



FACE TO FACE

Global view

Nadine Chakar was in January appointed global head of BNY Mellon's Derivatives360SM business, which spans the entire life of a derivatives transaction. She explains how the business is developing and offers her reaction to regulatory reform



What within Emir and Dodd-Frank are you most concerned about?

The biggest concern – and you are hearing this from around the industry and with clients – is that it is still a train in motion. We are all on the autobahn and we are changing the tyres at the same time.

The uncertainty of the change is what is concerning to clients. There is a lot of infrastructure change that needs to be addressed. Our clients are clearly concerned whether their own infrastructure is going to allow them to comply with a lot of the risk and operational parameters, such as multiple margin calls in a day and working with clearing brokers. Where this may have been a one-to-one relationship in the past, now it is a many-to-many cleared environment relationship. Under that scenario, the volume of in-house operational work increases dramatically, which is a big concern to them.

We have seen a lot of hedge funds turning to us to help retool their middle and back offices to support those types of changes. There is also the broader industry concern around liquidity and how deep the liquidity pools will be. All the experts are projecting a client shortfall that could be between \$2trn and \$5trn. This is a staggering number for the markets even if it turns out to be half of what's projected. Liquidity pools must be deep enough to support the changes.

Unintended consequences are also a concern to our clients. There is a lot for them to worry about, but I would say that over time these regulations will mature and they will eventually serve the purposes

they were created to address – which is to reduce systemic risk in the markets as well as to increase transparency.

Like anything in life, change can be painful at first. The market is going through that pain right now. There will probably be a lot more to go. Hopefully, in five years or so when we all look back at these systemic changes it will be notable as the moment when the markets became more transparent and harmonised. That is the end-game, but it surely takes expertise and guidance to get there.

What level of collateral segregation will be demanded by buy-side clients?

The jury is still out on this. The buy-side, largely, has yet to show its hand one way or another and that is understandable. There is a lot that needs to be taken into account, such as managing counterparty risk, the ability to cross-margin, getting transparency and access to those funds in event of bankruptcy or default.

From my perspective, at this point, we have not seen the buy-side settle in a particular, definitive manner. We continue to have extensive conversations with clients about their strategies across the board. We continue to see increasing demand for clients to set up tri-party and quad-party accounts within BNY Mellon for segregation purposes. There are many options and many variables.

Where do you envisage challenges in the new environment created by the use of CCPs?

There are fewer challenges and more mod-

ifications to our models.

We think a great deal about systemic risk. And, for example, we are seeing a fair amount of concentration going into CCPs, so we are making sure we are very clear around bankruptcy and liquidation. The regulators are also looking at the concentration of risk in CCPs and most of them have been dubbed as systemically important institutions. BNY Mellon is included in that category given our role and importance to the markets.

These entities will probably see increased oversight and regulation to ensure that they have very good automation, strict controls and procedures and very robust systems.

From interacting with CCPs directly, we have observed decision-making and it appears that they are making the right investments in the right places. One thing our clients would like to see is better harmonisation among the CCPs. They all have their own rules around what they will take for collateral, how they report it, how they calculate their initial margin and how many times during the day they call and so forth.

What lessons did you learn in your management of the joint venture between Mellon Financial and ABN Amro Bank?

I draw on that experience every day. Innovation is all about the foresight to combine and leverage existing capabilities for new, evolving purposes. When you run a joint venture you are in the same boat and you need to learn the art of compromise and cooperation.



Cooperation is the foundation of good business and I use it to leverage the expertise we offer to create customised solutions for our clients. Compromise is about being fair to your colleagues and balancing the needs of the broader organisation, as well as the needs of the individual businesses. For example, perhaps it is a compromise around resources and prioritisations for IT, where we are always looking to deliver decisions that make sense to our clients and our shareholders.

You have also got to be nimble and agile, and be an excellent communicator to keep your various stakeholders engaged. With D360SM, we have set up a new organisation within an existing environment, and that is sometimes not easy when you have very established and rigid organisational walls and procedures. We are leveraging across our disciplines very successfully to ensure the business is nurtured and protected so it can continue to thrive in a vastly different environment.

The evolution of D360SM has been tied to the broader, strategic reinforcement of our expertise and service offerings across the broader spectrum of collateral services. D360SM is part of BNY Mellon's new global collateral services (GCS) area, which aligns BNY Mellon's collateral management, securities lending, securities finance, liquidity management and derivatives services under a single umbrella.

The range of solutions within GCS fully supports the segregation, optimisation, financing and transformation of collat-

eral for our clients – thinking about what they need to manage their collateral more effectively and efficiently.

Since you started in your new role how have you begun developing D360SM?

The concept of D360SM had been floating round the company two years prior to me taking over, but when I came on board in January the regulatory changes started to get a little clearer. We had a much better vision of things to come, so my team and I really looked at the strategy for delivering derivative solutions in this new landscape. We got in and totally revamped our offerings.

We have spent a fair amount of time talking to our clients, really talking to them. They are dealing with a lot of complexity around the restrictions, requirements, regulations and infrastructure in the space.

My focus has really been the buy-side and when you look at my background and experience, I am developing the business by tackling the client's front-office needs around collateral management and clearing. We felt that the combination of clearing, collateral and some of the execution capabilities that we bring to bear ties up in an easy-to-use, integrated package – and it adds a lot more value to our clients.

As I mentioned, we have spent a fair amount of time educating our clients. We realise that the buy-side is a slightly more perplexed with a lot of the changes going on and, ultimately, they are wondering what the impact of clearing will be on their portfolios, operations, risk profiles, and so on. And, clients want to know how much it will cost.

Our D360SM business has evolved into more of a consulting arm and this enables us to show clients what is possible in the context of their existing investment strategy. The brilliance of this approach is that clients can then focus on their investment strategy and their core interests in managing it.

In which markets and territories is BNY Mellon expanding its operations?

We are focusing on where there are volumes of derivatives and where the regulations are impacting the client. First and foremost, North America is an area where we are spending an incredible amount of time and energy. On equal terms would be Europe, the UK,

Germany, the Netherlands and in some areas of southern Europe, we are seeing a lot of demand and increased activity.

Our work in Asia tends to be fairly targeted at this point, in both Singapore and Hong Kong, which have come up with their individual versions of OTC derivative reforms. There are similarities to Dodd-Frank, of course, but these reforms are adapted to local markets. Japan has been a very interesting market for us as well.

If you were to ask me where I am investing the bulk of my time with clients and prospects right now, it is attending to clients in North America and Europe.

Where do you predict growth in the OTC derivatives market?

We are a big player in infrastructure, so we are spending a lot of time helping the exchanges around the world as they gear up and support their clients. The verdict is out on what the final implications of the reforms will be on the volume of derivatives but, all things being equal, in the future I think the activities in Asia will be much higher. Brazil is another home market for BNY Mellon and a market we are keeping a very close eye on from a D360SM perspective. ■

