

COLLATERAL MANAGEMENT AND SEGREGATION IN MOTION TRANSCRIPT

Regulation and market changes have increased the demands on collateral sourcing, funding and mobility. Over the past two decades, collateral management has evolved within the buy-side and sell-side communities, helping them find the most effective use of available assets to post as collateral.

BNY Mellon's collateral management programme helps improve the efficiency of settling transaction types requiring collateral, including repurchase agreements, derivatives, securities lending, over-the-counter (OTC) transaction clearing house margin and other collateral obligations.

With BNY Mellon, you are no longer looking at these transactions separately but in aggregate in order to use collateral within our programme for a wide range of collateral obligations outside normal settlement windows.

The efficient usage of collateral is an important component of collateral management with potential benefits for collateral providers and receivers.

Collateral providers ask questions such as these when considering how to efficiently use collateral:

- Which asset(s) are available to post as collateral?
- Which asset(s) will my counterparty accept?
- Of all my eligible assets, which is the most economical to use (for example, maybe it has a lower cost of carry or maybe there is greater availability in the market for this particular asset type)?
- How can I mobilise my assets across multiple markets?

Collateral receivers should be asking questions such as these:

- How can I protect my interests when collateral is being posted against a transaction?
- Can I easily liquidate the collateral?
- Do I have an automated, efficient solution for monitoring posted collateral?
- Will this collateral increase my exposure to an industry, currency or counterparty, and am I comfortable with this risk?

Collateral management is dynamic, and questions such as these should be asked throughout the business day with each trade. As new assets are delivered into your inventory, as you

enter into new transactions and engage with additional counterparties, the options and conditions for efficient collateral allocation can change.

Before a transaction occurs, the collateral provider and collateral receiver agree on the eligible collateral that can be used and the rules of how the collateral should be managed.

These parameters form a collateral eligibility schedule and collateral preferences which are entered into the collateral management system, automating the administration of the agreed terms between the collateral receiver and collateral provider, and allowing flexibility for accepting different forms of collateral. Using the parameters of the collateral schedule, BNY Mellon monitors the resulting collateral amounts and moves collateral to appropriate counterparty(ies) as agreed.

With BNY Mellon's collateral management programme, the movement of collateral between the collateral provider's and collateral receiver's accounts is effected to facilitate the timely settlement of transactions. This helps market participants to meet financing needs, use assets efficiently and manage counterparty risk, capital and liquidity.

Specialised collateral management technology provides for daily valuation, asset substitution and calls for additional collateral/return of excess assets.

Once collateral optimisation has occurred and collateral is posted, BNY Mellon segregates the collateral in favour of the collateral receiver and confirms such segregation to both parties. The posted collateral remains segregated until the transaction unwinds, or in the event of default, until the appropriate procedures are followed under the applicable agreement and BNY Mellon is notified appropriately.

Collateral segregation provides independent collateral safekeeping, asset transparency and validation and helps expedite the return of assets when the transaction unwinds or should a counterparty default. It also helps mitigate credit, operational, and market/liquidity risk.

BNY Mellon provides a global suite of collateral management and segregation solutions to the buy side, sell side and intermediaries. We support market participants with innovative solutions, insight and tools designed to help promote the mobility and fluidity of collateral in the global marketplace.

What can we do for you?

To Learn More, Contact Us or Visit bnymellon.com/collateralmanagementandsegregation

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