



James Slater & Jim Malgieri on Collateral

Jim Malgieri: Collateral means a lot of different things to a lot of people, but essentially for the financial industry, it really takes one of two forms, it's cash, and/or securities. And those securities can range from bonds, fixed income type collateral or equities.

James Slater: A phrase, or saying that's widely used, or has been widely used in the market, is that cash is king. We kind of have a little saying around here, that collateral is now the new king.

Jim Malgieri: People talk in the industry about what's good collateral and bad collateral, and I think that's too just much of a general term. All collateral can be good, it depends on what your counter party is willing to accept.

James Slater: It's much more than just the posting of collateral, it's how you manage collateral. It's also how you generate collateral. One of those ways is monetizing those assets.

Jim Malgieri: Optimization can add a lot of value to the clients, by keeping their higher grade collateral in the portfolio.

James Slater: If they've got a variety of different types of assets that are available to be pledged to an exchange, let's pledge the cheapest form of collateral first, and then kind of work back from there.

Jim Malgieri: It's important to learn from the past. It's important to recheck your operating model after you get done with a crisis.

James Slater: There's incredible forces in play that all sort of point back to regulatory changes and changes in risk appetite across the market.

Jim Malgieri: You know, the regulations are all about designing to reduce risk and put the responsibilities for those risks with the company where they can manage them themselves.

James Slater: What keeps me up at night is really just the evolving regulatory landscape. The fact that so many of the roads that you start to head down in the regulatory front are still marked under construction.

Jim Malgieri: Risk reduction, increased transparency, people understanding where those risks are, are all key elements of a healthier financial system that give the market participants the confidence that the markets will function normally.

James Slater: Regulation is certainly adding complexity to our markets.

Jim Malgieri: Take those regulations, educate the clients on what they need to do, and actually offer solutions to get them to be able to participate in the new regulatory paradigm.

Readiness Checklist

- Are you ready to meet increased collateral requirements?
- Have you considered securities lending services to obtain eligible collateral?
- What are your strategies for optimizing the use of your collateral?

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