

The background of the entire page is filled with a festive pattern of confetti and streamers. There are several long, vertical streamers in black, red, and silver. Scattered throughout are numerous small, diamond-shaped pieces of confetti in black, red, and silver. The overall effect is celebratory and dynamic.

# Asia i k

AWARDS 2014

**Collateral Manager  
of the Year**



BNY MELLON

# BNY Mellon

## Collateral Manager of the Year

In an ever-shifting derivatives landscape, BNY Mellon has stood out as a collateral manager that is able to offer timely and innovative solutions to its customers' evolving needs. This has helped the bank win new mandates in the Asia-Pacific region and grow its business in the tri-party collateral management sector.

Japan has been an area of growth and opportunity over the past 12 months. "We've seen more unique structures coming out of Japan than elsewhere [in the region], and this may be because of the size of the economy," says Dominick Falco, head of global collateral services in Asia-Pacific at BNY Mellon, based in Hong Kong.

BNY Mellon's assets-under-trusts in Japan has now reached ¥1 trillion (\$9.2 billion), double what it was a year ago, which Falco describes as a "high watermark".

One Japanese client who used BNY Mellon's tri-party collateral services as part of a deal to lend out a Japanese government bond in return for global equities from the borrowers, was particularly impressed with the bank's reputation as a systematically important financial institution with a stable and high credit rating.

"We considered BNY Mellon's credit risk to be relatively low compared with its competitors and, through BNY Mellon's trust bank, the institution already has a good track record and evidence of its capabilities," says the client.

The client adds that, although it considered using other large service providers, BNY Mellon's offering stood out because many other potential borrowers already have their collateral custodied with the bank. "This means we can expand our transactions in the future if we decide to," the client says.

Eligible collateral underpinning the deal included equities and, on the fixed-income side, corporate bonds, government bonds, certificates of deposits and some asset-backed securities. Another deal in the Japanese market was for a client who wanted to use real estate to secure domestically sourced loans and was completed for an arranger who had clients on either side that had never invested in real estate.

The arranger issued a Euroclear-eligible bond, denominated in yen and backed by Japanese real estate. The bond was then used as collateral against the loans they had, which was done in six tranches. The client preferred to operate this way, rather than securing the loans directly against the real estate, in order to diversify their holdings.



**Dominick Falco,**  
BNY Mellon

"Effectively, we had to hold the assets as collateral and then we worked in conjunction with our own trust bank to make all of the cash payments around the note itself, and ensure the cashflows all worked okay," Falco says.

The deal was complicated further by the fact it didn't just involve a single borrower and lender, but a range of lenders who had different requirements in terms of the seniority of payment due.

BNY Mellon managed to put the deal together in just two months, demonstrating a strong capacity to react quickly to clients' needs. "We did it in record time. Setting up a standard Margin DIRECT<sup>SM</sup> negotiation and account between two parties is difficult, but the way the deal was structured meant a trustee was also involved. This made things disproportionately more complex," says Falco.

Much of BNY Mellon's strength comes from the scalable nature of its solutions and, as margining requirements become tighter, the bank is well-placed

**Through BNY Mellon's trust bank, the institution already has a good track record Japanese client**

to win business. Falco reports an uptick in interest for the bank's derivatives services in Japan and Australia as regulators in these countries worry about systemic risk.

"With all the work that the International Swaps and Derivatives Association Japan is doing around initial margin segregation, we believe the industry is going to go towards trust accounts, so we really need that trust capability to deliver the product that we do outside of Japan into Japan," Falco says.

BNY Mellon houses this trust component within its collateral management business, retaining and building upon the capability following the closing of its local corporate trust unit in Japan.

"In the old days, margining was selective and voluntary," says Falco. "Now that you need to segregate and apply both initial and variation margin, some of the big derivatives users suddenly find they have a lot of credit support annexes [CSAs] to deal with."

**Blake Evans-Pritchard**