THE EVOLUTION OF COLLATERAL SEGREGATION

Regulation – it's having a ripple effect throughout the financial markets and changing the way you do business. One change having a significant impact on the financial markets is the growing need for collateral in financial transactions.

Collateral is one element of covering counterparty risk in a financial transaction. If a counterparty goes into default, an institution uses the collateral to help cover the loss.

Not too long ago, there were only a handful of transaction types that required institutional investors to post collateral, and the processes for posting collateral were not highly regulated or uniform throughout the world's financial markets. Institutional investors didn't always have a full understanding of who their counterparties were or where their collateral was being held.

Then the financial crisis hit in 2008.

Large institutions defaulted and some went bankrupt, and some assets that were linked to financial transactions could not be recovered. Certain counterparties who had posted collateral struggled to obtain the collateral due to them.

After the crisis, regulators and policy makers stepped in to create new rules and reforms in an effort to reduce risk in the financial markets.

Global reforms mandated the use of collateral in financial transactions that hadn't required collateral before and introduced new players such as central clearing counterparties (CCPs) for derivatives transactions. Reforms sought to ensure that sufficient collateral was posted, that it was protected in the event of counterparty insolvency and delivered to the correct counterparty upon termination.

International regulatory bodies have created regulations and guidelines that cover collateral segregation rules for uncleared bi-lateral OTC derivatives and CCP centrally cleared derivatives transactions.

As institutions large and small look for answers to these questions and guidance in this new environment, they need support for their individual business requirements. One size does not fit all.

BNY MELLON

BNY Mellon supports a wide range of institutions, ranging from banks and governments to pension funds and corporations, each with different questions and different needs. We have solutions to help them.

As institutions look to comply with new regulatory requirements and rules around trading practices, they can leverage our collateral management and segregation solutions.

Our collateral segregation services include :

- independent collateral safekeeping;
- independent collateral pricing and valuation;
- automated eligibility processing / ruleset requirements;
- efficient collateral substitution ;
- real-time reporting;
- operational risk reduction through using scaled automated solutions; and
- the ability to reuse collateral (as permitted by market practices).

Our solutions help institutional investors meet their collateral obligations and help minimise risk in relation to counterparty insolvency. In addition there are opportunities to optimise collateral use while also facilitating the mitigation of counterparty, market and operational risk.

Institutions can leverage our tools and technology to help them better execute their investment strategies with account insight, real-time reporting and allocation of collateral for each transaction.

BNY Mellon continues to power the investments of institutions all over the world and works with our clients to create collateral segregation solutions globally. What can we do for you?

Visit us at bnymellon.com/collateralsegregationEMEA

BNY MELLON

bnymellon.com