SECURITIESLENDINGTIMES

Annual**Report** 2014
Collateral Management

So It Flows

Where does collateral come from?

CCPs And Me
Want and need

Balance Sheet
Reacting to regulatory change

BCBS/IOSCO
The impact on collateral

Be The Best
Beneficial owners must stay informed



4SIGHT XPOSE COLLATERAL MANAGEMENT SOFTWARE

- Boost revenues by optimising your Collateral usage
- Centralise Collateral Management across business lines
- Turn Collateral Management from back office function into front office trading tool.

4SIGHT
FINANCIAL SOFTWARE

For further details visit
www.4sight.com

A unique CCP for securities lending.

Another "first" from Eurex Clearing.

As one of the world's leading clearing houses, Eurex Clearing has always been an innovator in post-trade processing and risk management.

We were one of the first electronic, cross-border CCPs. And we were first to offer real-time risk monitoring.

Now we're pioneering the securities lending market with a unique, fully-integrated CCP service:

- Combining the flexibility of the special bilateral relationship structure of the market with the safety and efficiency of a CCP.
- Providing innovation with a Specific Lender License that enables Beneficial Owners to participate as Clearing Members of Eurex Clearing without a margin obligation.

So you can realize capital and operational efficiencies while counterparty risk is mitigated. And everyone stays clear to trade.

www.eurexclearing.com

Or follow us on Twitter @EurexGroup

Now available: CCP service for securities lending

eurex clearing

CCPs, securities lending and collateral management

Gerard Denham of Eurex Clearing explains the unique characteristics of its CCP that give key advantages for participants within the securities finance value chain

A central counterparty (CCP) plays an important role in the global effort to maintain stability in financial markets. At Eurex Clearing, we recognise our responsibility to help mitigate systemic risks of the overall marketplace. We manage financial crisis effectively, not least because we have robust procedures in place to deal with a clearing member default and were prepared to act when the need arises. We maintain our readiness to act in similar situations by continuously enhancing our risk management techniques and introducing innovative product offerings that increase the safety and reliability of the markets served.

Eurex Clearing ranks as one of the largest clearinghouses globally, offering fully automated, straight-through CCP and post-trade services for derivatives, equities, bonds, secured funding, and securities financing. The Lending CCP covers international fixed income assets and European equities as well as exchange-traded funds (ETFs). It preserves the key features of the current bilateral market for both lending and borrowing counterparties while being able to deliver significant operational efficiencies and cost reductions to all market participants.

In light of the current market conditions and the advancement of the Lending CCP, the development of our CCP service for the securities lending market has resulted in major market players participating to the service.

Enhanced collateral and risk management

One of the core functions of a CCP is to minimise the counterparty risks and the credit exposures for the individual market participants. For the securities lending market, the Lending CCP reduces the potential secondary effects of the failure of a major counterparty as the impact is mitigated and absorbed by the CCP's protections.

As part of the service, Eurex Clearing's Lending CCP—after novation—becomes the guarantor of the loan and collateral securities, and as such, is offering the protection from counterparty default. Securities lending transactions are incorporated into Eurex Clearing's risk management methodology, which provides a robust and safe environment leading to an overall reduction in systemic risk for the market. The Lending CCP undertakes near-time intra-day risk calculations to ensure coverage of mark-to-market exposure, and in case of collateral shortfalls, intra-day margin calls are initiated.

Also included into the offering are the services of triparty collateral agents. These specialist service providers are connected to the Lending CCP in order to manage the collateralisation process for non-cash collateral on behalf of the counterparties. This enables users of those triparty collateral agents to optimise their collateral usage to a further extent by adding CCP-novated loans. A wide range of equity and fixed income securities are accepted as loan collateral by Eurex Clearing while the beneficial owner can still define its own collateral eligibility (as a subset of the CCP's collateral universe). The lender can re-use the non-cash collateral securities received according to the rules and regulations of the triparty collateral agent and the borrower still has the ability for the substitution of collateral.

Capital cost efficiencies for the market

In addition to the increase in the liquidity for the market, there are a number of features that market participants are able to benefit from when using the Lending CCP. Globally, banks are now facing the very real demands of capital regulatory directives and liquidity capital ratios. Bank's risk weighted averages are being pressurised by the type and level of activities that they are currently engaged in.

Under existing Basel II regulations, there is a 0 percent risk weighting for transactions cleared via a CCP. When new Basel III regulations start to take effect, the existing over-the-counter transactions will face much higher stringent capital charges than the 2 percent charge that will be applicable for exposures towards a qualified CCP. This enables our clients to make use of centrally cleared transactions to free-up capital currently used for securities lending transactions and optimise their use of capital across other business lines.

Extensive advantages of the Lending CCP

Increased operational efficiency is realised through the automated flows between the trade capture, clearing, and settlement platforms that the Lending CCP includes. In particular, links to leading service providers for the securities lending market have been incorporated with triparty collateral agents, electronic trading markets and real-time post-trade automation service providers.

The Lending CCP is instrumental in achieving a strong and robust securities lending franchise and facilitates a cost-effective structure to improve and optimise securities lending activity through:

- Enhanced efficiency and safety for the entire marketplace;
- An increase in supply to the market, improving liquidity;
- Standardised and transparent risk and collateral management methods;
- Improved efficiencies on trading and operations of securities lending transactions;
- Reduction of the overall legal and documentation workload;
- Integrated cross-product service offering—netting of regulatory capital across all cleared products;
- Collateral efficiency—a wide range of customised choice on collateral eligibility paired with re-use capabilities; and
- Capital efficiency—0 percent weighting under Basel II, 2 percent weighting under Basel III.

> "A wide range of equity and fixed income securities are accepted as loan collateral by Eurex Clearing"

The Lending CCP has been established to meet the new demands of the securities financing markets, further reducing credit and systemic risk, and further increasing operational efficiencies while maintaining important bilateral market characteristics.

As we fulfill the ongoing commitment of safeguarding the marketplace, we continue to play an important role in helping the financial markets deliver their full economic benefits, thereby ensuring that our customers are always in a position to be clear to trade. **SLT**



Gerard Denham
Senior vice president, clients and markets responsible for securities lending
Eurex Clearing