

# DERIVATIVES REFORM: IMPLICATIONS IN THE MARKETPLACE

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Derivative reform is really starting to have a dramatic impact on the marketplace and on institutional investors. As the rules are becoming finalized, as they are being implemented globally, clients are starting to think about their trading, how they want to shift their trading patterns...they are deciding to think about their support models and how they want to support the various rules and regulations that are being imposed upon them. What was a simple or relatively simple process in transaction with derivatives bilaterally has now shifted into a trading in cleared environments, in the bilateral environments. There are rules coming on that are really starting to push clients to think about collateralization and the impacts of collateral not only in the middle and back office support structures but also in the front office and the costs and implications of those costs on the trades that they are executing.

## **Collateral Obligations**

One of the greatest impacts from derivatives reform is really the collateral requirements that are being imposed upon the buy-side community. Buy-side institutions have traditionally collateralized some of their products like futures but many more products that they trade today are being forced into collateralization with their counterparties. And this has been a new challenge for many of the buy-side entities so at BNY Mellon we have been working with our clients and helping them understand the collateral rules and regulations that are impacting their businesses but we work with them in building out their collateral solutions.

## **Risk Mitigation Challenges**

As derivative reform is implemented there are a number of risks that clients need to think through. There are certainly the changes in the regulatory risks that are being imposed upon them. There is the counterparty and credit risk as they are being forced to collateralize more products. And there is the operational risk as collateral and other activities are sped up and the velocity of these transactions and the transparency of these transactions change for them. At BNY Mellon we really work with our clients to help them understand what those risks are, to begin to help them work on their strategic end-states, to support them in developing their strategic end-states, to really look at their collateral – where it is being held how it can be moved, how the risk can be mitigated - and we can begin to bring greater transparency to the process for our clients.



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