



Developments in Triparty Collateral Management

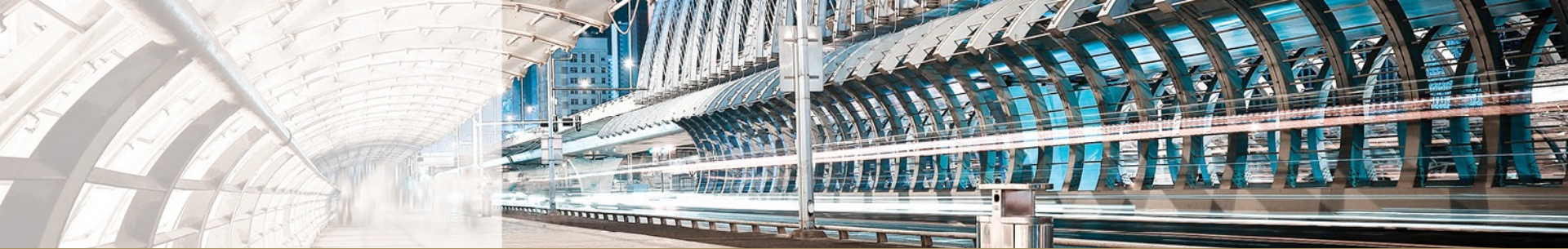
Fleming 10th Annual Collateral Conference

October 2016

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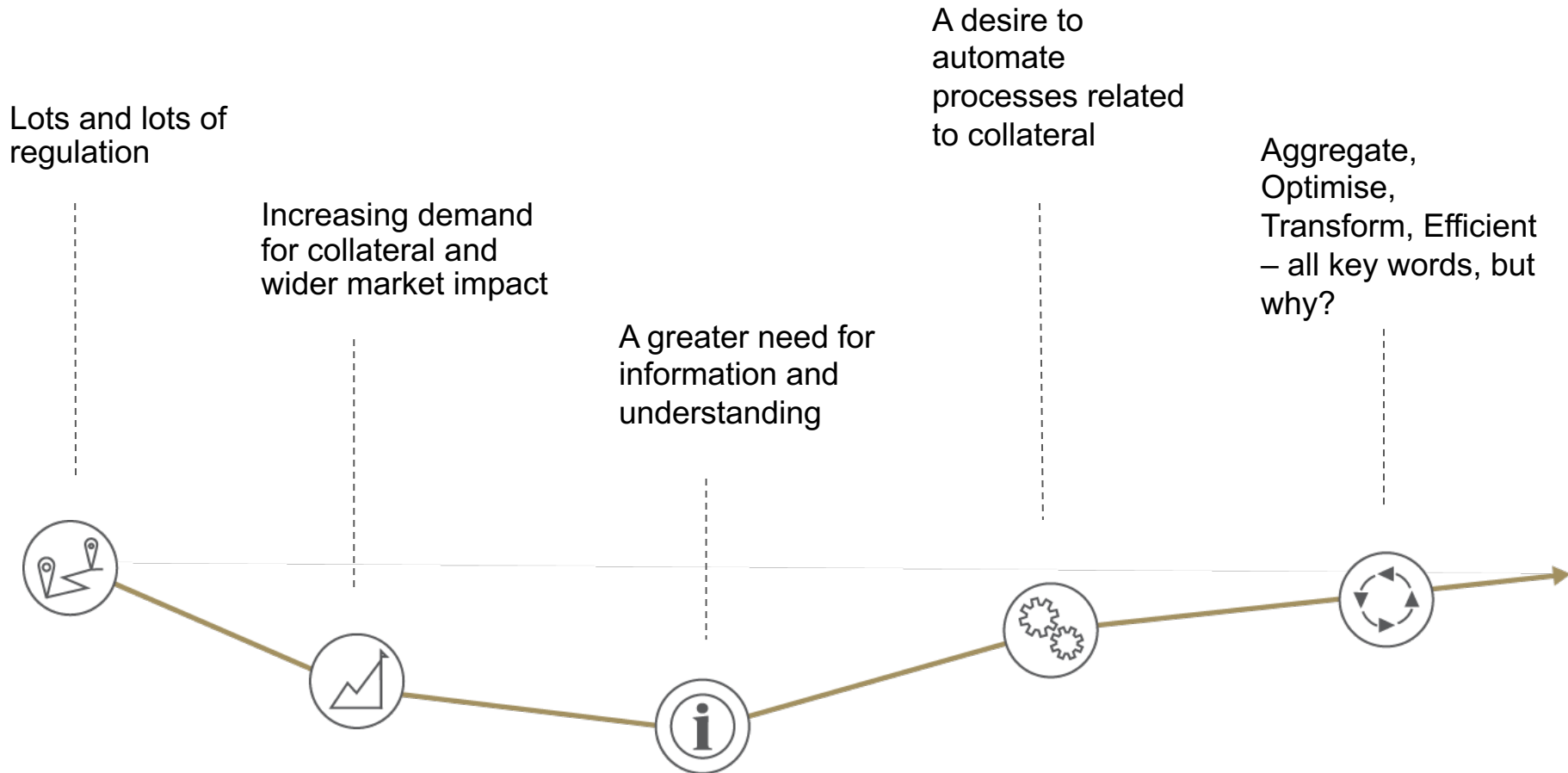
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Discussion Topics

- Market Trends in Collateral Management
- New Opportunities for Tri-party Collateral Management
- Non-Cleared Margin: The Road Ahead and Learning from The Dealers
- Connecting To Market Infrastructure

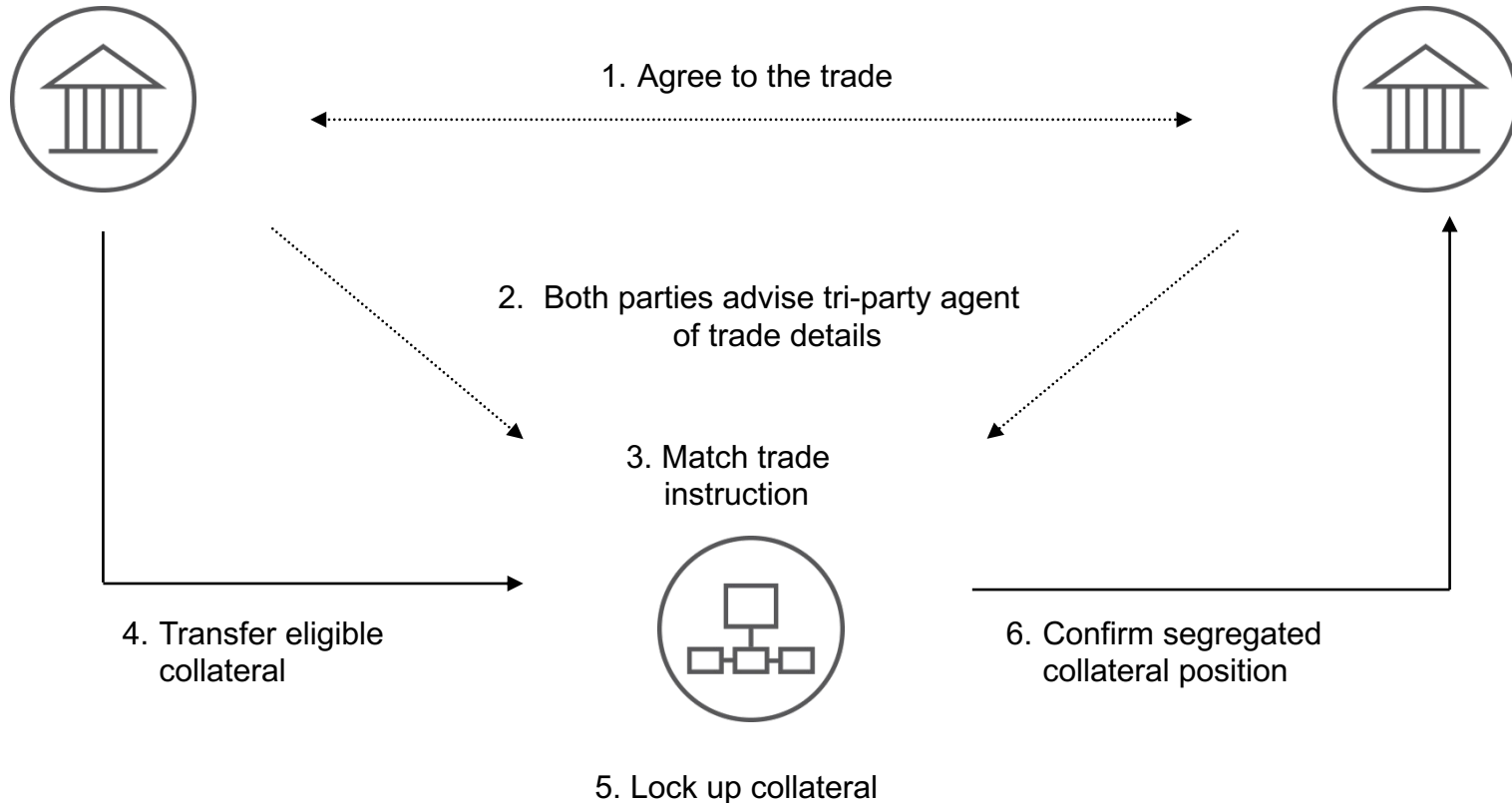
Collateral Management Market Trends



Current Tri-party Operating Model

Collateral Provider

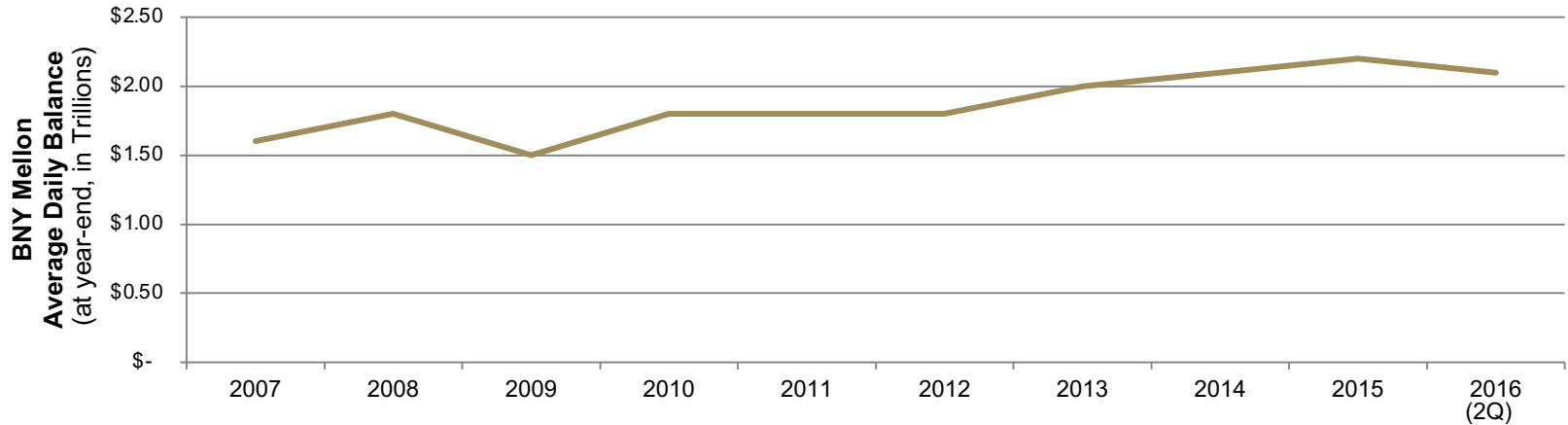
Collateral Receiver



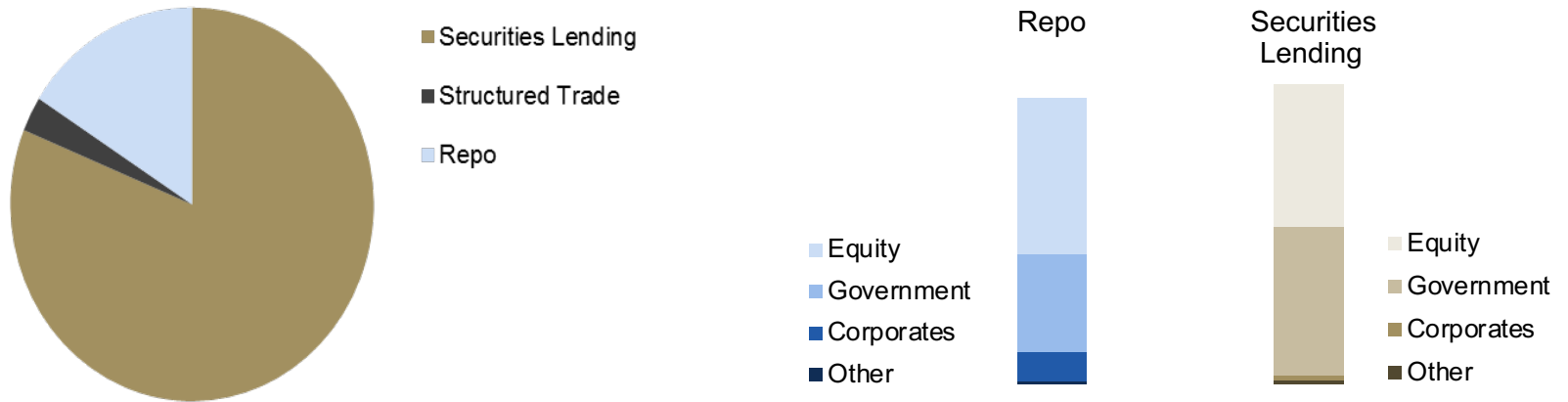
Non-Cash Tri-party Collateral Manager

Tri-Party Balance Trend

Worldwide Balances

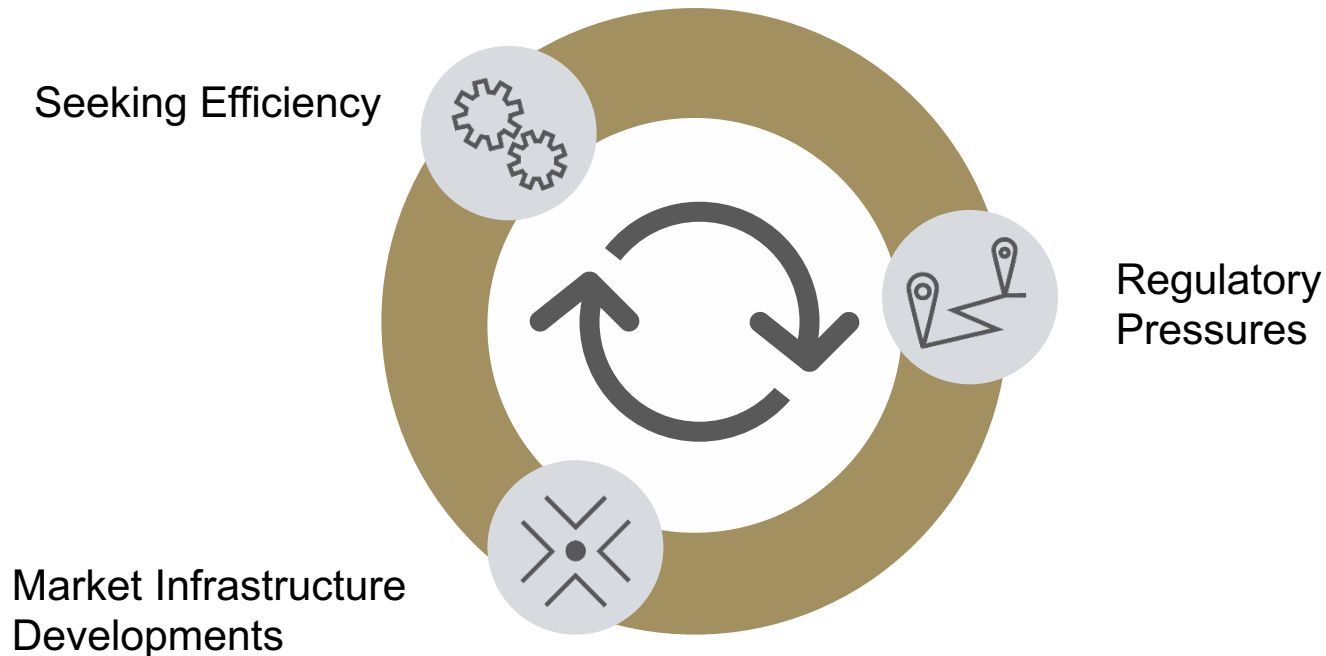


International (excluding US) Collateral Management¹



¹ Data is as of 30 June 2016 and reflects the collateral assets serviced through BNY Mellon's non-US global programme.

Evolution of Tri-party Collateral Management

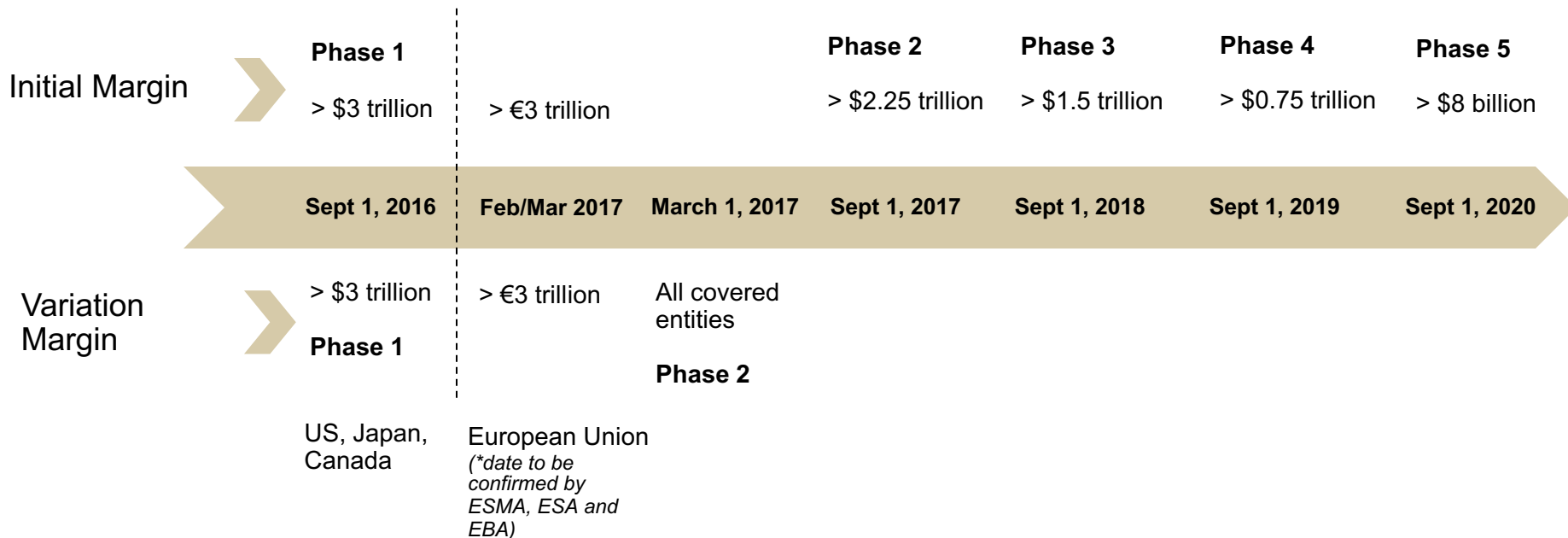


The move to the tri-party model continues as a means to aggregate suitable collateral, optimise its selection and ultimate allocation. While the use of a tri-party collateral management model was established in support of repo and securities lending, we see a future where collateral in a tri-party model is used to cover a range of exposures (cross-product tri-party).

Implementation Timeline: New Non-Cleared Derivatives

Summary of the Implementation Timeline for the Margin Requirements for Non-Centrally Cleared Derivatives

Covered entities belonging to a group whose aggregate average notional amount of non-centrally cleared derivatives exceeds:



Note: Applies to financial counterparties and non-financial counterparties above the clearing threshold (NFC+). Non-financial counterparties below the clearing threshold (NFC-) are exempt. An NFC will be above the clearing threshold if its gross outstanding notional exceeds any of the following asset bucket thresholds: EQD & CDS: €1bn; IRD & FX: €3bn; or Commodities & Other: €3bn.

Source:

- BCBS IOSCO March 18th Press Release
- Requirements on initial margin only apply to new contracts entered after September 1, 2016
- US: As of January 6, 2016: <http://www.cftc.gov/idc/groups/public/@lrfederalregister/documents/file/2015-32320a.pdf>

Initial Margin Segregation for Non-Cleared Derivatives

Observations Post Phase 1

Timing

Ensure you develop a suitable project plan with enough time to complete all that is required. There is perhaps more to complete than you might expect.

1



Legal Work

Legal documentation is varied and can be complex requiring bilateral and tri-party related agreements.

2



4



Resources

It may take significant people, time and technology to complete all work required. Do not underestimate what is involved.

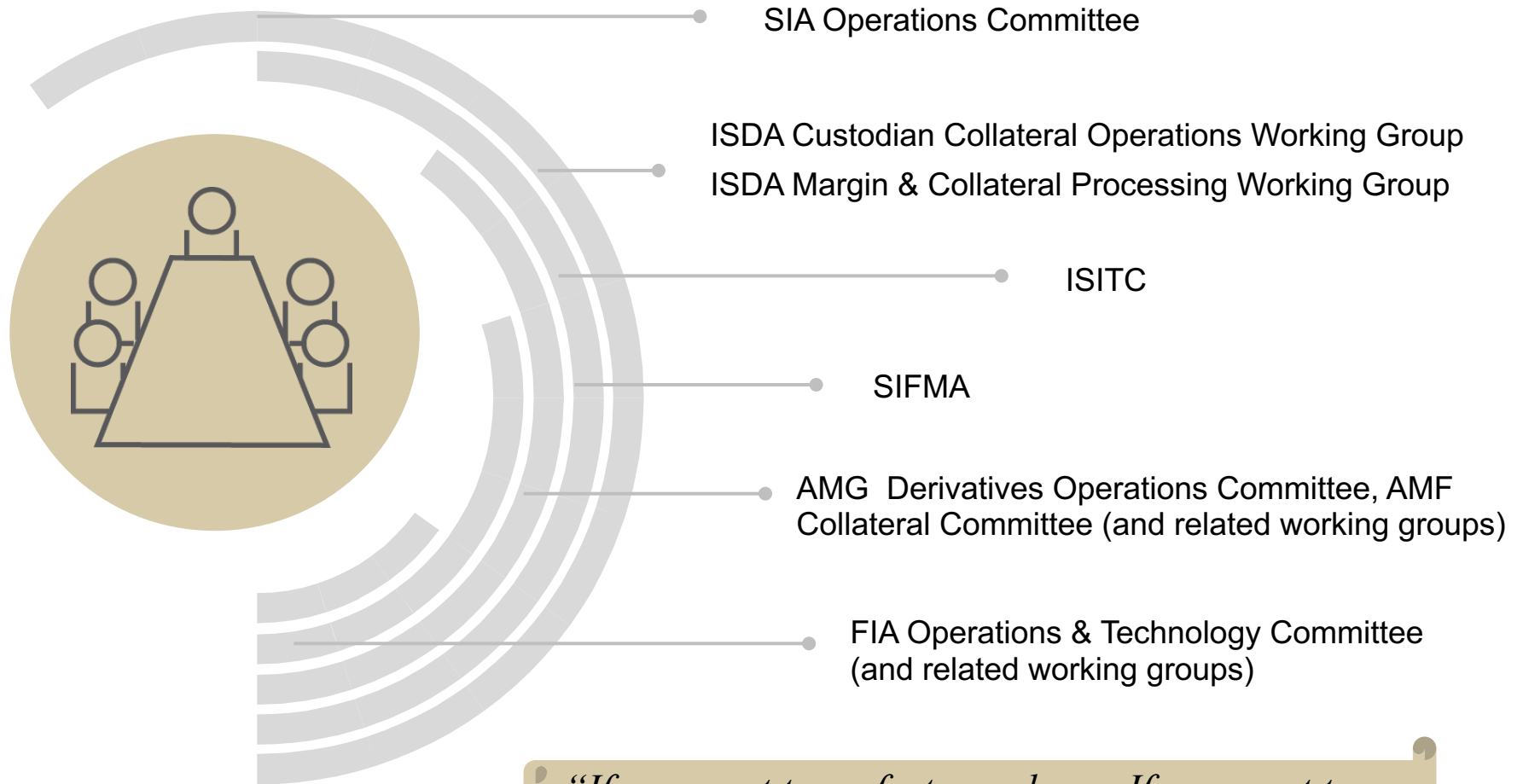
3



Governance

Oversight of the full project requirements, not just individual components.

Industry Working Groups



“If you want to go fast, go alone. If you want to go far, go together”

- African Proverb

The Rise of the Central Counterparty

CCPs for ETD and OTC derivatives

- Increasingly mandated
- Available globally
- Multi-product
- Collateral in cash and non-cash forms

CCPs for Repo

- Established in Europe as a sell-side to sell-side platform
- Limited providers
- Collateral in non-cash form

CCPs for Securities Lending Borrowing

- Under development in Europe
- Accessible for buy and sell side
- Collateral in non-cash form

Tri-party Connected to Market Infrastructure

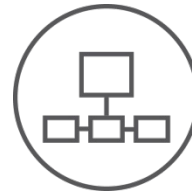
Collateral Provider



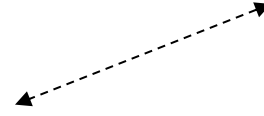
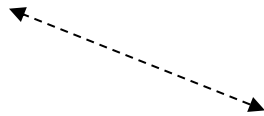
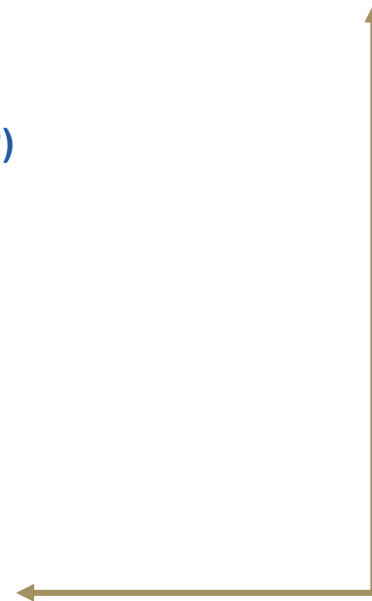
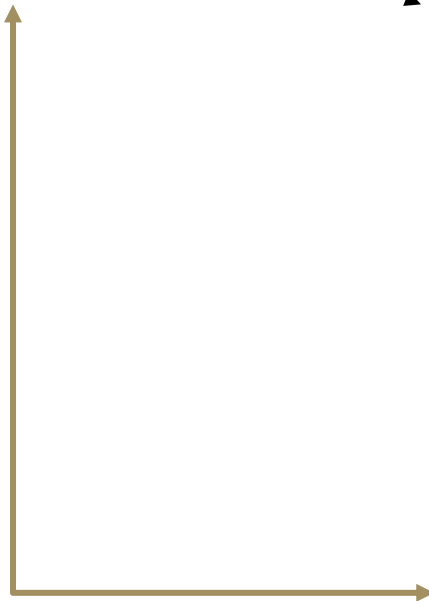
Collateral Receiver



Central Counterparty (CCP)

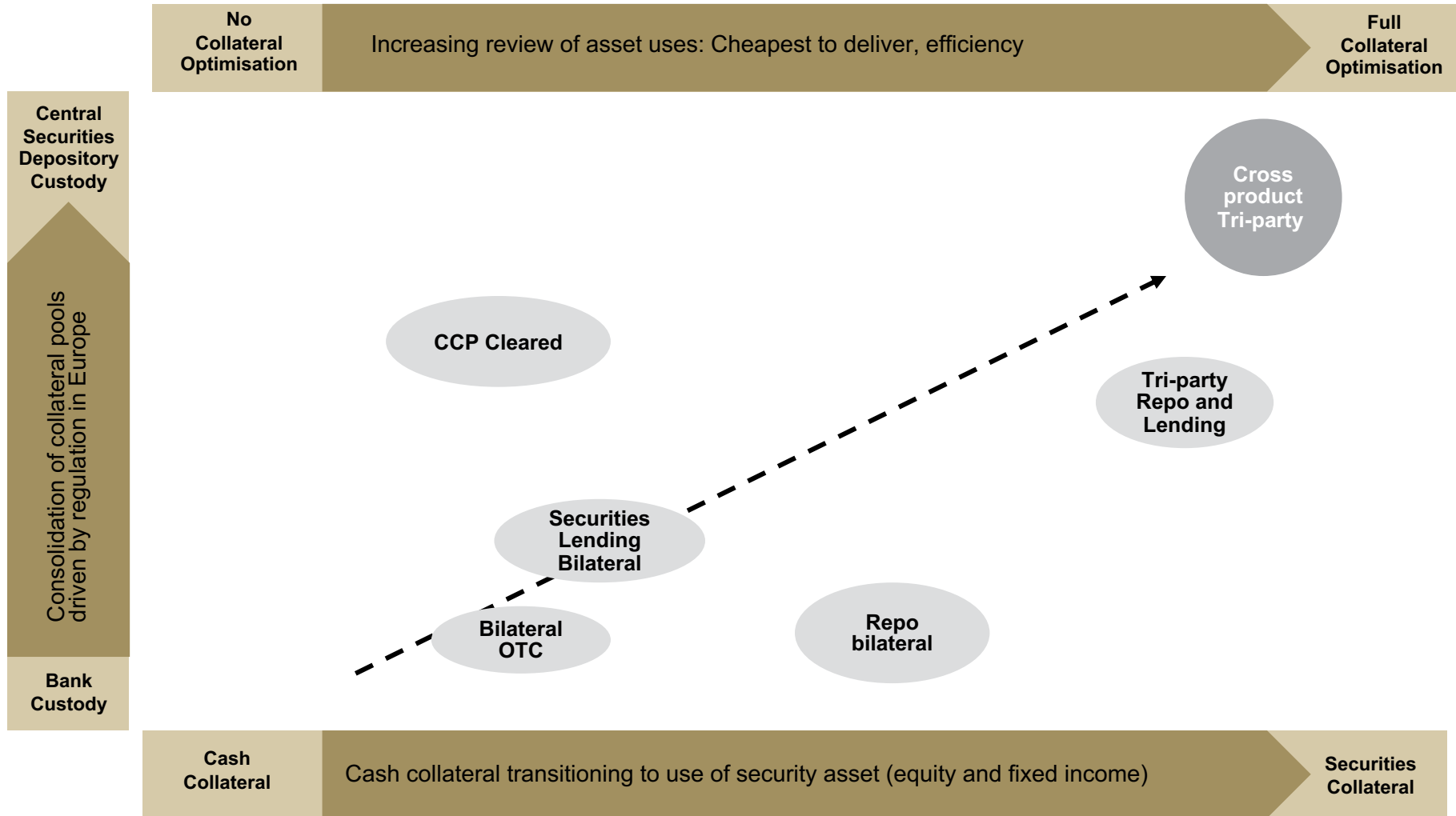


Non-Cash Tri-party Collateral Manager



— Non-cash collateral
- - - Transactions

Evolution of Tri-party Collateral Management



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