

# IM Risk Generator: Index Decomposition

## Helping firms to minimize cost of initial margin

IM Risk Generator is part of the AcadiaPlus Risk Suite of services. AcadiaPlus is a feature rich open platform for collateral, margin and risk mitigation serving Sellside, Buyside and Fund Administrators.

Index Decomposition is a new, separately chargeable, feature of Acadia's award-winning IM Risk Generator (IMRG) service. The Standardized Initial Margin Method (SIMM) calculation allows for derivatives based on index underlying to be calculated by either using the index price itself, or by decomposing the index into its constituents.

Acadia can assist users of IMRG in decomposing index trades to benefit from up to 50% reduction in initial margin (IM) for some portfolios.

## Simple to leverage

Changing to the decomposition method is simple and straightforward requiring no change in data submission for IMRG users. Acadia has access to many common indexes, requiring a firm to simply confirm which indexes they would like decomposed, and Acadia can enable the functionality.

## Trade Impact

Given that under the standard method all index trades use the same risk weight, many specific indexes can benefit from a lower risk weight and taking into consideration internal correlations to receive a lower IM exposure.

### Impact of decomposing sensitivities



# Portfolio Impact

When an index is decomposed into its underlying risk factors it creates an opportunity for additional savings to be made through direct hedging rather than partial hedging which can be limited by the inter-bucket correlations. The impact of this change is typically small compared to the reduction in IM of a single index deal, however, can be sizeable for some portfolios where significant hedges exist.

## Key Benefits

- Reduce SIMM costs through decomposition
- Use existing configurations and data integration
- Seamless change with no new integration work required
- Access to a range of common public and proprietary indexes
- Simple to leverage for all IM Risk Generator users

## Book a demo or contact us for more information.

Email [info@acadia.inc](mailto:info@acadia.inc) or visit [acadia.inc](https://acadia.inc)

\*IM Risk Generator won the Best Compliance Solution Award in 2022 & 2023 from FTF News

Acadia is a leading industry provider of integrated risk management services for the derivatives community. Through an open-access model, Acadia brings together a network of over 3,000 banks and other derivatives participants, along with several market infrastructures and innovative vendors.

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