



euroclear

Post-trade made easy

Triparty collateral management services

Creating secured financing opportunities
for your business

A world of opportunities

Secure your cash investment in triparty with collateral

Collateral management is one of the most efficient techniques available for mitigating counterparty credit risk. In the wake of the recent credit crisis, cash investors are increasingly seeking to use collateral to secure financial transactions. As a result, efficient utilisation of securities collateral has become essential in order to support sophisticated investment strategies.

Repurchase Agreements – or repos – are the most widely used transactions for securing cash investments with securities as collateral. A repo is an agreement in which one party sells securities to a counterparty and simultaneously commits to repurchase the same assets at an agreed future date at a repurchase price equal to the original sale price plus a return on the use of the sale proceeds during the term of the repo.

The buyer in a repo (the cash investor) has in effect secured his cash investment with collateral and therefore benefits from 'double indemnity' or 'double name risk' protection as his credit exposure on the counterparty is mitigated by the securities collateral. Should the seller default, the buyer has the right to liquidate the collateral in order to recover his cash.

Corporate treasurers, asset managers, fund managers, insurance companies and other cash investors are adapting their current business model by investing increasingly in secured money market instruments such as repos, thereby complementing or even moving away from activity in traditional unsecured investments (e.g. term deposits, commercial paper, certificates of deposit, etc).

However, managing securities collateral, requires a sound infrastructure and robust

processes as well as a high level of expertise. Accurate monitoring of the eligible securities is of major importance when using securities as collateral. Expertise is also required to value the collateral via daily mark-to-market and to set up appropriate haircuts in order to map the risk appetite of the firm. Equally vital is the need for high levels of automation in handling margin calls, substitutions and transfers of securities between the accounts of sellers and buyers in order to avoid creating operational risks.

Triparty collateral management: the outsourcing solution

All this can equate to a heavy operational burden. However, cash investors do not need to develop stand alone collateral management systems. Euroclear Bank offers a triparty collateral management outsourcing solution to all cash investors who wish to become active in the repo market. The solution includes a range of independent collateral management services that support them in their repo transactions – from initiation to maturity.

The Euroclear Bank triparty solution monitors the securities in repo trades on an on-going basis. The system automatically triggers margin calls and substitutions to ensure the collateral is always in line with the pre-defined criteria reflecting the counterparties' risk appetite. It also allows investors to maintain full control of the collateral exchanged via sophisticated reporting tools.

The Euroclear Bank triparty platform offers cash investors all the benefits of automation and high operational efficiency, enabling

clients to avoid operational risks. Just one instruction is all it takes to instigate the whole automated collateral management process – from initiation to maturity including the management of corporate events – for as many repo trades and counterparties as wished.

Euroclear Bank's triparty collateral management service removes the whole operational burden of your collateral management activity. Accessing triparty repo is as easy as a cash deposit yet has all the safety features of a secured investment.

Triparty success story

Triparty repo has enjoyed tremendous success over the last decade, demonstrating its attractiveness in terms of operational efficiency, risk management and cost. In addition, the investment cost required to start operating is low. It comes as no surprise therefore that triparty has been the main entry point to the repo market for firms such as commercial banks, traditional money managers and funds managers and corporate treasurers.

More than 250 clients are now active in Euroclear Bank's triparty services, including all major market players. Cash investors can access the most active repo counterparties offering diverse risk profiles and take advantage of new business opportunities.

Triparty repo in Euroclear Bank

The two parties to a repo transaction delegate the collateral management function to Euroclear Bank, which acts as a neutral agent and a common custodian for the collateral held on behalf of both parties. The repo sellers and buyers capitalise on the dedicated expertise and infrastructure of Euroclear Bank's triparty services in order to maximise operational efficiency. At the same time, they minimise investment in back-office resources and IT on their side.

Euroclear Bank's offer – as a neutral triparty collateral agent – covers the following comprehensive suite of collateral management services:

- matching the deal terms;
- verifying collateral eligibility as specified in the triparty agreement;
- automating securities selection;
- automatic transfer of collateral by entering DVP settlement instructions and providing status reports;
- performing daily mark-to-market and handling automatic margin calls in order to ensure appropriate collateralisation of exposure on a continuous basis;
- automatic substitution of securities (DVP);
- automatic transfer of coupon; and
- notification of relevant custody events.

Cash investors maintain full control of the collateral received through dedicated on-line reporting, such as Triweb or the Margin Report, providing participants with data throughout the day. These reports allow close monitoring of triparty activity and contain data in up to 40 fields for each security in formats that are easy to integrate into participants' systems.

No charge for cash investors

The good news for cash investors is that triparty collateral management services in Euroclear Bank are completely free of charge. Reporting received via Triweb or the Margin Report is also completely free.

Getting started

For more information about triparty collateral management, please contact:

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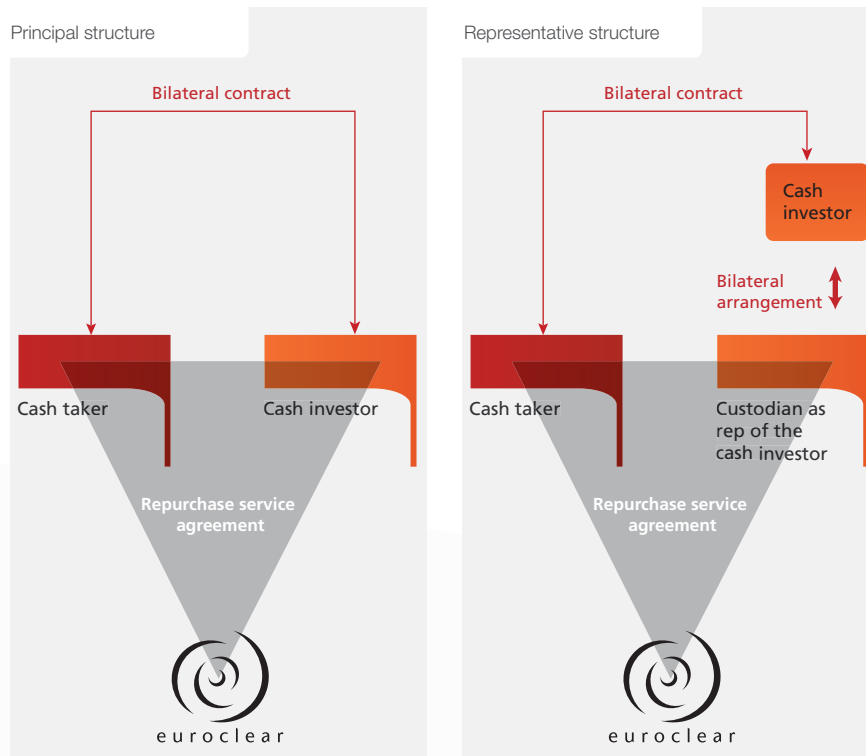
or contact your Relationship Manager.

Setting up triparty repo arrangements

Account structure

The cash investor (repo buyer) and his counterparty (repo seller) must first conclude a bilateral repo agreement, such as a GMRA, before entering into a triparty service agreement with Euroclear Bank.

Once the bilateral repo agreement is in place, counterparties can establish a triparty repo agreement. Euroclear Bank sets up dedicated securities accounts for the repo buyer. Two options are available for cash investors to access triparty services, making the triparty solution available to all. The first possibility is through a direct access, using a 'principal' structure where cash investors maintain an account directly in Euroclear Bank. Alternatively, they can operate through an indirect access, using a 'representative' structure whereby a custodian acts as an account owner on their behalf. In the latter case, custodian banks execute the contractual documentation on behalf of the cash investors.



Collateral eligibility profile

When entering into a triparty agreement with Euroclear Bank, cash investors and their counterparty define in the eligibility profile what securities will be accepted as collateral. The eligibility profile is completed up-front, at the agreement level, according to the risk management requirements of the cash investor.

The wide spectrum of criteria offered by Euroclear Bank gives buyers the opportunity to create collateral profiles that perfectly match the risk appetite of their firms.

Defining the accepted collateral allows the parties to exclude certain risks altogether. Limits on how much of each category to accept enforces the diversification of collateral.

Initial margin/haircuts provide a buffer against sudden and unexpected problems.

Collateral can be categorised in a wide variety of ways, such as by credit rating; market; type of security; country, minimum size of collateral allocated, etc.

Once the triparty agreement is signed, counterparties are ready to trade. Trade information, in line with market standards, can be sent using multiple communication channels, such as SWIFT MT527, EUCLID (the Euroclear proprietary communication channel), and/or fax.

Asset protection

The triparty outsourcing solution supplements the underlying bilateral agreement and does not affect the transfer of ownership of the assets received as collateral. In the case of a default, there is no difference in the treatment of collateral received bilaterally or in triparty. Buyers benefit from the asset protection offered by Euroclear Bank or by the custodian holding the collateral and they benefit from an unrestricted access to those assets.



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