

# Collateral Management

## Efficient structuring and sustainable optimisation

Collateral management (CM) is more important than ever before. It is one of the keystones on which today's financial markets are founded. Using a versatile and detailed methodology, an efficiently managed CM is a catalyst for new business models and generates higher revenues. Is your CM effectively structured? Can your current CM process be optimised?

## Collateral management is important to the entire finance industry

Regulatory requirements such as EMIR or the Dodd-Frank Act hinder participants on the financial market. In the future, they will be obliged to clear standardised OTC transactions via central counterparties (CCPs) and secure with collateral. At the same time, cost pressure is building up steadily due to an increase in liquidity and capital requirements e.g. in accordance to Basel III/CRD 4.

Optimising collateral selection and allocation processes will help to provide a decisive competitive advantage.

## Initial situation

Collateral is used in different areas:

- \_ OTC and listed derivatives
- \_ Secured funding
- \_ Mandatory CCP clearing for certain derivative classes
- \_ Settlement

In parallel, non-transparency of CM increases:

In general, different departments and systems, such as OTC trading, Listed Business, Operations, Risk Management, Controlling and Accounting are responsible for administration of finance transactions to be collateralised. The different product classes and counterparties (bilateral counterparties, stock exchanges, CCPs) result in parallel and individual process structures.

The consequences of extensive fragmentation and a diverse IT landscape are opaque, inefficient and thus cost-intensive collateral processes.

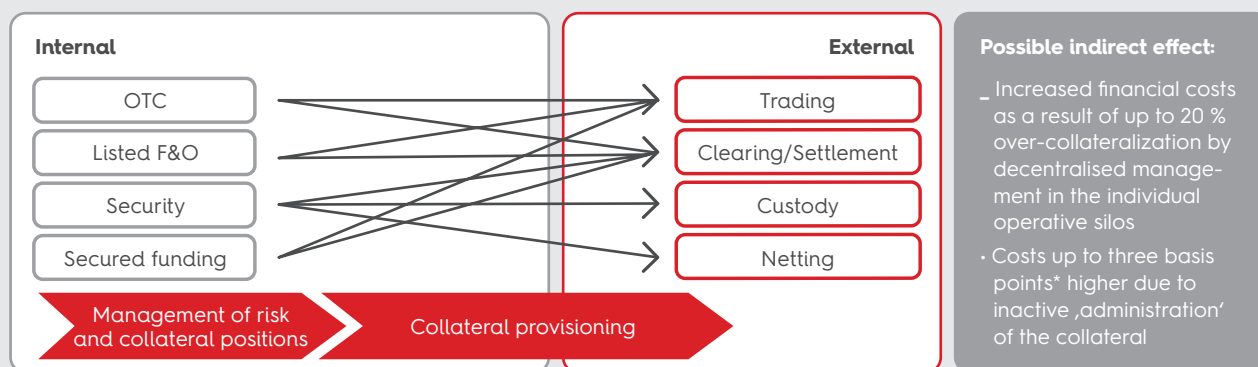


Fig. 1: Example of a fragmented CM process

\* 1 basis point corresponds to 1/100 percentage point

## Efficient collateral management

The criteria for successful implementation of an efficient CM are summarised as follows:

- \_ Identification of all available and deposited assets by a central department (covering all business fields, legal entities, currencies, asset classes, locations)
- \_ Fast, secure and reasonable asset mobilisation
- \_ The extent to which each asset is available is clear at all times

## Identify inefficiencies

Identifying existing inefficiencies allows efficiency measures to be derived and cost reductions to be implemented in the overall process.

Possible inefficiencies include:

- \_ Incomplete overview of collateral
- \_ No central collateral management
- \_ High costs due to separate management of several collateral pools
- \_ Inadequate processes for internal cost allocation
- \_ High staff costs due to complex and inefficient processes
- \_ Considerable IT costs due to development and maintenance of internal and external interfaces and a fragmented system architecture

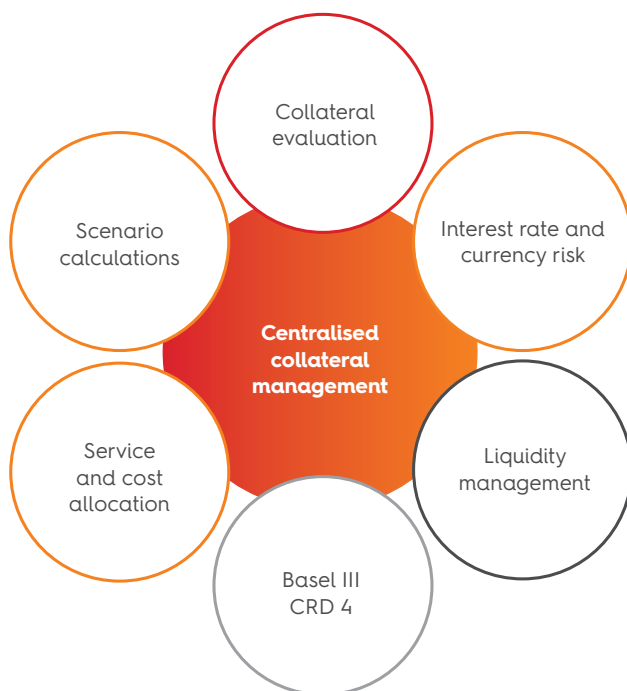


Fig. 2: Overview of centralised CM

In summary, the main cost driver is the lack of centralised management in the use of collateral.

Centralisation and sustainable optimisation harmonise processes, thereby minimising structure and financing costs.

## Our service offering

Take advantage of our banking expertise and our technical know-how. Sopra Steria offers companies business services and transformation programmes based on state-of-the-art IT.

We believe that the transformation programmes must be implemented in a SMART way:

- \_ S: shared
- \_ M: measurable
- \_ A: adapted
- \_ R: responsible
- \_ T: timely

Sopra Steria Capital Markets Team assists and guides its customers towards efficient CM during the transformation process. Our service offering features a modular structure to ensure that client-specific requirements and developments are taken into account as far as possible.

### Modul 1: Check

We work with you to analyse the current status of your CM. This includes interviews with employees from Treasury, Front Office, Operations and IT. The analysis reveals the initial potential for optimising existing processes, the operative governance model and the IT infrastructure.

### Module 2: Target model

Together, we develop a target model based on the as-is analysis of the check (Module 1), the defined objectives and our specialist expertise.

We take your specific business model into account to define:

- \_ The optimised target state of the business architecture
- \_ The requirements catalogue for the future IT architecture
- \_ The specification of the future structure and responsibilities matrix

### Module 3: Gap analysis and roadmap

We analyse organisational, processing and technical differences between the as-is state and the to-be state.

The benefits are clearly highlighted. The complexity, workload and costs involved in establishing an optimised target state are then assessed.

We subsequently use an implementation roadmap to show how and when the defined organisational, process and IT measures will be implemented.

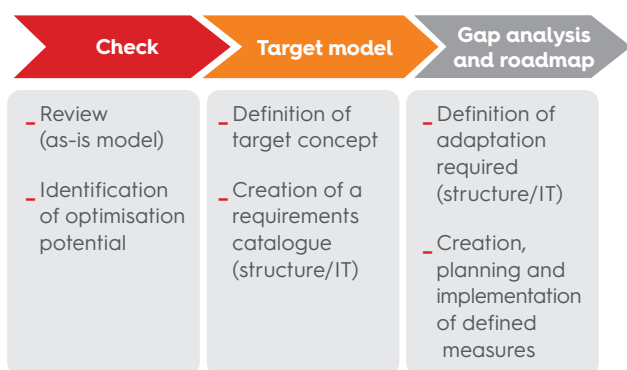


Fig. 3: Our customisable service offering

## Example implementation measures

- Streamlining and/or consolidation of existing processes to achieve the utmost level of effectiveness
- Creation of a CM data warehouse as the basis for centralised evaluation, management and reporting
- Outsourcing of CM functions by incorporating external service providers, such as tri-party collateral agents
- Selection and introduction of standardised CM systems, including system integration and process adaptation
- Development of tailored software solutions for the specific CM process

## Individual software solutions

Current IT solutions for CM are most often used for administration and disposition of collateral. They feature optimisation potential on three levels.

- Often designed as local support for trading, they do not form a basis for centralised collateral management
- The fragmented system architecture pushes up costs unnecessarily, especially for maintaining internal and external interfaces
- They restrict implementation of transparent processes and cost accountability

We guide and assist you throughout the transformation process (see Modules 1 to 3) to provide you with an optimum IT structure for CM.

The Steria Collateral Optimizer software solution serves as a basis for meeting general and individual target requirements. This application is adapted to address specific needs. The focus is on overall objectives, CM process consolidation and optimisation, and client-specific requirements, such as special management reports.

In this way, a software solution is designed that combines the best of both approaches:

- It is standardised to a sufficient extent to anchor transparency and efficiency in your CM processes
- It also offers the flexibility necessary to ensure that it can be adapted to specific requirements

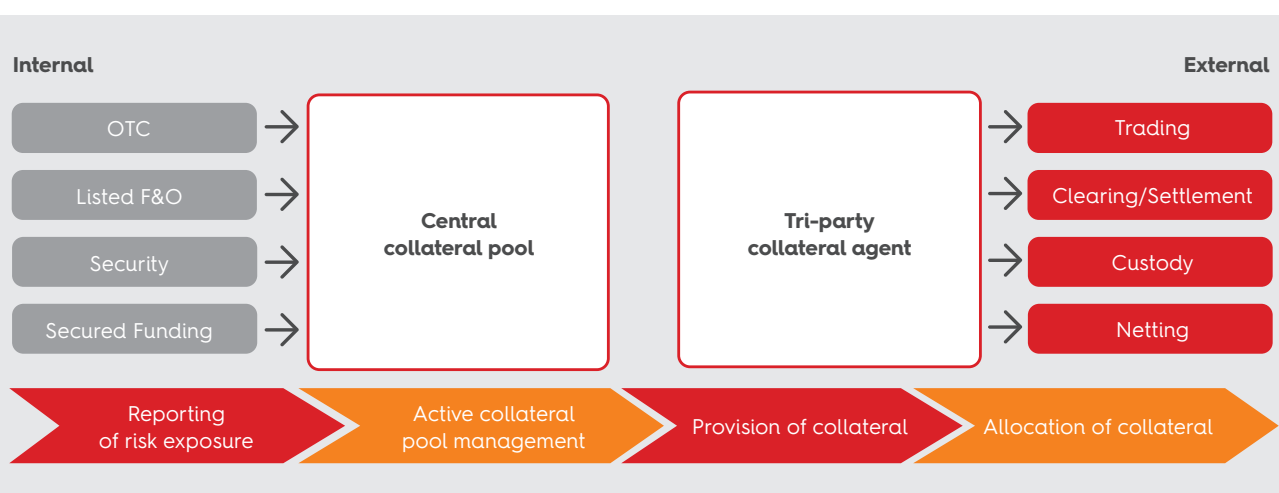


Fig. 4: Example of an optimised CM process

The use of a central solution maximises transparency thanks to clear structures and freedom of choice in your operational processes. This framework forms the ideal foundation for business development.

A key component in this process is the direct, fair allocation of costs for collateral and the transaction to be collateralised as well as the revenue derived from its provision.

Efficiency in the collateral selection process is maximised in accordance with a customised setup of the evaluation factors. This ensures efficient and optimised collateral allocation.

## Conclusion

- \_ Efficient, sustainable optimised CM reduces complexity and costs
- \_ Central CM ensures optimal allocation of assets
- \_ The improved profitability of the whole process optimises the cost structure and increases market opportunities in business activities



### Speak to us today

and discover our state-of-the-art Collateral Optimizer solution. Sopra Steria will assist you in optimising your CM processes and system while eliminating unnecessary IT costs..

## About Sopra Steria

Sopra Steria, a European leader in consulting, digital services and software development, helps its clients drive their digital transformation to obtain tangible and sustainable benefits. 45,000 experts in 25 countries provide end-to-end solutions to make large companies and organisations more competitive by combining in-depth knowledge of a wide range of business sectors and innovative technologies with a fully collaborative approach. Sopra Steria places people at the heart of everything it does and is committed to making the most of digital technology to build a positive future for its clients.

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**The world is how we shape it**