

TLM[®] Collateral Management

Reduces collateral management credit and operational risks via an end-to-end automated solution for market participants of all sizes

Executive summary

TLM[®] Collateral Management is a comprehensive, automated data management solution that helps financial institutions lower the operational risks associated with collateral management programmes. It offers a variety of functions, with coverage for cleared and non-cleared, over-the-counter (OTC) derivatives margining, repo margining and securities lending margining.

TLM Collateral Management assists with the reduction of credit and operational risk using a best practice approach to comprehensive collateral management. The solution is ideal for all types of financial institutions including banks, asset managers, hedge funds, custodians, central clearers and service providers. TLM Collateral Management offers an event-driven, exceptions-based workflow to manage the end-to-end activities and processes associated with collateral management.

TLM Collateral Management is an established, trusted solution, implemented by a broad range of financial institutions across the globe. SmartStream has an extensive product line and is staffed by highly experienced industry professionals, with in-depth operations knowledge. SmartStream has access to a vast pool of client knowledge, and the company's ability to draw on this collective experience ensures customers are kept abreast of the latest industry developments.

The solution can be installed on-premise or accessed via a cloud-based, on-demand service. The latter deployment option removes the need for firms to buy and install their own hardware, shortening implementation times and minimising overheads. Smartstream's Collateral On Demand offering provides physical segregation of client data to ensure that client information is never commingled.

In addition, unlike many other vendors, SmartStream allows firms to upgrade at their own pace.

A set of integrated messaging tools connects TLM Collateral Management to third party vendors and other industry partners, promoting greater levels of automation in relation to margin calls and clearing. A series of APIs also links the application to reporting solutions and downstream systems.

To meet the needs of service providers, the solution supports a client portal through which a bank's customers can interact, in real time, with the collateral decision-making process.

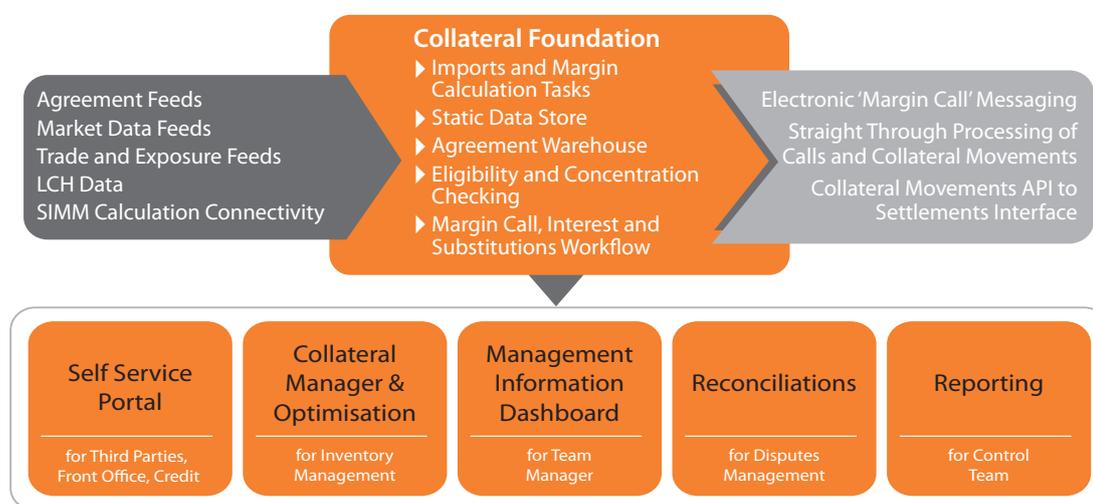
TLM Collateral Management delivers an extensive QA testing suite, as a service. By using this facility, clients can adopt new functionality more rapidly, reduce risk, and avoid duplication of effort.

The solution is an integral component of SmartStream's TLM platform, servicing downstream TLM liquidity and control solutions. The solution takes advantage of SmartStream's global reconciliations and exception management solutions, as well as leveraging the strengths of the company's message interface and the SmartStream Reference Data Utility.

The financial industry is under pressure to reduce the time and cost spent resolving exceptions, as well as to control risk more effectively. In response, TLM Collateral Management delivers:

- ▶ Improved anticipation of operational and credit risk, allowing proactive planning of risk mitigation strategies
- ▶ Reduced regulatory capital – financial institutions can apply the benefits of collateral in order to lower regulatory capital charges
- ▶ A powerful intuitive interface that presents clear and logical paths for users. A management information dashboard assists senior staff with trend analysis and decision-making

- ▶ Automated data capture – data is automatically drawn into the application, removing the need for it to be re-entered. The solution filters this information and alerts users to potential problems
- ▶ Streamlined back office workflow – automation of key tasks associated with margin calls, including data capture, validation, calculation and processing
- ▶ Collateral optimisation – automated selection of collateral assets enables the reduction of funding costs
- ▶ Seamless uptake of new regulations, such as Dodd-Frank, BCBS-IOSCO and Basel III, that require institutions to manage capital reserves and collateral when entering derivatives trades



TLM Collateral Management Modules

The business challenge

Regulatory initiatives are driving the ever more extensive use of collateral. BCBS-IOSCO rules oblige institutions trading in non-centrally cleared OTC derivatives to post both initial and variation margin. March 2017 saw all in-scope counterparties brought under the requirement to post variation margin, while a phased-in implementation for initial margin began in September 2016. Smaller firms, in particular, must take care to identify when they come within the remit of the new initial margin rules, ensuring that they are fully compliant in time.

Other regulation, such as Dodd-Frank and Basel III, is also having an impact, significantly forcing up the volumes of collateral agreements, exposures and margin calls firms must deal with. Financial institutions require robust operational processes and powerful IT systems to cope with this trend.

To meet the challenge of expanded collateral use and new operational requirements, increased automation is necessary. Shrinking time windows mean collateral managers must be able to review data imports via a single dashboard, from

where they can easily view results and exceptions, before processing all margin calls using an efficient workflow.

Regulation is precipitating the more widespread use of collateral but forward-thinking financial institutions are embracing this trend, recognising the benefits that greater employment of collateral can bring. With their ability to enable higher volumes of business and to help mitigate credit losses, collateral programmes can create an important competitive advantage. To take advantage of this opportunity, institutions require a solution that gives greater visibility into their collateral management activities and provides an accurate, up-to-date view of the assets available to them.

Cost and control represent further pain points for financial institutions. Organisations must move to a more automated, exceptions-based approach in order to drive down overheads and to reduce manual work. In addition, institutions require improved controls for auditing purposes and to satisfy regulators that sufficiently robust systems and processes are in place.

The ability to margin disparate products, including OTC derivatives, repos, and securities lending trades, represents another challenge for financial institutions. Rather than having in place a single solution which can manage collateral for a diverse range of financial instruments, organisations often employ multiple applications serving separate product lines. Not only does this prevent firms from gaining a truly clear, holistic view across all their collateral management activities but the need to maintain a plethora of different applications also generates considerable expense.

Solution overview

Regulation

TLM Collateral Management has supported BCBS-IOSCO variation margin requirements for all clients since March 2017. It also offers comprehensive initial margin functionality for organisations captured by IM compliance rules now, and in the future.

Under Basel III, regular margining enables firms to reduce regulatory capital requirements. TLM Collateral Management can help translate the benefits of collateralisation into lower capital charges.

Best practice processing

TLM Collateral Management establishes an efficient collateral process, driving up STP levels and minimising operational risks. The scheduled import of critical data such as legal agreements, trade portfolios, market data and collateral positions is subject to rigorous quality checks. Imports can be reviewed and errors rectified using a set of controls in the system's dashboard.

Standard workflows are highly intuitive and offer many advanced features for reviewing, tracking and processing work items. Workflow automation and control is provided for essential tasks such as margin calls, interest distributions, collateral payments/substitutions and '4-eyes' approval of legal agreement changes. Workflows are designed with industry best practice in mind.

Optimisation of liquidity and inventory management

Changes in the credit rating of a counterparty or institution can have an impact on margin demands. TLM Collateral Management allows users to identify potential collateral requirement changes based on credit rating changes. The ability to model such 'what-if' scenarios also helps

ensure sufficient liquidity. The solution provides a view of an organisation's consolidated collateral inventory against received margin calls from clients, allowing it to run optimisation scenarios and select the most appropriate types of collateral.

Portfolio reconciliation and dispute tracking

Margin call disputes can be automatically identified and processed via the margin call workflow, providing management with oversight of differences at the most granular level. The solution can track disputes based on age, amount, cause and counterparty. The dispute process is supported by a reconciliation engine that is able to quickly match portfolios, highlighting valuation and booking differences.

Management information and reporting

A management information dashboard offers consolidated real-time and historical measurement of KPIs. It enables managers to identify trends from a cost perspective and to improve decision-making, for example, an increased number of margin calls or disputes that require a manager to set aside additional budget.

Additionally, the solution gives access to a full suite of standard reports covering exposures, collateral inventory, workflow, interest, legal agreements, data quality and regulatory reporting.

Workflow STP and messaging

TLM Collateral Management provides connectivity to industry partners that facilitate the STP of margin calls, including the agreement of margin calls and the auto booking of collateral. Additionally, the consumption of IM data and clearing house data is automated.

Client portal

The solution offers a client portal, which allows institutions to provide third party collateral management services to customers. Using the portal, clients can view their exposure and collateral allocation, generate reports, and understand the status of their commitments in real time.

QA testing as a service

TLM Collateral delivers a comprehensive suite of automated and manual tests, allowing financial institutions to leverage SmartStream's testing capabilities. Customers' own tests can be incorporated, and their customisations deployed. This enables clients to take on new functionality more rapidly post release.

Delivering operational advantage

Regulatory compliance

TLM Collateral Management assists firms to achieve regulatory compliance with BCBS-IO스코 variation and initial margin requirements. In relation to initial margin, the solution supports regulatory concentration rules, wrong way risk rules, and gross margining. The system tracks regulatory requirements, aiding firms to keep up to date. It offers connectivity to the Standard Initial Margin Model (SIMM) and also provides triparty collateral eligibility verification.

TLM Collateral Management solution helps firms comply with the most stringent requirements, offering 4-eyes approval of payments and legal data, and extensive audit capability. The solution's reporting database also provides useful support for compliance and auditing activities.

Improved STP levels & exceptions-based processing

The application enables institutions to move to a more exceptions-based form of processing, allowing them to reduce manual work and control overheads with greater effectiveness.

Greater levels of automation are achieved through the solution's ability to connect to industry partners and, in particular, to those that facilitate the STP of margin calls.

A single platform serving multiple business lines

TLM Collateral Management offers a single platform, facilitating the removal of silos and providing a consolidated overview of legal agreements, exposures and collateral. A holistic picture can be created of a firm's exposure and collateral provisioning across multiple business lines, including OTC, repo, securities lending and cleared derivatives.

New revenue streams

Should organisations wish to take on higher risk trades, or trade with counterparties where credit lines are full, TLM Collateral Management supports them to do so.

TLM Collateral Management's client portal allows financial institutions to provide third party collateral management services to customers and, potentially, create new revenue streams.

Improved management information

A management information dashboard offers a rich set of features, including interactive graphical reports which enable the user to drill down to specific transaction processing elements. It provides real-time access to essential information, while also allowing managers to perform trend analysis, thereby promoting their ability to budget.

Continually updated

TLM Collateral Management leverages knowledge from SmartStream's extensive and diverse client base. TLM Collateral Management is continually improved and updated with functionality relating to forthcoming regulations and with connectivity to new industry partners. Our QA testing as a service allows for clients to take releases more frequently and efficiently.

On-demand deployment

SmartStream offers on-demand access to TLM Collateral Management, via the cloud. With no hardware to buy and install, and thanks to SmartStream's long history of deploying on-demand software, firms can implement the solution within weeks – a significant advantage for organisations looking to become rapidly compliant with new regulations.

About SmartStream

SmartStream provides Transaction Lifecycle Management (TLM®) solutions and Managed Services to dramatically transform the middle and back-office operations of financial institutions. Over 1,500 clients, including more than 70 of the World's top 100 banks, 8 of the top 10 asset managers, and 8 of the top 10 custodians rely on SmartStream's solutions.

SmartStream delivers greater efficiency, automation and control to critical post trade operations including: Reference Data Operations, Trade Process Management, Confirmations and

Reconciliation Management, Corporate Actions Processing, Fees and Expense Management, Collateral Management, Cash & Liquidity Management and Compliance Solutions. Used independently or as a suite of solutions and services, clients gain a lower cost-per-transaction whilst reducing operational risk, aiding compliance and improving customer service levels.

For more information about SmartStream visit:
smartstream-stp.com