

THE NEED FOR COLLATERAL OPTIMISATION

Nowadays, risk management is the main priority of regulators worldwide. As a result, new rules aim for a greater collateralisation of trades and will increase the number of transactions that go through clearing houses. These new regulations have the effect of increasing the global need for collateral. Financial institutions therefore need better collateral management to unlock collateral buffers and optimise the use of this scarce resource.

One of the main challenges is the fragmentation of collateral across multiple locations which makes it very difficult to move the right collateral to the right exposure at the right time.

A study carried out by Accenture for Clearstream estimated that up to 15 percent of available collateral in the banking system was unused, costing the industry over EUR 4 billion annually. It concluded that many institutions were unable to have a single view of their collateral – a single pool – and even more were unable to ensure their collateral was used in the most cost-effective way.

Indeed, collateral optimisation is now recognised as one of the biggest challenges for both financial and non-financial institutions and many of them are looking to their central securities depository to provide these services.

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LIQUIDITY ALLIANCE

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A SUSTAINABLE SOLUTION
TO MEET THE GLOBAL
COLLATERAL CHALLENGE



LIQUIDITY ALLIANCE

THE LIQUIDITY ALLIANCE IN A NUTSHELL

The Liquidity Alliance is a partnership of market infrastructures providing common and sustainable collateral management solutions for the global financial industry.

The Liquidity Alliance members share a white-labelled collateral management technology that is unique in the industry as it enables domestic assets to remain in custody within the domestic infrastructure and the domestic jurisdiction – a fundamental requirement in many markets.

While the solution has currently been implemented to service domestic markets, everything is in place to also provide cross-border collateral mobilisation in real-time.



A PARTNERSHIP APPROACH

Financial and non-financial institutions are naturally turning to market infrastructures to meet their increasing collateral management and optimisation needs. As it is very expensive and time consuming to develop collateral management systems from scratch, many of these infrastructures prefer to partner with experienced providers.

The Liquidity Alliance was founded by infrastructures which share this partnership approach and have therefore decided to use a common collateral management platform. The collaboration greatly reduces the roll-out time to between ten and eighteen months. It also enables the members to identify common customer needs which can be integrated into the award-winning collateral management system used by The Liquidity Alliance.

A UNIQUE COLLATERAL MANAGEMENT SOLUTION

The Liquidity Alliance uses a unique, white-labelled collateral management technology which enables domestic assets to remain in custody within the domestic infrastructure and the domestic jurisdiction.

THE KEY ADVANTAGES OF THE LIQUIDITY ALLIANCE AT A GLANCE

The Liquidity Alliance solution leaves collateral in customer accounts at the local depository:

- The **location and legal jurisdiction** of the collateral remains **unchanged**;
- Securities stay in **local accounts in the name of the customer**;
- **Securities can be moved** between customer accounts **in real-time** for immediate use;
- Movements of securities and collateral optimisation can be done anytime in accordance with **local market conventions and operating hours**;
- There is **no additional systemic risk** since the local depository remains in control of the collateral.

The collateral solutions provided by **other service providers** require assets to be moved into their books:

- The **collateral location changes** from domestic to the service provider's legal jurisdiction;
- Securities are moved to an **account in the name of the service provider**;
- **Securities first need to be transferred** to and from the service provider for further use;
- Movements of securities and collateral optimisation are only possible in accordance with **the service provider's market conventions and operating hours**;
- There is **additional systemic risk** towards a non-local service provider.

This technology enables The Liquidity Alliance members to act as collateral agents towards their markets while leveraging Clearstream's award-winning capabilities. The Liquidity Alliance therefore supports the growth of local markets and develops their collateral management capabilities without extracting domestic assets into an external infrastructure or a custodial (long box) model.

JUST THE BEGINNING

In addition to sharing a common platform, The Liquidity Alliance members encourage informed research, making The Liquidity Alliance a trusted source of pan-industry information, ideas and opinions. The fact that the members are from different regions across the world brings together a unique pool of global insight and expertise.

The Liquidity Alliance partners are advancing quickly in overcoming fragmentation and in enabling their domestic markets to use collateral more efficiently. Everything has been put in place to extend the services beyond domestic markets and to provide cross-border collateral mobilisation in real-time.

Market infrastructures from all continents are part of The Liquidity Alliance and the liquidity pool will continue to grow as more infrastructure providers choose this collateral management solution. The Liquidity Alliance is open to new partners who are interested in joining.

