

Collateral Management

Front Office and Middle Office Solutions

Recent and emerging regulations governing OTC derivatives are focusing buy-side attention on the importance of collateral management. Collectively, regulations such as EMIR, Dodd-Frank, OSFO-BSIF, and other regulations based on the Basel/IOSCO policy framework have significantly increased collateral and margin requirements for non-centrally cleared derivatives. They also require that standardized OTC derivatives now clear through central counterparties (CCPs).

Additionally, the push toward T+1 collateral settlement cycles forces firms to seek efficiencies from both their technology solutions and their collateral management processes.

An effective collateral management program shields firms from counterparty risk, helps traders correctly price proposed trades, and provides a realistic assessment of trade viability by incorporating collateral costs.

Charles River Investment Management Solution (IMS) provides comprehensive collateral management capabilities, eliminating the need for 3rd party collateral platforms and costly integrations.

Key Benefits

- **Visibility** – Portfolio managers and traders share the same real-time view of trading and pledging activity
- **Risk mitigation** – Current and complete view of collateral helps avoid over/under-pledging
- **Control** – Automate and enforce compliance with CSA terms
- **Efficiency** – Improve collateral management team productivity with exception-based workflows



Front Office

Firms need to post initial margin for exchange traded and cleared derivatives. Additionally, new regulations now require designated firms to post and secure initial margin for uncleared swaps. Charles River provides real-time, pre-trade margin estimates for exchange traded futures, options on futures, cleared credit and rates as well as uncleared OTC derivatives.

Middle Office

The number of margin calls being issued has increased rapidly, straining middle and back office resources. Collateral management teams need to stay in synch with trading activity and be in constant communication with the respective counterparties through reports, emails, faxes and phone calls to help ensure margin calls are fulfilled in a timely manner.

Charles River automates the collateral management life cycle, enabling middle office staff to manage the process efficiently and minimize avoidable errors. Capabilities include:

Alerts: Notify collateral management team when pledged collateral is traded.

Margin Estimates: View intraday and end-of-day initial and variation margin estimates.

Margin Call Workflow: Track incoming and outgoing margin calls from initiation to settlement without relying on spreadsheets, phone calls or emails.

Rules-based Reconciliation and Dispute Identification: Automate resolution of disputed reconciliations with easy access to all necessary data.

Collateral Inventory: Users can configure collateral eligibility requirements and rules-based discounts (aka "haircuts") from within Charles River IMS. Firms also have the ability to indicate collateral preferences and ranking.

Collateral Tracking: Collateral status can be updated through proposal, acceptance (or rejection) and settlement.

Messaging: Partnerships with messaging service providers support electronic margin and collateral communications.

Settlement: Enables straight through processing (STP) of settlement instructions.

Compliance

Charles River's integrated compliance capabilities can mitigate potential compliance breaches. For example, traders require visibility into whether a Credit Support Annex (CSA) exists for the fund. Charles River enables clients to set up both bilateral (uncleared) and cleared CSA agreements. When the portfolio manager allocates an order pre-trade, Charles River verifies that a CSA exists for each allocated fund comprising the order — and prevents a trade if not.

Eliminate Outsourcing Risk

Charles River's integrated front and middle office capabilities avoid the risks posed by outsourced solutions by helping ensure timely and complete views of pledged and available collateral:

- Newly pledged collateral is immediately visible in the trading book, indicating a position is no longer available to trade
- Real-time notifications of over-pledged collateral can alert traders in time to allow for substitution
- Portfolio managers can make better decisions and reserve only the necessary amount of collateral
- Unpledged collateral is immediately available for trading



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