history, and other factors that indicate the likelihood of meeting the obligations of the facility.

Can the percentage of Variation Margin Limit an Increment change?

Yes, the percentage of Variation Margin Limit, Increment and Requirement can change based on market volatility, the creditworthiness of the customer, and the terms of the margin call agreement. Both parties should be prepared for adjustments in margin requirements in response to changing market conditions.

Practicalities

How will it work in the platform?

You can find a summary of the total notional amount of all your open forward and options contracts, as well as the current MTM value of the contracts via the Manage Collateral section of your account.

If the negative mark-to-market value of your contracts does not exceed your agreed Variation Margin Limit, you will see a message under the Manage Collateral section of your account stating 'VM Limit excess'.

If the negative mark-to-market value of your contracts does exceed your agreed Variation Margin Limit, you will see a message under the Manage Collateral section of your account stating 'VM Amount Deficit'. In such circumstances you will need to ensure you have sufficient funds on your wallet to fund the required margin transfer amount.

The amount of variation margin required will be determined by the number of Variation Margin Increments required required to ensure the total negative MTM value of your open contracts plus variation margin do not exceed the Variation Margin Limit.
How and when will I receive notifications?

You will receive notifications via the platform and email if the negative value of your open contracts is utilising a significant proportion of your Variation Margin Limit, informing you of any actions required.

For example, when the utilisation not your Variation Margin Limit reaches the below thresholds you will be provided with the following notifications:

80%: You will receive a notification stating you are approaching full utilisation of your Variation Margin Limit, you may need to fund your account soon to meet a margin transfer amount. You will be unable to withdraw any posted collateral until your credit utilisation is below 80%

90%: You will receive another notification of the utilisation of your Variation Margin Limit, at this stage we highly recommend depositing funds into your wallet to avoid future margin calls.

At or above 100%: A Margin Call is active on your account and you will be restricted from placing new trades. You will need to deposit funds in your margin collateral account immediately.

Practicalities

How can I make the required margin transfer amount?

To fulfil the required margin transfer amount you must follow the the below process:

Deposit the required funds into your wallet.

Navigate to the 'Limits and Collateral' section on the left-hand side of your account, where you can transfer funds from your wallet to your collateral wallet using the 'Post Collateral' function.

Can I pay the margin call in other currencies?

You can post margin collateral in following currencies:
Sterling, GBP
United States Dollar, USD
Euro, EUR

How and when are margin transfer amount returned?

To determine if there are any available margin collaterals that can be returned, kindly access the 'Limits and Collateral' section located on the left-hand side of your account.

You can request the return of margin transfer amount via the 'Withdraw Collateral' feature. However, this functionality becomes accessible only when your utilisation of the Variation Margin Limit falls below 80%. This measure aims to avoid frequent funding and withdrawal from your posted collateral due to frequent changes in market conditions.

The total margin transfer amount eligible for return is calculated based on the Variation Margin Increment.

Legal

What is a margin call agreement (MCA)?

A margin call agreement is a legal document signed by the customer and ALT 21, that outlines the terms and conditions of the margin call process. This includes the terms of the initial margin and variation margins, when they must be posted, and the rights and obligations of each party.

What happens if a margin call is not met?

Margin call notifications received by 13:00 UK time must be settled by the close of business on the same day. Notifications received after 13:00 UK time are to be settled by the close of business the following day.

If a customer fails to meet a margin transfer amount, it will constitute an Event of Default. Following an Event of Default, ALT 21 may terminate and liquidate all open transactions and you will be required to fund a Liquidation Amount. For further detail, please refer to the MCA and the terms and conditions.

Are there any legal protections for customers in the margin call agreement?

Yes, the margin call agreement and terms and conditions should detail the legal protections for customers, including dispute resolution mechanisms, protection of funds, and processes for adjusting margin requirements.

Legal

Is there a deadline to sign the new agreement?

You have a period of 20 business days to review and sign the agreement from the date of receipt.

What happens if I do not want to sign the new MCA?

We understand that these changes may impact your interactions with ALT 21, and you may require time to review, comprehend and address any queries regarding the new agreement. As such, you have a period of 10 business days from receipt of the new MCA to communicate any concerns to us via credit@alt21.com. We will aim to respond within 3 business days from receipt of your message.

Example 1

How does an initial margin work?

The below illustration provides a working example of how initial margin is calculated.

Opening a trade:

- Notional trade amount to be booked: **100,000 GBP**
- Initial margin requirement percentage: **3.0%**
- Initial margin requirement = **100,000 GBP * (3.0% / 100%)**
- Therefore, a deposit of 3,000 GBP is required in the client's account as an initial margin before the trade can be initiated

Settlement of trade:

- Notional trade to be settled: **100,000 GBP**
- Initial margin posted: **3,000 GBP**
- **100,000 GBP - 3,000 GBP = 97,000 GBP**
- Therefore, the remaining balance owed by the client amounts to 97,000 GBP to settle the full contract

If on the settlement date, the client does not have sufficient funds on their ALT 21 accounts to settle the contract in full, including the initial margin, the initial margin amount cannot be withdrawn.

Example 2

How is the variation margin calculated?

The below illustration provides a breakdown of how variation margin requirement is calculated.

Example facility and positions:

- Forward Trading Limit: **100,000 GBP**
- Open Notional Amount: **100,000 GBP**
- Marked-to-market (MTM) position of all open contracts: **-5,000 GBP / -5.0%**
- Variation Margin Limit (VML) / Increment (VMI): **3.0% / 1.5% updated facility**

Variation margin requirement - updated facility

- -5.0% (MTM) + 3.0% (VML) = **-2.0% (deficit)**
- 1.5% (VMI) * 2 = **3.0%**
- Therefore, a margin call amount of 3,000 GBP (100,000 GBP * 3%). One VMI (1.5%) would not be sufficient to cover the deficit amount of -2.0%, so an additional increment is added to ensure the deficit is below the VML

The increment mechanism means there is always a consistent margin transfer amount due. It also negates the need to frequently exchange margin payments as a buffer is created between any deficit and the VML.

Example 3

How is the variation margin calculated if I have multiple products?

The following example outlines the calculation process for the variation margin requirement when there are multiple open positions.

Example facility and positions:
- Forward Trading Limit: **100,000 GBP**
- Open Notional Amount: **100,000 GBP**
- Marked-to-market (MTM) position of all open contracts: **-3,500 GBP / -3.5%**
- Variation Margin Limit (VML) / Increment (VMI): **3.0% / 1.5% updated facility**

Open Position 1: Option Contract
- Open Notional Amount: **50,000 GBP**
- Marked-to-market (MTM) position of all open contracts: **-1,000 GBP**

Open Position 2: Forward Contract
- Open Notional Amount: **50,000 GBP**
- Marked-to-market (MTM) position of all open contracts: **-2,500 GBP**

Variation margin requirement - updated facility
- -3.5% (MTM) + 3.0% (VML) = **0.5% (deficit)**
- 1.5% (VMI) * 1 = **1.5%**
- Therefore, a margin call amount of 1,500 GBP (100,000 GBP * 1.5%). One VMI (1.5%) would be sufficient to cover the deficit amount of -0.5%.

Variation Margin Allocation

The variation margin will firstly be allocated to the open option contracts until all the negative mark-to-market (MTM) has been covered and the deficit on the open option contracts is nil. Any remaining variation margin will be allocated to open forward transactions. Please see the illustration below.

1. Option position: **-1,000 GBP (MTM) + 1,500 GBP (variation margin paid) = 500 GBP excess**
2. Forward position: **-2,500 GBP (MTM) + 500 GBP (remaining variation margin paid) = -2,000 GBP**

Therefore, the total net market value of all open contracts plus margin transfer amount would be -2,000 GBP: -3,500 GBP (MTM position of all open contracts) + 1,500 GBP (variation margin)

Additional Information

Who can I contact to discuss this further?

For any further questions, please contact credit@alt21.com or sales@alt21.com.

ALT21

About ALT21

ALT21's mission is to make hedging solutions simple, accessible and affordable.

Its end-to-end platform for FX hedging and payments solutions for SMEs, offered as a SaaS and managed service, allows financial and non-financial institutions to provide hedging services and cross-currency solutions that are simple to understand, low-cost, and self-service, significantly increasing adoption among SMEs.

BankHedge™ is a purposely-built platform that enables banks to offer rich yet transparent and affordable FX hedging solutions to businesses when and where they need it, via a simple, guided self-service user-experience, accessible 24/7.

Since 2017, ALT21 Software Limited has been specializing in creating advanced technology solutions primarily for its subsidiary, a regulated entity overseen by the UK's Financial Conduct Authority. The company has focused on developing and servicing sophisticated multi-currency and FX hedging solutions tailored for SMEs and brokers. In a bid to dramatically increase the mass-adoption of FX hedging solutions by SMEs, the company has built a dedicated banking software division focused on providing cutting-edge technology for banks to improve their end-to-end FX operations and services.

Our partners work with us because we are:

- 100% focused on FX hedging
- Solidly backed by investors: €21m raised in 2023, we're here to stay
- Tech-obsessed: passionate about using tech to help banks serve clients even better
- Tried and tested by the market: SMEs love the BankHedge experience
- Committed to simplicity: everything we do is to make hedging simpler
- Low cost and low risk implementation and go-to-market
- Regulated by the FCA, not just a tech BaaS provider
- Flexible with commercial terms

To learn more about ALT21 visit www.ALT21.com

or contact us:

London
ALT 21 Limited
45 Eagle Street
London WC1R 4FS
+44 20 8068 7318

Dublin
ALT 21 Software Limited
Century House, Harold's Cross Road,
Dublin 6W, Dublin, Ireland
+353 1691 8846