

DTCC



GlobalCollateral

# A Global Collateral Infrastructure for a New World

The volume, frequency and costs of margin calls are expected to rise substantially over the next several years as regulatory requirements take effect calling for increased levels of high-quality collateral to be exchanged between counterparties. At the same time, firms need to broaden the funding of non-liquid assets. Together, these forces are heightening the operational risks attached to manual, non-standardized collateral management processes and spurring the need for increased global mobility of collateral assets.

The challenge for market participants around the world: to optimize liquidity and simplify their collateral management and settlement activities.





## Pioneering Solution

Through DTCC-Euroclear GlobalCollateral Ltd. (**GlobalCollateral**), the industry is responding to this challenge. GlobalCollateral streamlines collateral management and securities financing on a global basis with a suite of processing services delivered across a scalable, open-architecture platform. Leveraging the capabilities of DTCC and Euroclear, two of the world's largest post-trade infrastructures, GlobalCollateral facilitates more efficient margin settlement, automates collateral monitoring and assists collateral movement – thereby boosting operating efficiencies for market participants and supporting their ability to meet regulatory requirements in relation to the exchange of collateral between counterparties.

## Industry Collaboration, Trusted Providers

GlobalCollateral's multi-service platform, open to all market participants, was built in collaboration with the company's stakeholders across the dealer, buy-side, custodian and clearing house communities to foster standardized, utility solutions for collateral management.

Its industry advisory groups help shape GlobalCollateral's development and enhancement of service offerings for collateral monitoring and mobility and margin processing and settlement. Continuous dialogue with market participants ensures that GlobalCollateral addresses firms' priorities and that service features and functions are well vetted and tested before rollout.

Industry-owned and governed, GlobalCollateral's joint venture partners DTCC and Euroclear put clients' interests first in developing the technology and services firms need to manage their collateral processes efficiently and effectively.

# Average Annual Costs of Collateral Management:

## Sell-Side Market Participant

**260%**  
INCREASE



**US\$ 26.6 Million**  
by 2020 on collateral management operations and infrastructure, up 260% from 2015.<sup>1</sup>

**377%**  
INCREASE



**US\$ 2.4 Million**  
by 2020 to remedy collateral settlement fails, up 377% from 2016.<sup>2</sup>

## Buy-Side Entity

**470%**  
INCREASE



**US\$ 3.6 Million**  
by 2020 to remedy collateral settlement fails, up 470% from 2015.<sup>2</sup>

<sup>1</sup>Collateral Management 2.0: Preparing for OTC Derivatives Margin Regulation and Beyond, 2016. Report prepared by PwC on behalf of DTCC-Euroclear GlobalCollateral Ltd.

<sup>2</sup>Implications of Collateral Settlement Fails: An Industry Perspective on Bilateral OTC Derivatives, 2016. Report prepared by PwC on behalf of DTCC-Euroclear GlobalCollateral Ltd.



## Flexible, Scalable Solutions

The GlobalCollateral platform sits between upstream and downstream activities across the collateral management lifecycle, enabling firms to utilize GlobalCollateral processing solutions, together or individually, to streamline their margin and collateral functions.

GlobalCollateral's suite of solutions includes:

### Margin Transit Utility (MTU)

*Straight-through processing for settlement of margin and collateral for dealers and buy-side firms*

MTU acts as a conduit from the point of agreement of a margin call through settlement and standardizes inputs and outputs to the middle and front office. MTU can reduce the cost and operational risks of margin-call processing by securely capturing settlement instructions and improving visibility and consolidating status updates. MTU provides a consolidated view of a client's margin call and settlement activity across counterparties, custodians and triparty providers.

The collateral settlement process begins when both counterparties agree on the margin call amount and either the counterparties or the triparty provider allocate the collateral.

In a bilateral arrangement, the counterparties agree to the margin amount and affirm the collateral to be posted/received via AcadiaSoft. Then a pledge accept message is sent from AcadiaSoft to MTU where it:

- Validates the collateral message from the matching source,
- Enriches the SWIFT-formatted message with ALERT collateral settlement instructions and sends it to the parties responsible for settlement,
- Delivers settlement confirmation to counterparties, and
- Provides status updates including exceptions and rejections.

Where both counterparties use a triparty collateral service provider to optimize their collateral management and one or both counterparties use MTU, MTU provides one or both firms with consolidated reporting. After the counterparties agree to the RQV (Required Value):

- MTU consumes the RQV and shares it with the respective triparty provider on behalf of one or both counterparties (pledgor and/or pledgee),



- The triparty provider processes the collateral settlement and sends a SWIFT-formatted status update to MTU, and
- The status update can be viewed by either or both counterparties in the MTU GUI or sent to the MTU user's collateral management system via an XML-format SWIFT ISO message.

*MTU provides **real-time access** to settlement and fail updates and removes the need for firms to build IT connections to each of their custodians and counterparties.*

*MTU's **triparty messaging** feature gives clients a consolidated view of its triparty collateral allocation processing activity without building to multiple, agent-specific messaging standards.*



## Collateral Management Utility (CMU)

*Optimizing collateral to better manage liquidity and capital*

Built on Euroclear's Collateral Highway services, CMU enables the global management and optimization of collateral. CMU has two components, Inventory Management Service (IMS) and Collateral Management Service (CMS).

### Inventory Management Service (IMS)

*Expediting collateral mobility*

Regulatory-driven liquidity requirements that push firms to fund less liquid assets on a longer-term basis along with ongoing pressure to reduce costs are causing the demand for global asset mobility to soar. IMS responds to this demand by automating the movement of US Treasury Bills, asset-backed securities and equities from firms' Depository Trust Company (DTC) accounts into the global funding markets via Euroclear's triparty platform. This cost- and operationally- efficient solution facilitates firms' cross-border optimization of assets for use as margin collateral on a broad spectrum of exposures.

*IMS delivers **seamless access to new pools of liquidity in Europe** through the mobilization of DTC assets as collateral in the Euroclear Bank triparty environment.*

### Collateral Management Service (CMS)

*Mobilizing assets for financing and margin*

CMS automates the collateralization of exposures, whether for derivatives margin, repos or securities lending for DTC-eligible and Fedwire-eligible assets. The CMS offers increased operational efficiency, across transactions and exposure types with detailed reporting in real time and is a fully open infrastructure that allows firms to settle collateral movements across settlement locations, including DTC and global custodians.

CMS performs the following key functions:

- Provides a central repository of collateral profiles agreed by counterparties
- Collects, validates and maintains exposure details in real time
- Monitors collateral allocated to counterparties, checks collateral eligibility, value and thresholds, and provides options for automated selection and substitution of collateral
- Generates settlement messages and monitors the processing of collateral movements
- Delivers real-time reporting that provides a consolidated view of exposures and collateral positions

*CMS **transforms collateral management** processing for OTC derivatives and financing markets.*

## **About DTCC**

With more than 40 years of experience, DTCC is the premier post-trade market infrastructure for the global financial services industry. From operating facilities, data centers and offices in 16 countries, DTCC, through its subsidiaries, automates, centralizes and standardizes the processing of financial transactions, mitigating risk, increasing transparency and driving efficiency for thousands of broker/dealers, custodian banks and asset managers. Industry-owned and -governed, the firm simplifies the complexities of clearing, settlement, asset servicing, data management and information services across asset classes, bringing increased security and soundness to financial markets. In 2016, DTCC's subsidiaries processed securities transactions valued at more than U.S. \$1.5 quadrillion. Its depository provides custody and asset servicing for securities issues from over 130 countries and territories valued at U.S. \$49.2 trillion. DTCC's Global Trade Repository maintains approximately 40 million open OTC positions per week and processes over one billion messages per month. To learn more, please visit us at [dtcc.com](http://dtcc.com) or connect with us on LinkedIn, Twitter, YouTube and Facebook.

## **About Euroclear**

Euroclear group is the financial industry's trusted provider of post-trade services. At the core, the group provides settlement, safekeeping and servicing of domestic and cross-border securities for bonds, equities and derivatives to investment funds. Euroclear is a proven, resilient capital market infrastructure committed to delivering risk mitigation, automation and efficiency at scale for its global client franchise.

The Euroclear group includes Euroclear Bank – which is rated AA+ by Fitch Ratings and AA by Standard & Poor's – as well as Euroclear Belgium, Euroclear Finland, Euroclear France, Euroclear Nederland, Euroclear Sweden and Euroclear UK & Ireland. The Euroclear group settled the equivalent of EUR 655 trillion in securities transactions in 2016, representing 196 million domestic and cross-border transactions. In the first half of 2017, the group held EUR 28 trillion in assets for clients.

For more information about Euroclear, please visit [Euroclear.com](http://Euroclear.com).

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## About GlobalCollateral

DTCC-Euroclear GlobalCollateral Ltd. (**GlobalCollateral**) is a joint venture between DTCC and Euroclear, two of the world's largest post-trade infrastructures, authorized and regulated by the Financial Conduct Authority (Financial Services Register number: 686269). An open-architecture infrastructure designed to streamline collateral processing globally, GlobalCollateral provides both OTC derivatives and financing solutions that deliver transparency, collateral mobility, efficiency and security through two powerful utilities:

**The Margin Transit Utility:** enabling straight-through processing of margin calls and providing improved liquidity and operational risk management.

**The Collateral Management Utility:** automating collateral management tasks, repositioning inventory seamlessly across settlement locations, making collateral available wherever and whenever it is needed.

To learn how you can utilize GlobalCollateral services, please contact us [here](#) or at [globalcollateral@dtcc.com](mailto:globalcollateral@dtcc.com). For additional information about GlobalCollateral, please visit [GlobalCollateral.net](http://GlobalCollateral.net).

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