Asia Risk Awards 2016

# Collateral manager of the year

## BNY Mellon

BNY Mellon's collateral management and segregation business has seen strong growth over the past 12 months as it continues to win mandates and assist clients with an increasing number of regulatory requirements relating to over-the-counter derivatives rules and Basel III liquidity requirements.

A key focus for the US investment company is the provision of liquidity support for financial institutions through a tri-party collateral management platform, which has attracted more clients over the past year. From September 1, the world's largest swap dealers were required to segregate the initial margin on uncleared OTC derivative trades, after the US, Japan and Canada implemented initial margin rules. More swap dealers will be brought into the scope of the rules as EU regulations come into force and the initial margin segregation rules apply to swap dealers with increasingly lower thresholds of outstanding trades.

Natalie Wallder, head of collateral management and segregation for Asia ex-Japan, says: "Even before the regulations apply to them, OTC derivative traders have sought collateral segregation as a form of risk mitigation. This has resulted in a major uptick in volumes and is set to increase further once the variation margin rules come into play. The collateralised funding business is also an area of growth and we are seeing more clients using our services who have a need for high-quality liquid assets under Basel III requirements."

While rules relating to initial and variation margin are subject to local implementation in Asia, the company has been active in helping clients prepare for collateral segregation and has been collaborating with industry groups and regulators. In Japan, for example, BNY Mellon has worked with the Isda initial margin and bankruptcy-remote working group to define the scope of requirements and implement a new framework to cater to these requirements.

In Australia, Hong Kong and Singapore, it has also engaged with clients on a one-on-one basis and has won several mandates for its collateral segregation offering. BNY Mellon says it expects to add new clients including buy-side firms and corporates on to its platform as they become captured by uncleared OTC derivatives regulations in Asia.

The company also onboarded an Australian superannuation fund to its tri-party collateral management platform in a landmark deal that has the potential to increase business from superannuation funds in the future.

"Generally speaking, the superannuation funds tend to receive collateral directly and have not typically used tri-party agents in the past, so it is a major win for us and the market in general," says Wallder.

"The benefit of using BNY Mellon is that we can connect the client to all types of global collateral including Asian, European and US, which opens up pricing conversations that have the potential to benefit clients," she adds.

The collateral manager has also added several new tools to its platform. For example, in South Korea, the company implemented a collateral pledge device that allows a Korean security to be used to finance a transaction past its record date – the cut-off date at which shareholders are eligible to receive a dividend.

Normally, a security cannot be used as collateral after a record date as dividends are required to be paid to the original holder of the security. The collateral would then have to be replaced with cash or another asset.

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"With the pledge solution we can still permit allocation of Korean assets to the collateral receiver over the record date because the pledger retains the full legal and beneficial ownership of the pledged Korean assets, including the right to receive dividends and corporate actions. Titles to these securities are not passed on to the receiver. This means that the dividend income would continue to be paid to the collateral provider even when these assets are allocated as collateral," says Wallder.

The company also offers a similar structure in Japan and the solution has helped clients trade during periods of lowered liquidity when a stock could not previously be used as collateral due to record date restrictions.

BNY Mellon's tri-party platform also now supports the cross-border allocation of Japanese government bonds following a change in Japanese custody arrangements in 2016. Previously, JGBs pledged onshore could only be grouped with Japanese counterparties. The change now facilitates offshore and onshore flow of JGBs and gives clients more financing options when using JGBs. For broker-dealers, JGBs are a liquid and inexpensive form of collateral while asset owners who are long in JGBs can generate additional yield through cross-border allocation.

BNY Mellon has also continued to invest in technology and has rolled out an improved optimisation tool that allows clients to better monitor their collateral holdings and reuse collateral in real time. This was particularly useful during periods of volatility following the Brexit vote in June.

"As a dynamic collateral manager, we were in constant contact with our clients during this period. We have given our clients access to our real-time tools so that they can view any potential collateral shortfalls, on any given day when there is volatility or other market events," says Wallder. ■