

GlobalCollateral: Margin Transit Utility

The wave of financial reforms affecting derivatives markets is driving up margin call volumes. Margin call activity over the next few years is estimated to rise as much as 1,000%¹, straining existing processing infrastructures. Through automation, the Margin Transit Utility (MTU) will help buy-side firms meet this operational challenge.

Mandatory central clearing for OTC derivatives along with requirements for margining of non-cleared derivatives are driving the surge in margin calls across the industry. This activity in turn is straining the capacity of traditional manual systems to process and settle margin and collateral, making settlement fails and bottlenecks more likely.

Margin Transit Utility (MTU) is a comprehensive, straight-through industry solution that automates and streamlines the processing and settlement of margin and collateral for dealers and buy-side firms.² Developed and offered by DTCC-Euroclear Global Collateral Limited, a joint venture between DTCC and Euroclear, MTU reduces risk and costs for market participants by securely capturing settlement instructions, accelerating processing velocity, improving visibility and consolidating reporting.

MTU acts as a conduit from the point of agreement of the margin call through settlement and standardizes most inputs and outputs to the middle office. By eliminating many manual touch points, MTU lessens the operational complexity and hence the operational risk of margin-call processing.

Benefit from a scalable processing and settlement utility

MTU standardizes the margin process for OTC derivative transactions, cleared and non-cleared, and for other marginable products. MTU delivers the following benefits:

Risk Reduction

- Reduced counterparty risk from uncollateralized exposures by decreasing fails and access to real time settlement confirmations
- Reduced operational risk due to the elimination of faxes, emails, telephone calls, and other manual processes
- Increased transparency and a comprehensive view of risk exposures to support risk and crisis management
- Reduced compensation claims and credit overage costs resulting from a decrease in fails

Operations and Systems Cost Reduction

- Common infrastructure that eliminates the need for redundant systems and processes

Financing Cost Reduction and Balance Sheet Savings

- Lower funding costs resulting from increased transparency and improved settlement certainty

Increased Scalability, Capacity and Production

- Greater scalability and capacity to handle rising collateral demands caused by market and regulatory changes
- Increased capacity to handle volatility of funding requirements and margin call processing in times of stress

¹ DTCC's "Trends, Risks and Opportunities in Collateral Management" white paper, January 2014

² The launch of MTU services by DTCC Euroclear Global Collateral Limited is subject to regulatory approval.

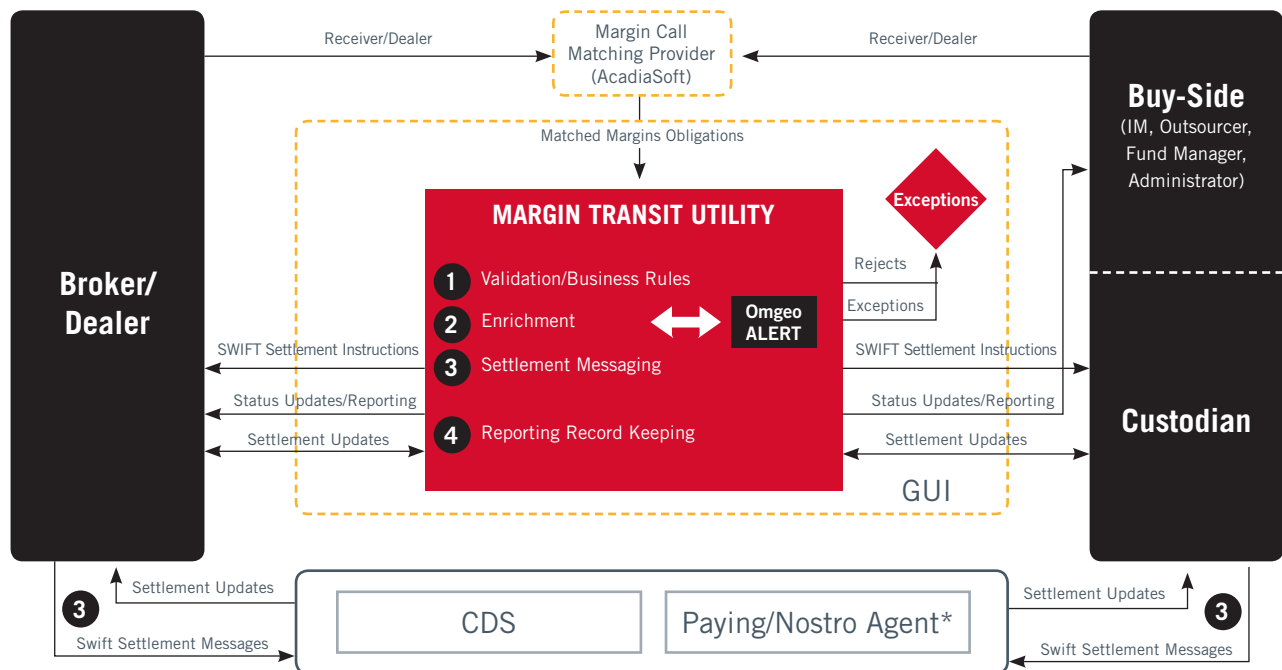
How It Works

MTU automates, standardizes and optimizes a previously fragmented and manual “collateral settlement processes”, thereby minimizing risk while improving efficiency. MTU provides straight-through processing (STP) over the collateral processing lifecycle, from the agreement of the margin call through to settlement. MTU’s four stages of processing are as follows:

1. **Validation of matched margin call details** – Upon receipt of a matched call message from a matching provider, MTU validates that the message can be processed.
2. **Enrichment of margin call messages with Standard Settlement Instructions (SSIs)** – MTU enriches the settlement transfer to include SSIs from Omgeo ALERT for cash and securities globally.

3. **Communication of settlement messages and settlement statuses** – Using standard ISO instructions, the MTU transmits the enriched settlement instruction messages to the custodians and broker dealers who then settle the collateral with the appropriate CSD/paying agent. The MTU will then receive the settlement statuses back from the custodian and/or broker dealer and report that status back to the counterparties so each client knows the collateral has settled.
4. **Collateral reporting** – MTU provides and stores information on the margin call, collateral messages and the margin call settlement status.

MTU Workflow Overview



* Settlement Updates may be directed to MTU directly from Paying Agent/ Nostro Agent (for cash)

Working with the industry

Who better to help the industry rise to its operational challenge than DTCC and Euroclear, the joint-venture partners behind GlobalCollateral? GlobalCollateral draws from its parent companies' expertise and strong track records in processing large volumes of time-critical transactions in a safe, efficient, regulated environment.

Based on input from broker-dealers, buy-side firms and custodians, GlobalCollateral designed the MTU to address the industry's need for

a scalable solution to streamline the processing and settlement of margin calls and collateral. Speak to GlobalCollateral and discover the opportunities its infrastructure offers to improve transparency, efficiency and security.

For more information regarding this service, please contact: solutions@dtcc.com