

# Collateral Management for Asset Managers

## A managed service to optimise the use of securities collateral

Cash remains investment funds' main asset for meeting collateral obligations. Further liquidity is required to meet investor redemptions and portfolio restructuring. These requirements are the main drivers for liquidity risk management.

Historically, the case for investing in collateral management operations has been weak. With the regulatory push towards centrally cleared OTC derivatives and the increasing flexibility offered by central counterparties with securities as collateral, now is the time for investment managers to re-visit their approach to collateral management.

What else has changed? Outsourcing can reduce the complexity of using securities as collateral, thus reducing the operational investment required. Furthermore, the ability to transform ineligible securities collateral to higher quality eligible collateral can reduce the costs associated with raising cash.

With short term interest rates of many currencies at zero or below, cash held for liquidity purposes has a significant adverse effect on a fund's overall yield. Collateral Management can facilitate an increase in the percentage of a fund's NAV being invested strategically as collateral transformation enables the maintenance of defined liquidity risk profile.

### The business case

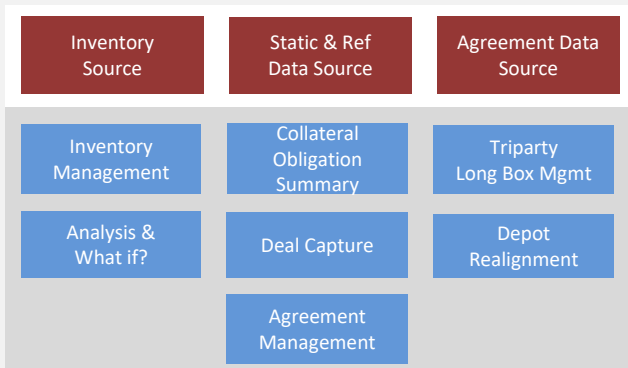
Using securities as collateral reduces the requirement for liquidity. This in turn provides the opportunity to increase strategic investment as percentage of a funds NAV. The worst case scenario is that securities have to be transformed to High Quality Assets such as Government Bonds. The cost of transformation is a fraction of the yield lost if that increase in strategic remained as cash.

### The Delta Capita Service

Delta Capita's approach is to provide an outsourced managed service where the client remains in control of all the key execution exposure management responsibilities, whilst outsourcing the inventory and operational management functions, all executed via a client web portal on the managed service platform (see page 2 for details).

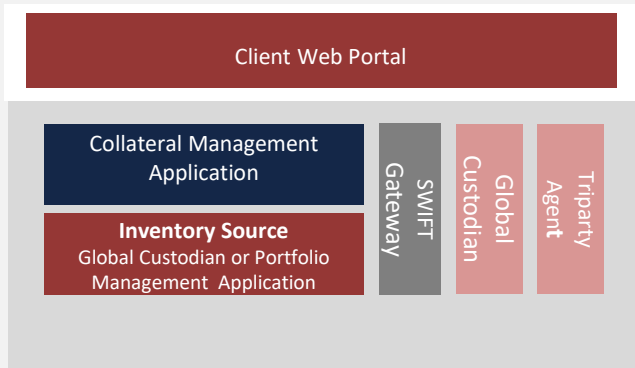
#### Service model overview

Clients retain responsibility collateral selection and exposure decision making but the outsourced managed service provides optimised collateral selection, eligibility matching to collateral obligations and collateral transformation options.

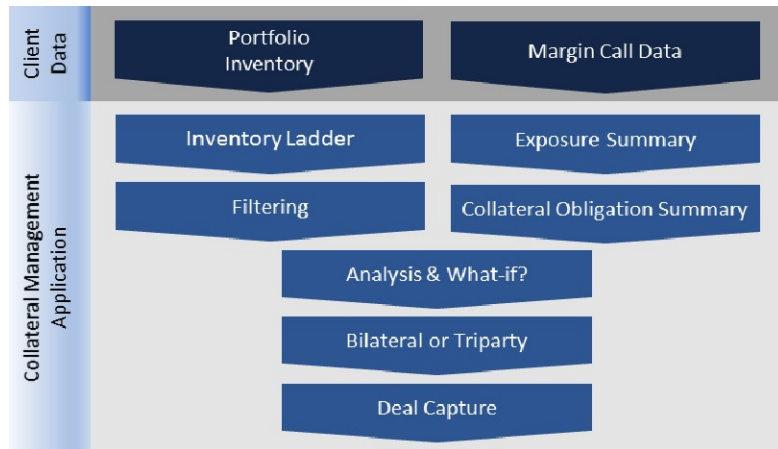


#### Solution architecture overview

Our collateral management managed service application receives inventory and exposure data from the client, processes the data and feeds the results to the client portal. For collateral movements, triparty movements and depot transfers, the application proposes the required instructions via the client portal and prompts the client user to authorise or reject.

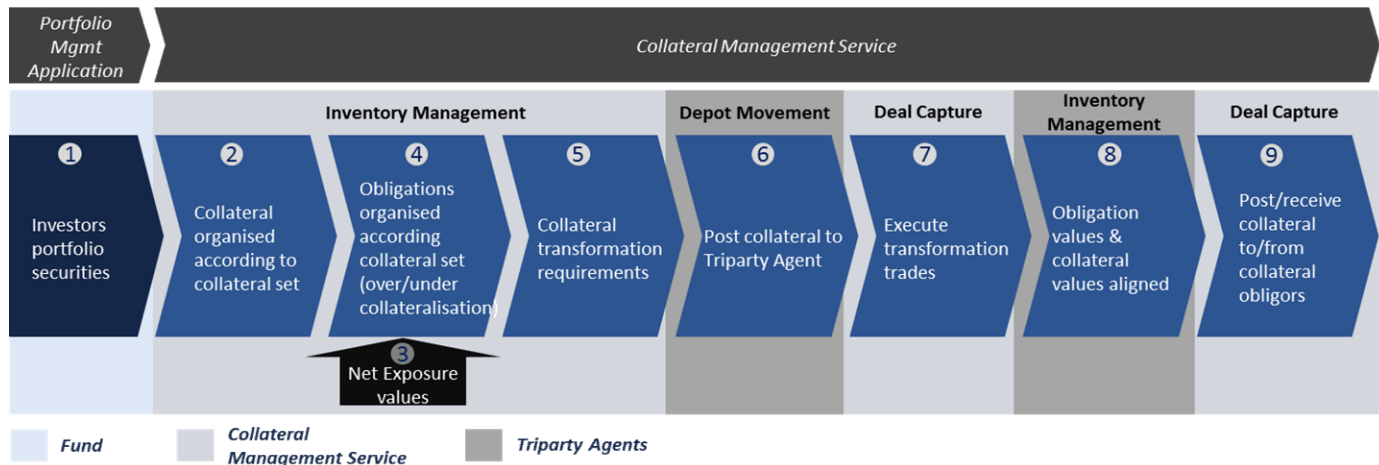


## Required capability for collateral management and optimisation



- View inventory on a time horizon inventory ladder
- Segregate inventory that can be used for collateral from inventory that cannot be used
- Organise and filter inventory by eligible profiles, potentially absorb a move towards collateral set standardisation
- Value inventory and margin calls
- Optimise collateral inventory held vs collateral obligations (cash, bilateral & triparty)
- Determine collateral transformation requirements
- Determine internal (fund to fund) opportunities before seeking external opportunities
- Manage triparty long box efficiently (ensure correct value of eligible collateral is moved to the triparty long box)

## Process view



## Our approach

We focus on the client's requirements tailor the services scope for each client. For example, some client may simply wish to take the Triparty long box manager and retain the agreement and counterparty exposure functionality in-house.

We start with a short advisory approach to agree and document business drivers and requirements. This forms the foundation for creating an appropriate operating model.

Delta Capita has a track record in providing managed services at investment banks and thus maintains the appropriate security controls ensure client data confidentiality and segregation.

## How Delta Capita can help

- Advise by analysing the individual needs of the client based on the current and future OTC derivative and securities finance activities
- Provide and project manage the implementation of a fully integrated inventory and collateral management solution that interfaces with the portfolio management application and the custodian's SWIFT messaging system
- Provide a secure fully managed bespoke outsourced service option with reporting portals to give transparency on eligibility adherence
- Integrate the service with client's platforms. Main integration points are the receipt of the client's securities inventory, agreement data, reference and market data

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