

Clearstream Global Liquidity Hub

Newsletter

01/16

New agency securities lending services



Customers can now benefit from agency lending services as part of the Global Liquidity Hub's strategic securities lending suite. A partnership with Eurex Clearing's lending CCP provides customers with the additional safety of centrally cleared trading.

Agency lending via a central counterparty (CCP) such as Eurex Clearing is an attractive means of enhancing yield through strategic lending while minimising credit and systemic risk since the CCP is the legal counterparty to all loans. The service is perfectly suited to large lenders who are looking for secure, regulatory-compliant strategic lending solutions.

Fully integrated securities lending

As a neutral agent, Clearstream arranges the loans between the

borrower and the lender via the SecLend market (offered by Eurex Repo). An experienced distribution team negotiates the best possible rates with borrowers to ensure attractive lending conditions.

Once the trade is agreed, Clearstream's Global Liquidity Hub performs all the necessary administrative and operational steps, including account movements, recalls, returns, rerates, income events, corporate actions and reporting.

Standard agency lending

The agency lending service via a CCP is part of an entire suite of securities lending services under the Global Liquidity Hub. Customers can also benefit from standard agency securities lending services without a CCP.

The standard service gives lenders full control of the risk – they select their counterparties, set collateral eligibility criteria and impose tailored credit and concentration limits. Lenders can carry out more structured trades compared to other securities lending services.

Customers can maximise the use of their assets and the associated yield by signing up to the entire securities lending suite of the Global Liquidity Hub. In addition to the agency securities lending services, lenders can also benefit from the principal securities lending service (ASLplus) to increase portfolio yield. Assets can also be distributed via the automated securities lending service (ASL) to cover settlement fails as a last resort.

Securities lending for central banks

Central banks worldwide have been using Clearstream's principal securities lending service ASLplus to lend their foreign reserves since 2006 – 10 of the top 15 lenders in ASLplus are central banks.

The Global Liquidity Hub has become an even more attractive tool for central banks to increase liquidity in capital markets under the European Central Bank's quantitative easing programme. The Public Sector Purchase Programme (PSPP) was recently extended: national central banks can now purchase up to 33% of domestic shares per ISIN. This increases the pool of assets that can be purchased by central banks and lent out.

To avoid the creation of a collateral shortage through this significant withdrawal of high-quality liquid assets (HQLA) from the market, the ECB

actively encourages national central banks to reinject the securities into the market via securities lending.

Clearstream's securities lending services under the Global Liquidity Hub are the ideal tool for Eurosystem central banks to meet this ECB mandate. For example, Clearstream's automated securities lending and borrowing (ASL) and strategic securities lending (ASLplus) programmes are the lending services of choice of Deutsche Bundesbank, Banca d'Italia and Latvijas Banka for securities purchased under the PSPP.

Since December 2015, central banks can also choose the new agency securities lending service via CCP for this purpose. The service is offered jointly by Eurex Repo, Eurex Clearing and Clearstream.



Securities lending for fund managers

Clearstream's KAGplus service enables investment management companies such as UCITS, AIF and their custodian banks governed by German law to maximise the use of their assets through securities lending in full compliance with new UCITS and ESMA rules.

While securities lending is a useful tool for UCITS and AIF fund managers to increase their performance, stringent UCITS and ESMA rules restrict these activities in the interest of investor protection. However, all

lending activities under Clearstream's KAGplus securities lending programme comply with these regulations.

A unique legal framework

The KAGplus lending programme has a special legal framework with more standardised and streamlined rules for subscribers. This is possible due to Clearstream's unique status of organised system which has recently been reconfirmed by the German financial regulator BaFin.

As Clearstream is the only provider with this status, KAGplus is the only securities lending service on the market which is exempt from counterparty concentration limits or collateral segregation requirements.

Collateral management improvements with T2S

Clearstream will offer harmonised collateral management and securities lending services for CSD and ICSD customers once Clearstream joins TARGET2-Securities (T2S). Customers will be able to pool their assets, including equity, at the CSDs in Germany and Luxembourg, making them their gateway to T2S for use in the ICSD's securities lending and collateral management services. For example, it will be possible to conduct triparty repos with commercial and central bank money with CSD assets.

Full triparty interoperability

Once Clearstream joins T2S, there will be full triparty interoperability between Clearstream's CSDs and the ICSD. This will result in improved liquidity management while customer can optimise collateral use across their entire European asset pool. At the moment, it is not possible to use CSD assets to collateralise triparty repos, the assets have to be transferred to the ICSD manually and it is only possible to perform triparty repo in commercial bank money. However, under T2S, it will also be possible to conduct triparty

repos in central bank money using assets under custody at the CSDs Clearstream Banking AG in Germany and LuxCSD in Luxembourg.

It will also be possible to use the assets pooled at the CSDs for triparty CCP margining, CCP-cleared repos and the collateralisation of OTC derivatives amongst other things. The aim is to have full triparty interoperability across the Clearstream CSDs and the ICSD which will be performed by a single, state-of-the-art collateral management system.

New features

The Global Liquidity Hub will also be enhanced with new features in the run-up to T2S. An automatic sweep functionality will enable customers to move their CSD assets to the ICSD to benefit from the ICSD's more advantageous operating hours. Customers can benefit from the sweep for collateral management using their own assets as well as for triparty repos and collateral re-use.

To keep customers' settlement costs to a minimum for the automatic allocation of collateral in the Global Liquidity Hub, Clearstream is introducing a "same settlement system first" rule. This ensures that assets in the same securities settlement system (CSD or ICSD) will be given priority in the collateral allocation over assets of a similar collateral quality in another system.





New online connectivity for collateral management

The collateral management module on the Xact Web Portal gives customers a clear, comprehensive overview of their ICSD collateral management with the Global Liquidity Hub.

Since November 2015, this new connectivity solution offers customers enhanced features in addition to long-established online functionalities such as exposure view, instruction creation and MIS reporting. All information is readily available at a glance and in real-time.

Trade simulation tool

One new feature is a trade simulation tool which uses live data to display trading capacity. The tool not only bases the simulation on assets held at Clearstream, it also enables customers to import external portfolios to their account. This unique service gives customers an overview of all assets, even those held at other custodians around the world.

Business Monitoring Centre

The Xact Web Portal now also includes a business monitoring tool, which can be tailored to customers' needs to ensure each exposure is collateralised in an optimal manner. Customers can schedule queries at defined intervals and receive email alerts based on different triggers, for example, when an exposure is under-collateralised above a set threshold or when trades remain unmatched after a certain period of time.

Rule-based collateral baskets

Since November, ICSD customers have also been able to create bespoke, rule-based collateral baskets. This unprecedented level of customisation not only offers the greatest flexibility to react swiftly to market developments but also ensures that the baskets mirror customers' risk profiles as precisely as possible.

By freely mixing and matching all available parameters for collateral eligibility, haircuts and concentration limits, customers can fine-tune their risk profiles to the highest degree. This makes it easier for customers

to react to market changes in the current fast-paced environment. The new baskets are available for all collateral management services under the Global Liquidity Hub.

Full transparency

In addition, collateral receivers are now able to view all their collateral profiles throughout the entire lifecycle of a trade, while collateral givers have a consolidated overview of eligibility criteria and concentration limits for all contracts signed with their counterparties. This results in greater transparency as all impacted parties will have access to up-to-date information.

The ClearstreamXact connectivity solution will give customers a single point of access to the full range of ICSD and CSD services with T2S once the common European settlement platform has been fully implemented.

Services in support of EMIR compliance

Upcoming regulations such as EMIR will introduce additional margin requirements on uncleared derivatives to reduce systemic risk. As a result, both financial and non-financial counterparties will be required to post initial margin on a two-way gross basis.

Initial margin segregation via triparty collateral management

The necessary collateral must be segregated at a non-affiliated third party custodian or triparty agent such as Clearstream. This will significantly increase the amount of collateral needed for OTC derivative trading and will put pressure on counterparties to mobilise collateral more efficiently. Clearstream customers can leverage their existing setup for triparty collateral management services under the Global Liquidity Hub for meeting these margin requirements. As a neutral agent, Clearstream already has the necessary operational structures in place for segregating initial margin collateral for both cleared and uncleared transactions.

Clearstream's account structure enables customers to hold multiple currencies and asset classes in a single location. Initial margin will be held in segregated accounts under a pledge structure in line with regulatory requirements. In addition to their fixed income assets, customers looking to diversify their eligible collateral can include equities and money market funds. This single collateral pool effectively bridges bilateral and triparty trades to reduce inefficiencies from collateral fragmentation.

In addition, customers will benefit from collateral transformation and cash reinvestment opportunities.

New legal agreement

In addition to this advantageous operational setup, customers will also benefit from a simplified legal setup for the collateralisation of internal margins.

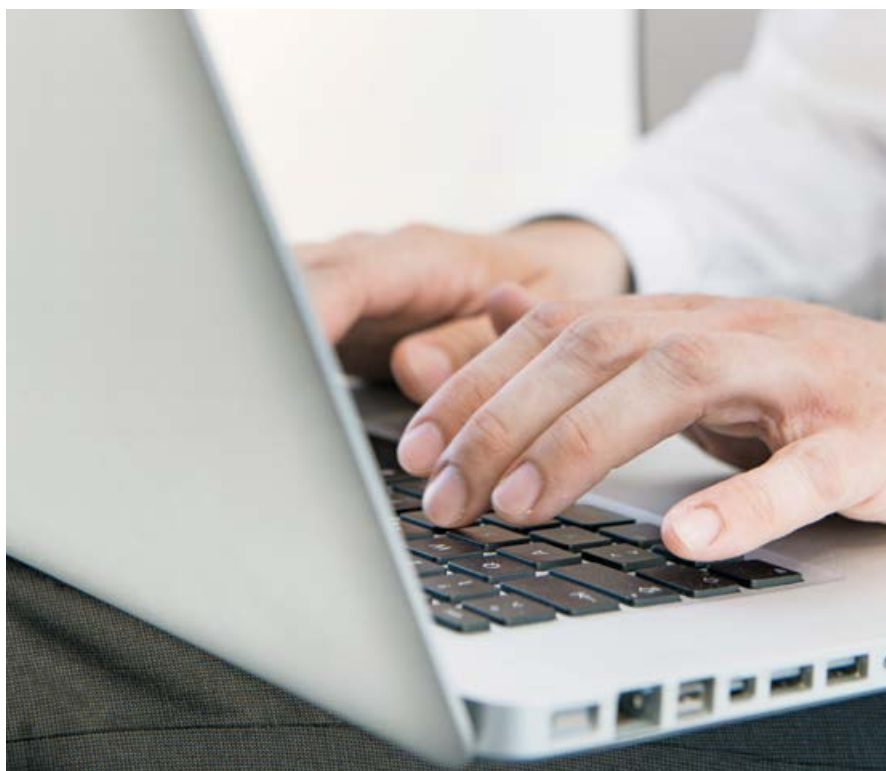
Following the success of the Clearstream Repurchase Conditions, customers will soon be able to choose a similar legal agreement for collateral pledges to cover their initial margin requirements under EMIR. This multilateral margin agreement, the Clearstream Pledge Conditions, only needs to be signed once by each customer to be valid for all counterparties who have signed it.

Essentially, the Clearstream Pledge Conditions set out a common framework for the core terms governing the exchange of initial margin. Additional terms such as eligible collateral, haircuts and concentration limits can be tailored to each counterparty on a bilateral basis.

OTC Collateral: Bilateral collateral management outsourcing

EMIR not only requires the posting and segregation of initial margin, it also imposes the exchange of variation margin on net basis between all market participants. Clearstream's OTC Collateral service enables customers to outsource the overall collateralisation of all their derivative exposures to the Global Liquidity Hub.

The service covers all aspects of bilateral collateral management from CSA review and administration, mark-to-market, margining, dispute management and portfolio reconciliation to payment and settlement follow-up as well as reporting. The collateral received from bilateral transactions through the OTC Collateral service can be readily reused within the triparty environment of the Global Liquidity Hub.



GC Pooling update

We are constantly expanding our GC Pooling services globally to significantly increase the cross-border use of assets. Recent service upgrades include the extension of the range of eligible bonds as collateral and the possibility of USD overnight trades.

GC Pooling offers a user-friendly electronic platform for secured money market trading on an anonymous basis for EUR, CHF and USD funding. Customers are provided with a single point of access to straight-through processing services from several Deutsche Börse Group entities:

Eurex Repo provides the trading platform, Eurex Clearing clears the trade and Clearstream performs the settlement and collateral management. Customers can choose from a wide selection of standardised fixed income and equity collateral baskets as well as baskets of ECB-eligible securities, which can be reused directly to access Eurosystem credit facilities.

Extended collateral eligibility

One of the latter baskets, GC Pooling ECB EXTENDED, now also includes Italian, Irish and Spanish covered bonds issued by credit institutions as well as bonds issued by regional governments. This means that 500 additional Italian, Irish and Spanish securities are now eligible as collateral for triparty repo trades in GC Pooling.

In addition, the GC Pooling INT MXQ basket has been extended to non-sovereign and non-supranational bonds from issuers such as credit institutions (covered bonds) and regional governments mainly from outside the Euro area. This enlarges the basket by around 1,700 securities with an issued volume of about EUR 3,5 trillion.

In addition to this broader range of eligible assets, the baskets have also been rendered more attractive thanks to the introduction of additional services for USD. For example, USD overnight terms are now possible in the GC Pooling market with both baskets mentioned above as well as with the GC Pooling ECB basket.

Collateral management for secured instruments

Secured instruments have gained popularity since the financial crisis. Clearstream is registering a growing interest of issuers in collateral management services for this growing asset class.

Secured instruments are a collateralised form of issuance. Once the instrument has been issued via Clearstream's German CSD, the issuer

posts collateral via Clearstream's Global Liquidity Hub in the CSD or ICSD environment to cover the value of the issue at all times as defined in the security's prospectus. Clearstream acts as a neutral fiduciary agent on behalf of the investor and blocks the collateral to protect the investor in the event of a default by the issuer.

As the collateral is allocated in real time, the issuer only needs to collateralise the portion of the issuance that is sold to investors. Clearstream's

collateral management engine automatically allocates and substitutes the collateral and provides customers with comprehensive reporting.

Collateral management for secured instruments is an attractive service for both issuers and investors: investors benefit from lower risks and issuers attract a larger pool of investors. The service is increasingly popular, for example, BNP Paribas recently chose it for a secured issuance programme in the German market.

Risk management for Eurosystem collateralisation

The European Central Bank determines which assets are eligible for use as collateral in Eurosystem credit operations. For example, a Eurosystem counterparty may not submit any assets issued or guaranteed by itself or by an entity with which it has close links.

As a risk control measure, valuation haircuts are currently applied to eligible assets, depending on the type of collateral, residual maturity, credit quality and coupon structure. Going forward, the Eurosystem will also provide an additional valuation haircut for covered bonds eligible for own use.

Banque Centrale du Luxembourg and Deutsche Bundesbank will provide Clearstream's ICSD and CSD respectively with a list of affected securities on a daily basis, enabling Clearstream to apply the valuation haircut depending on the type of the securities.

Staff news



Philippe Seyll

Philippe Seyll was appointed Head of Global Securities Financing at Clearstream in November 2015. Going forward, Philippe aims to further extend the reach of the Global Liquidity Hub by strengthening partnerships with market infrastructures, local and global depositories as well as electronic trading platforms. He will also focus on improving services for the US and Asia and will ensure customers get the most out of T2S thanks to unique collateral pooling opportunities with Clearstream.

Philippe is co-CEO and Member of the Executive Board of Clearstream's ICSD. In addition to Global Securities Financing, he is responsible for Investment Fund Services. Philippe is also Chairman of LuxCSD, Clearstream and BCL's joint CSD in Luxembourg.

Prior to joining Clearstream in 2005, Philippe was Managing Director, Head of Investment Managers, at Bank of New York, London. Previous positions include Head of Sales and Marketing for Europe at Banque Indosuez, Luxembourg, and Relationship Manager for France, Belgium and Luxembourg at SWIFT. Philippe also sat on the EFAMA Board.

Philippe holds a Master of Science in Management, Computer Science and Mechanical Engineering.



Aurélie Basso

After four years in the securities lending team, Aurélie took up a new position as Head of Product Management for Securities Lending in October 2015. Her team covers fails and strategic lending, including the recently launched agency lending service with Eurex Clearing. Her previous positions at Clearstream include Head of GSF Lending Operations and she also spent a few months in Singapore to set up the new GSF Operations desk in 2010.



Claire Collard

Claire joined GSF Sales in January 2015 as a Documentation Assistant. She ensures a smooth documentation flow for new and existing customers, from onboarding to amending contractual arrangements. She liaises closely with GSF Operations. Before joining GSF, Claire worked as a Junior Tax Administrator in Clearstream's Tax department.



Filipe Branco

Filipe has been a GSF Sales and Relationship Manager for Southern Europe and The Netherlands since July 2015. Prior to taking up this position, he spent over six years in GSF Operations and another four years in other operational units within Clearstream. This diverse operational background enables Filipe to advise customers on all Global Liquidity Hub products and services.



Anne-Kathrin Hasdorf

Anne has been managing securities lending products offered by Clearstream's CSD in Germany since August 2015. Prior to joining the GSF product management team, she had worked in customer service since 2008 and later supported T2S-related and client onboarding projects. With Clearstream's support, she recently completed a MSc in Banking and Finance at the University of Luxembourg.



Xavier Isnard

Xavier joined the GSF team in December 2014 on the ASLplus securities lending desk as a trader. Xavier's primary role is to distribute the lendable assets that are part of our ASL and ASLplus programmes. Prior to this position, Xavier worked as part of the interbank structured products sales team at Société Générale in London for two years. He holds an MSc in Economics and Finance from Panthéon-Assas University of Paris and an Advanced Master degree in Market Finance from ESCP Europe business school.



Elisa Poutanen

Elisa joined Clearstream's GSF Continental Europe Sales team in August 2015 to cover Nordic markets as well as Belgium, Luxembourg and Switzerland.

Before joining Clearstream, Elisa spent twelve years with BNP Paribas Securities Services in Paris. She held various positions in custody, treasury and market services, including the management of client service and business development support teams.



Matthieu Topkimoff

Matthieu joined GSF Sales in March 2015 as a Relationship Support Officer for the Benelux and Nordic countries as well as Switzerland. Prior to this, he worked in GSF Operations on the repo and securities lending desks. Matthieu holds a MSc in Finance from Coventry University.

Market-leading triparty services

The Global Liquidity Hub once again received top scores in industry surveys. In the triparty survey by Global Investor magazine, Clearstream achieved the highest global and EMEA score when all respondents were considered, leading the magazine to describe Clearstream as "the standout performer of the 2015 survey".

The Global Custodian magazine survey yielded similar results with Clearstream exceeding the survey average on all questions. Clearstream was particularly commended for its "impressive ability to get to grips with what clients want".



Contact information

For further information on our Global Liquidity Hub services, please contact our dedicated GSF team.

gsf@clearstream.com
www.clearstream.com

Luxembourg +352-243-36868
Frankfurt +49-(0)69-211-12757
London +44-(0)20-7862-7142
Singapore +65-6597-1622
Hong Kong +852-2530-7404
Dubai +971-4-359-9333
New York +1-212-309-8885