



Who you gonna call?

Whenever a trade becomes too burdensome to finance, triparty agents such as Clearstream are called upon to lend a hand, according to Pascal Morosini, global head of GSF sales at Clearstream Banking

How long have triparty agents been around, and how has their role changed in that time?

They have been around since the mid-1980s in the US and 1992 in Europe when Cedel (now known as Clearstream) launched the first triparty repo service. At the time, investment banks were looking to optimise the small securities positions left unfinanced on their custody accounts. They asked custodians to find a solution that would enable all of those little transactions to be packaged into a single transaction, while allowing for substitution. This was how triparty repo was born. It's the ability to finance multiple positions in different currencies while the administration of the collateral is outsourced to an agent on behalf of both the buyer and the seller. It brought many benefits to dealers, including greatly increased flexibility thanks to automated substitutions.

In the late 1990s, central banks were looking for collateral management solutions that would allow local and foreign banks to pledge securities to them in an efficient and transparent way. Since they were not equipped to manage important collateral flows, they naturally asked custodians and international central securities depositories (ICSDs) to provide a collateral management service with the same core features as triparty repo, but without a principal cash leg, as this leg is managed by them directly for market operations or discount windows.

Gradually, triparty repo transformed into triparty collateral management to service central banks, central counterparties (CCPs), bilateral loan arrangements, derivatives and securities lending.

Whoever had an exposure to cover, for whatever type of financial transaction, could use triparty agents to cover those transactions, depending on their needs and the size of the transaction. Generally speaking, when the number of counterparties expands and the

required collateral becomes a burden, outsourcing to triparty agents makes perfect sense. The shortest definition of triparty, to me at least, is 'operational efficiency'.

Triparty collateral management has the same core and powerful features as triparty repo did in the past. However, we can now handle multiple contract usage, bringing operational efficiency to support increasing collateralisation in a post-crisis world in which we see a strong preference for secured over unsecured transactions.

And now, with new regulatory requirements, triparty agents are being asked for their help again?

Yes, this has been the case since 2008 and the collapse of Lehman Brothers. With risk mitigation becoming the focus of regulators, triparty agents have had to adapt and constantly invest in IT development to enable the banks to gain more visibility of fragmented inventory pools across the globe. Clearstream has re-engineered its optimisation engine to simplify the way eligibility, haircut and concentration rules are managed, but also to make it more flexible and granular to enable even its most sophisticated participants to perform their regulatory duties. To aid liquidity management, it even allows counterparties to stipulate specific optimisation requirements for month- or quarter-end reporting periods, as well as based upon the term or duration of any type of securities finance transaction.

How would you describe the triparty agent's role in light of upcoming regulatory requirements under the likes of Dodd-Frank and EMIR?

In 2016, the onset of mandatory clearing in Europe and the introduction of new global margining rules for uncleared derivatives are forcing counterparties to comply with new asset segregation

requirements, but at the same time look at innovative ways of managing collateral efficiently.

The ability to manage collateral in real-time is now becoming an essential part of daily collateral management and has thrust triparty agents into the spotlight. Triparty agents are set to play a major role because of their ability to mobilise and segregate collateral rapidly and efficiently. Financial regulation has played a major role in the evolution of banking and securities finance over the past 12 months. While new liquidity guidelines and stress test requirements have encouraged banks to diversify their sources of liquidity, their ability to mobilise global inventory and make more effective use of their collateral continues to shape the way in which triparty services are developing.

Since the European Market Infrastructure Regulation (EMIR) and the US Dodd-Frank Act are imposing the use of CCPs for cleared derivatives and the segregation of collateral for non-cleared derivatives, the industry is logically turning to those with the capacity to manage collateral efficiently, including collateral transformation.

What will Dodd-Frank and EMIR require and when, and how can triparty agents help?

The upcoming regulations introduce additional margin requirements on uncleared derivatives to reduce systemic risk. In addition to posting variation margin, counterparties will be required to exchange two-way initial margin on a gross basis. These requirements will be phased in from September 2016 onwards, depending on the size of the average aggregate notional amount of uncleared derivatives.

The collateral needed for meeting the initial margin must be segregated at a non-affiliated third party custodian or triparty agent such as Clearstream. For uncleared derivatives, our OTC Collateral service provides the bilateral collateral management of variation margins, while the initial margin segregation and management is covered by triparty services under Clearstream's Global Liquidity Hub.

Why are repo and securities lending being used to finance initial margin segregation? Is this the future of securities finance as a business?

It will certainly keep us busy for the next five years, or at least until more derivatives will be admitted to clearing and benefit from transaction netting, which will reduce the amount of collateral needed.

Repo and securities lending are the natural source of collateral mobilisation. The networks are already firmly established between buy-side participants, such as asset managers, pension funds and insurance companies, and the sell side. Repo and securities lending offer collateral transformation abilities as well as a deep liquidity pool to tap into.

Furthermore, triparty agents such as Clearstream offer the ability to reuse collateral received from reverse repos. Many counterparties already do this but there is also further innovation that could be explored. For example, collateral could be received using standardized basket or via GC Pooling, the leading, basket-based, repo service which is cleared through Eurex Clearing. GC Pooling gives clients access to straight-through processing services from several Deutsche Börse Group entities through one single point of access. Eurex Repo provides the trading platform, Eurex Clearing clears the trade and Clearstream provides the settlement and the collateral management services. This connection currently allows high-quality liquid assets to be segregated as initial margin for Eurex in an efficient and timely manner and could feasibly be extended to uncleared margin if there is demand to do so.



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What can triparty agents do to make the mobilisation of collateral a quicker and more efficient process?

The ability to mobilise collateral within Clearstream's Global Liquidity Hub or via any of its Liquidity Hub Connect agent bank partners has created opportunities for firms to more effectively manage their global inventory pool while retaining the use of key local custodians across the globe. The Liquidity Hub Connect service mirrors clients' available positions at their agent bank in the Clearstream collateral management systems, thereby giving an overview of the assets without moving them out of the bank. This enables any agent bank client that is also a Clearstream client to consolidate its assets held at both institutions into a single pool to perform transactions with any Clearstream collateral receiver. We continue to invest in our Liquidity Hub Connect network based on client demand and the desire to optimise financing needs across different time zones, allowing them to operate a bigger global pool.

Target2-Securities (T2S) will continue to shape the European landscape for the next 12 to 18 months and many banks, dealers and custodians will re-assess how they intend to manage their access to cash liquidity and commercial bank credit under the auspices of Basel III. Clearstream will extend its collateral management capabilities into T2S from 2017, thereby giving clients the opportunity to manage not only a single global collateral pool but also to consolidate all of their euro financing in one location.

Clearstream links to other important securities markets such as US and Japan are also being worked out and will this year offer collateral givers the ability to tap into this inventory on a real-time, same-day basis. Finally, triparty agents are working to connect themselves with the aim of achieving full interoperability. This would enable collateral to be mobilised more efficiently.

As you can see, we have come a long way in 25 years. Some might say that our industry is slow to adapt compared to others. Consolidation and technology might accelerate this process, but we remain committed to continuing to deliver the best possible, flexible and reliable technology to support the 'collateral is king' era we are now in.