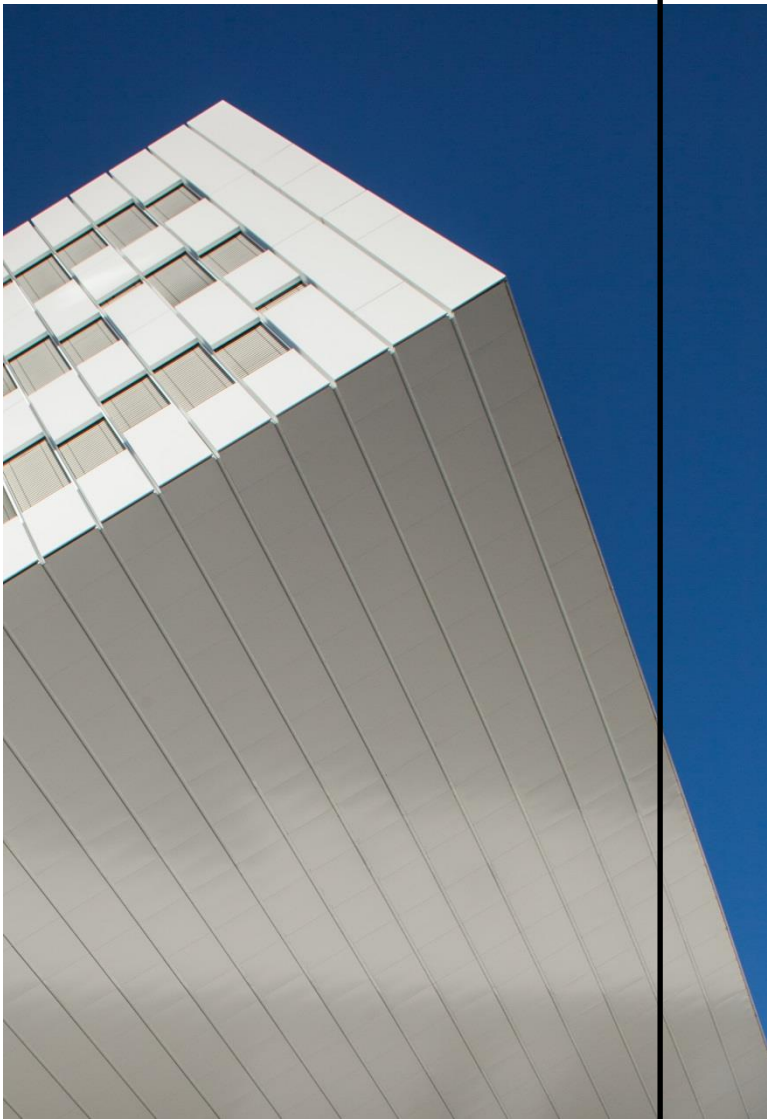


COLLATERAL MANAGEMENT



CAPCO

White Paper





COLLATERAL MANAGEMENT

The right collateral management solution realizes the synergy between processes, assets and tools. Having the right processes, assets and tools is critical to every firm's core collateral operations. Capco is well positioned to provide this synergy to realize the full capabilities of a global collateral management solution.

Industry challenges

During a recent survey of our clients, Capco determined that the three largest business challenges in the collateral management space were:

1. Managing global regulatory requirements and operational readiness for a shifting industry
2. Cross-firm and cross-product collateral optimization, requirements
3. The cost burden of suboptimal processes and models.

Collateral operations at some firms are archaic and in some cases need a major overhaul. Analyzing the state of the industry, the challenges listed above and the emerging trends helped us identify a classification of industry challenges that can be readily addressed by our consulting teams:

- **Readiness** – Significant changes brought by new regulatory requirements (e.g., MIFID 2, UMR, etc.) create operational readiness challenges. To tackle this, firms will need to redefine operating environments and structures to create a more responsive organization.
- **Optimization** – Siloed approaches make cross-product collateral optimization a challenge. To ensure the cheapest collateral is allocated in the most efficient manner, firms must create a single cross-asset collateral pool.
- **Coverage** – Challenges in managing cross-jurisdictional boundaries and legal entity requirements result in a need for firms to realign their booking models between jurisdictions and legal entities.
- **Data Processing** – Incorporating legacy agreements, as well as regulations into algorithms/modeling presents challenges. A centralized alignment for model attributes, data processing, and reporting needs, including documented model methodologies is highly recommended.

- **Automation** – Firms’ archaic systems rife with manual processes increase the complexity in activities such as substitution and securities lending, thus preventing the automation of capital allocation. Firms must develop automated systems and seek vendor partners and tools that maximize collateral activity and optimization.
- **Governance** – A lack of consistent overarching governance on optimization and collateral cost measurement prevents an efficient inventory and allocation. Firms should introduce governance to effectively determine and measure collateral cost index and cost of business.
- **Solution Selection** – Firms face a challenging decision: use a vendor solution or an internal build? External solutions can sometimes bring faster speed and better features compared to in-house solutions. Conversely, in-house solutions provide a greater level of customization and competitive advantage if designed and implemented correctly.

With Capco’s experience and expertise, we can provide insights, recommendation, implementation and execution help across each of these seven areas, with a 360-degree view of people, processes and technology.

“ We enable practical solutions to the multifaceted challenges the industry faces today. “

Efficiency really matters

Enhanced collateral operational efficiency maximizes realized value. An assessment methodology for collateral management platforms – which includes an evaluation on multiple dimensions of collateral management, such as collateral processes, regulatory compliance, reporting, global cross-business alignment, dispute resolution and risk management – is critical to correctly assess the capabilities of a firm. Capco has a verified methodology to determine a firm’s collateral maturity model.

A firm at the very **Basic** level of operational efficiency has limited coverage (e.g., securities lending). Risk calculations are simple with manual workflows and manual client reporting.

When the firm achieves additional coverage, improved valuation and risk calculations, including T-1 marks and mark-to-market and add-on exposure calculations, cross-product netting per entity, increased STP and improved client reporting, we assess their capability as **Enhanced**.

The **Efficient** level improves with increased coverage, valuation and risk calculation sophistication, full STP, workflow efficiency and client statement simplicity.

The end goal for a firm is the **Optimized** level of operational efficiency that comprises of full product coverage (ETFs, equities, and letters of credit) and full balance sheet coverage for collateral optimization. Trades are valued in real-time.

Exposure would be calculated with enhanced modelling from risk in real-time, cross-product netting and aggregation, and real-time assessment and management across parent entities. Risk-weighted assets (RWA) would be handled through a revenue sharing model, the front office and financing and auto booking . The streamlined workflow includes automated messaging actions and STP for call entry creation through settlement. As a result of these processes, clients see a single, simplified view.

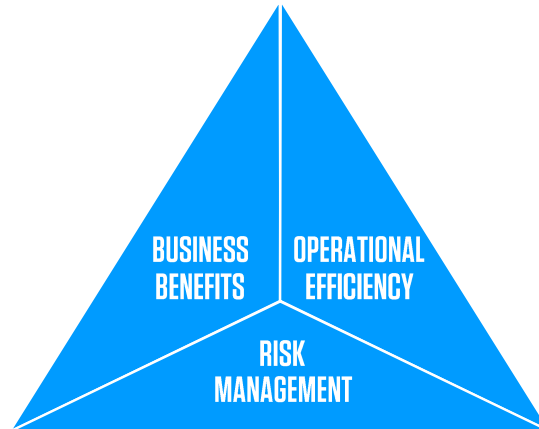


Figure 1. Our point of view

As the firm advances across the maturity model, returns are realized on collateral either in the form of lower costs or benefits from efficient lending activities.

However, there is a cost to advancing these processes, and a fully automated solution may not be the right answer for every firm, and it might not be feasible. The key steps to take before fitting a solution to your collateral management requirements are:

- Establishing stakeholder(s) to address global, firmwide collateral management strategy
- Creating a collateral change program, engaging front office, treasury and risk and legal departments
- Breaking down product silos and assessing cross-product views and cross-business views
- Understanding technology infrastructure across product lines, extracting synergies and incompatibilities between various product lines and technologies and identifying best of breed from a process perspective
- Engaging external vendors and internal technology leads to review and establish the best fit for their defined needs.

These steps are necessary and critical before switching to an integrated collateral management model. Capco's experience across collateral management, combining industry knowledge with consulting discipline, uniquely positions us to guide firms from the most basic level of collateral operational efficiency to an optimized state, without losing sight of the firm's real business need for advancement and the spend required for the maturity.

“ It is imperative that firms identify the key steps to a collateral management solution. “

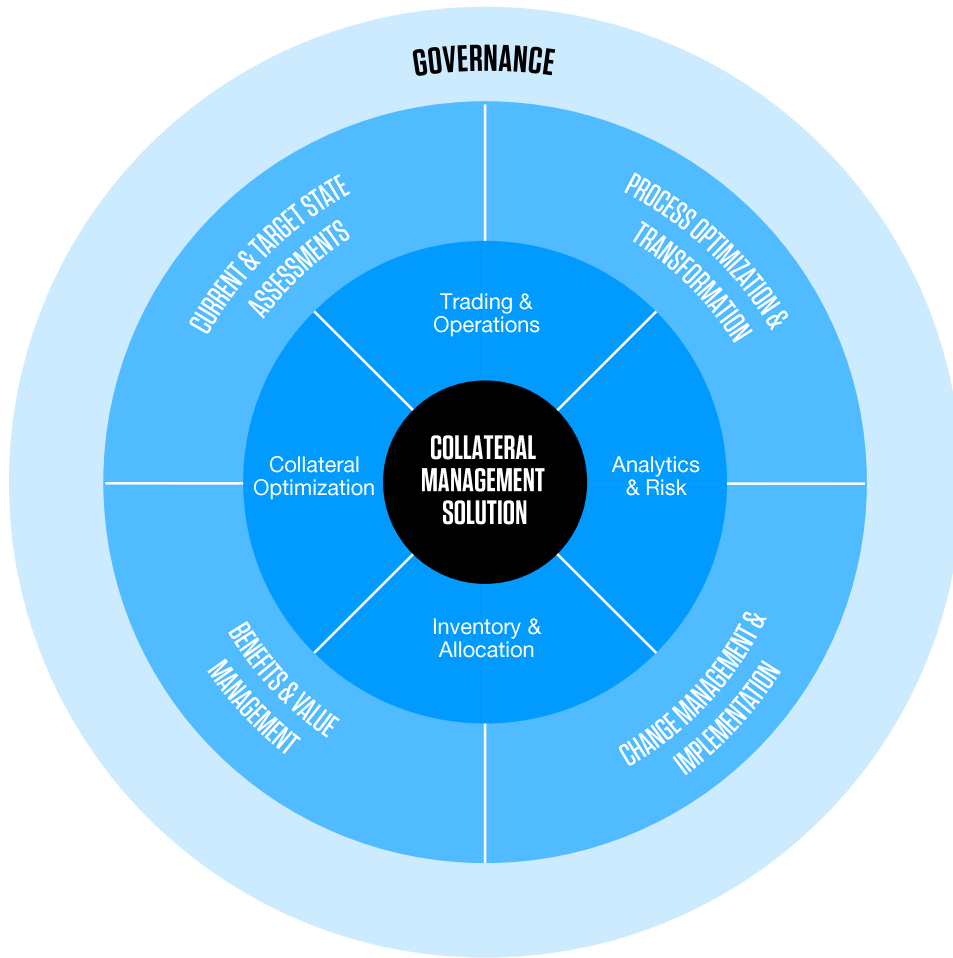


Figure 2. Our offering

Our differentiators

Capco knows the internal and client-facing processes of collateral management. We are:

Focused – From inception, Capco has been exclusively focused on the financial services industry.

Global – Our global footprint enables us to field deep industry expertise in the major financial centers worldwide.

Knowledgeable – Our consultants are experienced professionals and have a unique blend of financial services industry and consulting knowledge.

Innovative – We are redefining the financial services ecosystem as consumer, regulatory and government demands continue to evolve.

Experienced – Our team has skills and experience relevant to financial services strategic priorities, including target operating model development, transformation and implementation planning, data management, analytics, and risk and regulation.

Our solutions

Based on our understanding of a plethora of client challenges and our deep experience in collateral management, Capco has developed highly pertinent services. We recommend these accompany the implementation of a solution from start to end, whether an in-house solution or a vendor platform.

CURRENT AND TARGET STATE ASSESSMENTS

- Provide understanding of the gaps in the current state of collateral operations
- Identify business functions and business model processes to be impacted

PROCESS OPTIMIZATION AND TRANSFORMATION

- Establish transformation office to manage impact of the change from collateral transformation
- Establish governance with clear roles and accountabilities

BENEFITS AND VALUE MANAGEMENT

- Develop a benefits management approach to identify, define, measure and report the benefits realized from the transformation
- Establish a relationship between milestones and the value to business

CHANGE MANAGEMENT AND IMPLEMENTATION

- Transform the target model blueprint into a profitable, compliant business model
- Assess likely impacts on people and minimize the impact of change
- Implement processes and procedures for ongoing change and quality management



AUTHORS

Kavita Sastry kavita.sastry@capco.com

David Oxenstierna david.oxenstierna@capco.com

ABOUT CAPCO

Capco, an FIS™ company, is a global management consultancy with a focus in financial services including banking and payments, capital markets, and wealth and asset management. Our professionals combine innovative thinking with our unrivalled first-hand industry knowledge to offer our clients consulting expertise, complex technology and package integration, and managed services to move their organizations forward. Through our collaborative and efficient approach, we help our clients successfully, innovate, increase revenue, manage risk and regulatory change, reduce costs and enhance control. We serve our clients from offices in leading business centers across North America, Europe, Asia Pacific and Africa.

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To learn more, contact us in the UK on +44 20 7426 1500, in Continental Europe on +49 69 97 60 9000, in North America on +1 212 284 8600, visit our website at CAPCO.COM, or follow us on Twitter @Capco

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1216-01-US

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