CROSSING THE COLLATERAL RUBICON

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March 2016

Pooma Kimis: OMFIF is an independent research network promoting dialogue for world finance. We have partnered with BNY Mellon on this joint report, *Crossing the Collateral Rubicon.*

Hani Kablawi: Now what *Crossing the Collateral Rubicon* aims to accomplish is to highlight, starkly, the need for quicker, more efficient movement of higher quality collateral. So perhaps, just in the same way we used to say “cash was king”, in the capital markets today, collateral is king.

Regulatory change has brought about a much, much greater demand for higher quality collateral, for the ability to move that collateral very quickly and perhaps to transform it and direct it to where it needs to go.

David Marsh: This is not just an arcane subject for central bankers and market technicians, this is actually a real world issue. If markets are functioning properly, if lending activities, asset management activities, are being carried out in the right way, this is a real world impact.

That means actually investing in ports, in railway stations, in roads, in all sorts of infrastructure activities – that’s what markets are about and that’s why liquidity and collateral are really necessary.

Staffan Ahlner: There have been various reports in the market of a shortage of collateral. A couple of years ago, the market was publishing big numbers of collateral shortage – being in the trillions. There are studies, and we are one of the institutions that believe there is sufficient collateral out in the system – it’s just trapped in different places.

So, the challenge we have as an industry is to mobilise that asset, to be able to unlock the asset, and we have spent a lot of technology and a lot of time working with market participants to free up that movement of assets, so they’re no longer trapped in various pockets.

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Hani: And what the report also aims to accomplish, is to highlight the responsibility of sovereign wealth funds and central banks in meeting the demands brought about by these regulatory changes. So, sovereigns and central banks have had, and will always have, the responsibility to preserve capital for future generations, and to enhance yields.

But those two things are not inconsistent with what we're submitting in this report, which is that they now also have a third responsibility of fuelling the efficiency of the market by providing some of that high quality collateral to the industry.

David: Markets can dry up at times of crisis and you do need to have a good flow of collateral to help assure the transactions. Volatility can be a terrible thing, and it can lead to really awful crises.

Global Public Investors in the past have been sometimes a bit divorced from the system that they're in, but ever since the global financial crisis, this has changed – they've been moving more steadily into a centre stage here, and I think this trend is going to go further. It's in their own interests to play a role as good financial citizens.

Staffan: The Bank of New York invested a lot of technologies in how to mobilise collateral, to get it in the right place at the right time. Our tri-party offering has, for the last two decades, served the market, particularly on the sell-side.

We are now expanding that to our buy-side clients, in offering the same abilities for the buy-side to be able to set the criteria, and know what inventory they have to be able to expand their transactions, as they need. We're also working with technologists to streamline operational processes around the margin call processes for OTC derivatives that the buy-side may transact in.

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