

# How to Build a Collateral Segregation Solution For Your Servicing Requirements



Global regulatory reform is reshaping and redefining the way institutions are required to post margin, manage collateral and segregate assets. Are You Ready?

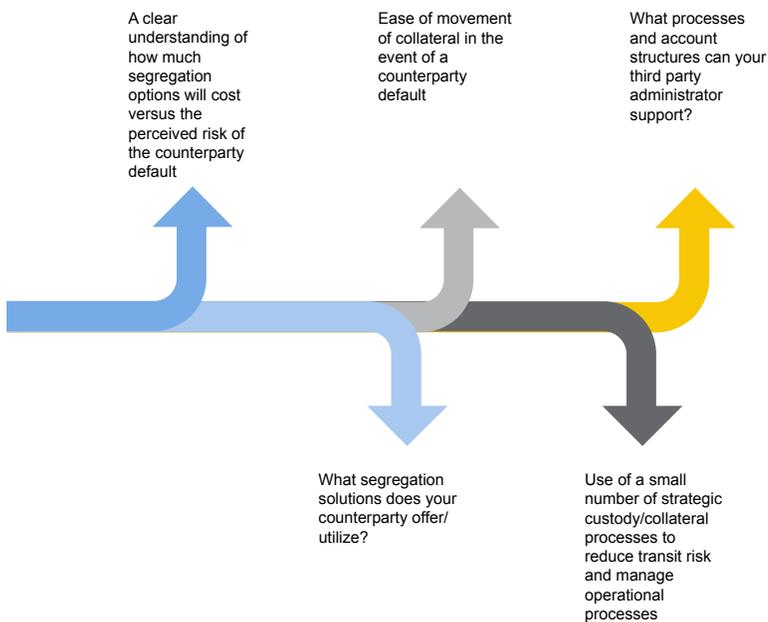
As a result of the global regulatory reforms and industry activities aimed at reducing counterparty risks and increasing transparency, market participants' business models are constantly changing. As you reevaluate your margin and collateral management practices, discover the automation, security and clarity that can come from the right solution.

## THE IMPACT OF MARKET CHANGES

While the implementation dates for the changes and new requirements vary, the impact is reshaping and redefining the way institutions are required to post margin, manage collateral and segregate assets. The new industry practices are focused to standardize calculation, operational, funding and default processes. Asset agility and the cost of collateral will factor heavily into investment decisions. The use of auto-allocation collateral tri-party platforms may help increase the optimization of collateral assets.

The cost and speed of regulatory change is proving a challenge to all types of market players including banks, broker-dealers, asset managers and asset owners. Rather than trying to design, build or buy new infrastructure and processes for new regulatory requirements, firms are looking for internal synergies.

## FIVE DRIVERS TO COLLATERAL SEGREGATION SELECTION



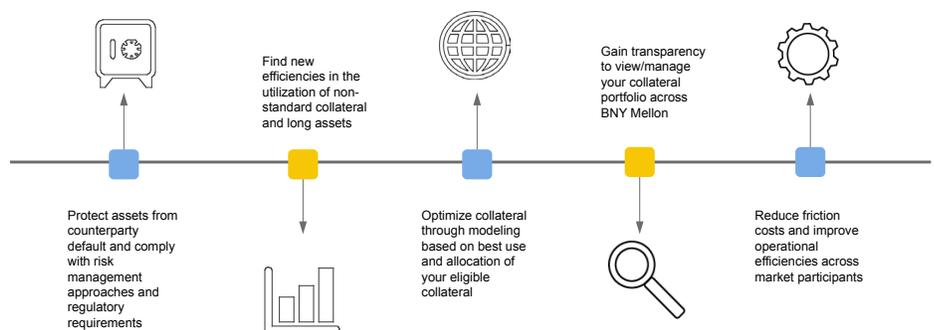
## A COLLATERAL SEGREGATION SOLUTION – WHAT SHOULD IT INCLUDE?

The right segregation solution will not come in one size fits all. Key considerations for an effective segregation solution include the following:

1. Ensuring the chosen and eligible asset choices are posted to each of your counterparties
2. The level of assurance for the safe return of assets in a timely and efficient manner in the event of a counterparty default
3. The ability to move assets quickly/effectively and, in certain cases, outside of market hours
4. The tools and channels to allow the proactive management of the assets held within your “Segregation Network” – the different segregated custody accounts required versus each of your counterparties.
5. Impact of scale of solution on your operations, infrastructure and reporting and data management
6. Cost of solution

## POWER YOUR BUSINESS MODEL

As you examine the new requirements put forth by the regulatory bodies and determine what you will need to do to comply, BNY Mellon can help. Our suite of collateral segregation tools, technology and solutions are designed to help you, depending upon your account structure and requirements, to:



## BNY MELLON HAS A FLEXIBLE SERVICE MODEL TO MATCH THE FUNCTIONALITY THAT YOU MAY WANT TO OUTSOURCE

BNY Mellon can provide a simple user interface to move collateral into a segregated account if you prefer. This segregated account will hold the amount of collateral due to your counterparty as well as the acceptable collateral types. We also provide your counterparty with a process to facilitate the return of unneeded or excess collateral back to you.

If you are looking to outsource more elements of the collateral process, we can help you:

- Work with the counterparties to agree on the amount of collateral;
- Determine which types of collateral are eligible to each of the counterparties;
- Determine if you have sufficient eligible collateral;
- Determine which of your eligible collateral is most efficient for you to use to meet your obligations; and
- Systematically move the identified pieces of eligible collateral to segregated accounts opened at BNY Mellon.

## STRATEGIC SOLUTIONS FOR A CHANGING WORLD

Evolving business drivers demand increased capabilities. As one of the world's leading financial services providers, we have a unique perspective on the financial

markets. That perspective flows through the suite of capabilities within our Collateral Universe<sup>SM</sup>, which is designed to help implement effective solutions that support our clients as they navigate the changing capital markets.

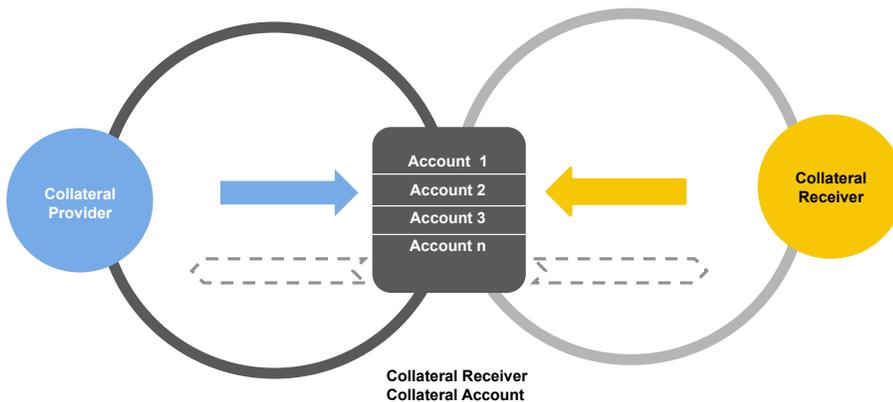
### Collateral Administration

We can help you meet margin requirements and margin calls as the value of the deliverable securities fluctuate in response to market conditions. We offer a range of margin management tools with which to monitor margin parameters, calculate margin status and segregate margin, designed to help you to maximize margin calls and minimize margin movements.

We leverage industry-leading reconciliation software to facilitate automation and client reporting in the reconciliation of derivatives positions. Our portfolio reconciliation service can be set up as bilateral (investment manager and counterparty) or three-way (investment manager, counterparty and accounting agent). Our systematic approach to reconciliation allows for a streamlined, scalable process focused on results.

### Collateral Segregation

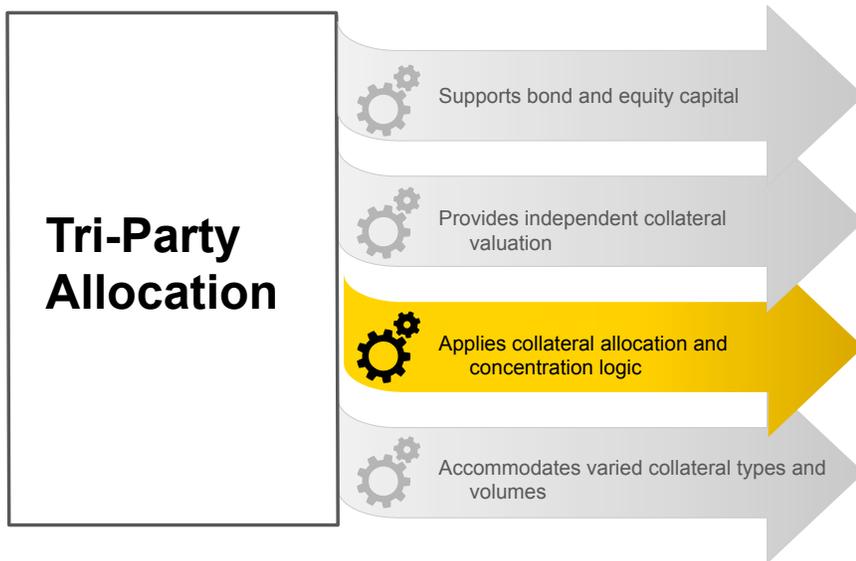
Our solutions are dynamic by design and help mitigate operational and counterparty risk by streamlining your operations. We can assist in optimizing your resources and operational capabilities.



Collateralized Deposits: Designed with the interests of both the depositor and the deposit taker in mind. Our collateral management system uses the latest technology with the goal of effectively managing collateralization of public deposits and letters of credit, as well as other cash deposits. Within a highly automated, well-controlled environment, our system is designed to advance your operational efficiency and flexibility at all points in the process, while helping to minimize risk.

Liquid Letter of Credit<sup>SM</sup> (LLOC): A municipal deposit collateral management product. It is designed to enable commercial banks to obtain a cost effective letter of credit and also to more efficiently utilize their Federal Home Loan Bank (FHLB) borrowing capacity. In today's marketplace, we recognize the expectations placed on commercial banks to secure municipal deposit balances. We can automate the flow, seek to reduce operational and market risk and help to improve efficiencies by integrating our collateral management platform into the existing FHLB Letter of Credit process.

Tri-Party Collateral Segregation: Our tri-party collateral segregation service is an integrated and functional model that segregates non-cash collateral in multiple segregated accounts on behalf of the collateral provider for the benefit of a single or multiple secured parties. We combine the safety of segregated accounts with dynamic system capabilities designed to help you optimize your collateral for segregation in a highly scalable manner.



**As you focus on your core competencies, leverage us for ours. Look to BNY Mellon – with a vision and capabilities designed to help you navigate a changing financial landscape. Let us be your gateway to market access, market insight and strategic solutions focused on your challenges.**

Re-Insurance Trust Collateral Management Solution: Managing collateral trust accounts has traditionally been labor intensive with manual processes for collateral valuation, substitution, withdrawal, and reporting. BNY Mellon offers a solution that brings automation to collateral trust account management, helping you to streamline processes, gain increased transparency and more efficiently manage your collateral. Our solutions support regulated and non-regulated entities.

Whole Loan Collateral Management: We seek to help you optimize the whole loan assets that you use as collateral. Investment banks, hedge funds, financial institutions and broker-dealers are just some of the participants in whole loan asset structures. These participants can use their assets as collateral via a secured financing vehicle, such as a tri-party repo. In this structure, BNY Mellon will value, seek to optimize, allocate, and report on the collateral assets throughout the life of the transaction.

**Additional information is available at [www.bnymellon.com/collateralmgmtandsegregation](http://www.bnymellon.com/collateralmgmtandsegregation)**

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