



PARA BELLUM ADVISORS

ASSET MANAGER · UCITS GLOBAL MACRO

ISDA Negotiation and Margin Optimisation

SCENARIO TYPE	Hedge Fund – UCITS Global Macro (Dublin-domiciled)
ASSET CLASS	OTC derivatives across rates, FX, equity indices, commodities
RISK FOCUS	Excess margin posting, asymmetrical CSA economics, cash yield leakage, documentation blind spots, counterparty concentration
PRIMARY OFFER	Capital Efficiency Rebuild™
RELEVANT SERVICES	CSA economics review · Collateral drag map · Renegotiation strategy · Counterparty consolidation · ISDA/CSA amendment support · Governance and reporting build-out

THE SITUATION

A Dublin-based UCITS macro platform. Two vehicles, liquid instruments, clean risk story, strong repeatable returns. The derivatives book scaled exactly as expected – more counterparties, more products, more turnover, bigger gross notional, bigger operational footprint.

What did not scale was the control design underneath it. Nobody revisits CSA engineering when the fund is busy compounding.

By 2024, the fund had discovered the truth most derivative-heavy funds discover late: they were not underperforming because the PMs were wrong. They were underperforming because collateral was quietly eating the edge.

HOW THE DRIFT SETS IN

At launch, funds sign market standard ISDAs because arguing over a 60-page CSA is too much when investors are waiting and PMs want to deploy. The default posture: we will renegotiate later, we do not have leverage yet, docs are boilerplate.

Then the fund wakes up years later running an institutional book with a start-up collateral contract. Dealers are happy to maintain that arrangement – because dealer-friendly CSA economics are real: zero thresholds so you post from dollar one, daily calls, zero minimum transfer amounts, asymmetric initial margin, cash interest spreads that fund dealer carry, and tight settlement windows that force defensive liquidity buffers.

None of this looks dramatic day-to-day. It shows up as a steady tax: excess cash pinned as margin, cash earning near nothing, constant micro-wires and approvals, a portfolio performing while quietly leaking. The drift is not stupidity. It is incentive structure – PMs optimise positions, operations optimise getting it done, risk assumes the system captures reality, and boards see performance and AUM, not the queue of margin friction.

WHAT TYPICALLY BREAKS

Threshold asymmetry masquerading as standard

You post from zero; they post from a large number. You are running a permanently collateralised relationship in one direction – not because it is prudent, but because that was the starting point and nobody challenged it.

Cash interest terms that are quietly dealer P&L

Receiving overnight minus 40 to 60bp – or effectively paying – means you are funding the dealer's carry on your own collateral. This compounds silently across multiple relationships and multiple years.

Minimum transfer amounts set to zero

This is how you end up with 80 to 100 margin calls a month instead of 15 to 20. It is not risk management. It is nuisance automation that forces excess idle cash buffers and burns operational capacity.

Counterparty sprawl with no leverage mechanics

Six counterparties are not diversification if none of them believe you will move wallet share. Each relationship is individually defensible, collectively inert. The fund grew into an institutional derivatives programme but kept a start-up collateral contract.

THE STRUCTURAL INSIGHT

This was not a Hedge Rebuild. It was a capital efficiency reset – turning documentation and collateral into something governable.

The starting point was mapping CSA economics across all counterparties: thresholds, IM methodology, call frequency, settlement windows, MTA, eligible collateral, cash interest terms, and dispute mechanics. Each was assessed against what a fund of this size and wallet value can credibly achieve – not against the largest shop in the market.

Most funds do not lack leverage. They lack a mechanism to use it. Common levers include credible counterparty consolidation with a genuine willingness to execute it, standardised term sheets, wallet share reallocation tied to CSA outcomes, and credit packs to support threshold and IM cap claims.

Controls were then embedded so drift could not return: margin KPI reporting, call volume and breach tracking, threshold utilisation, and governance cadence defining what gets reviewed, by whom, and why. The objective was not to win negotiations – it was to make collateral a managed balance sheet line, not an accidental one.

INTENDED OUTCOMES

- ▶ Collateral released through improved thresholds and IM caps – cash previously trapped as margin becomes deployable.
- ▶ Cash yield leakage reduced via improved interest terms – the fund stops funding dealer carry on its own collateral.
- ▶ Margin call frequency reduced through sensible MTA and call cadence – operational capacity redirected from firefighting to governance.
- ▶ Settlement predictability restored – idle cash buffers shrink because timing is no longer defensive.
- ▶ Derivatives documentation reviewed as a live system – not a historical artefact that no longer reflects the fund's size, scale, or bargaining position.

WHERE THIS APPLIES

Most relevant where the fund has scaled since launch but CSAs have not been revisited; multiple OTC counterparties exist with inconsistent or dealer-friendly terms; margin posted is material relative to NAV and treated as the cost of doing business; daily calls and zero MTAs are normalised; and counterparty relationships are sticky with no credible reallocation mechanism.

Less relevant where the book is small and listed-only; a mature collateral strategy with active benchmarking already exists; there is a single counterparty by design with explicitly accepted economics; or the fund has no ability or willingness to reallocate business.

TYPICAL ENGAGEMENT PATH

Capital Efficiency Rebuild™ – CSA economics review, collateral drag map, benchmark, renegotiation strategy, and governance controls.

Secondary: Counterparty consolidation execution plan, ISDA/CSA amendment support alongside client counsel, collateral eligibility redesign, reporting build-out.