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# Boots on the ground

What are the technology requirements for trading with a securities lending CCP? Martin Seagroatt of 4sight Financial Software has the answers

Interest in the concept of securities lending central counterparties (CCPs) has gathered pace in recent months as the Basel III capital cost savings and credit risk benefits of trading via a CCP become apparent. Market participants are now starting to run through their cost/benefit analyses and plan their clearing strategy. As a technology vendor, customers are asking about CCP support on a regular basis and some clients have already begun the onboarding process.

Our customers want to understand the workflow changes and modifications to existing technology systems required to begin clearing trades. So, from a technology point of view, what are the changes required in order to connect and trade via securities lending CCPs such as Eurex Clearing's offering?

## Connectivity

With the Eurex Clearing Lending CCP, there are a number of options to transmit trades. The first is via Pirum's Real-Time Service. Novation is also possible using the Eurex Repo platform or the SL-x trading platform.

With this in mind, 4sight Financial Software has developed support for Pirum's Real-Time service. This allows users of 4sight and the Pirum service to novate securities lending trades via the CCP—assuming they have the relevant clearing agreements in place with Eurex.

The Pirum Real-Time service matches trades between the bilateral counterparties and performs an integrity check to ascertain that the trade is suitable for clearing. It then transmits the trade for novation to Eurex Clearing's Lending CCP. Pirum also communicates any trade lifecycle events such as rate changes, recalls and returns with the CCP.

## Books and records

In terms of changes to books and records systems such as 4sight's, some configuration is required

in order to support clearing of securities lending transactions. The system must support the bifurcation of trades so they are flagged as either bilateral, triparty, or cleared in the system. For each bilateral trading counterparty that you will start to trade with via the CCP, a new cleared account must be set up for that counterpart. This allows the system to map out the requisite settlement instructions, market cut-off times and workflow.

Collateral agreements are managed by the triparty agent and therefore if you already use triparty then the process is much the same as when trading bilaterally. To support this, 4sight already offers interfaces with triparty agents that allow automated receipt of collateral allocations.

## Netting

The ability to net payments to the CCP will also offer efficiencies by reducing the number of collateral movements and operational costs. Potentially, we could even at some point see netting of margin requirements across all products traded with a CCP.

The question remains as to whether it is practical to receive a single margin call from the CCP across derivatives, securities lending and repo trades. However, if full cross-product netting ever becomes a reality, it could result in significant collateral cost savings and a reduction in operational workload.

## Pre-trade analytics

As the market becomes bifurcated between cleared and bilateral trades, a need will arise to check which option is most cost effective for a given trade. To meet this need, 4sight has developed a risk-weighted and capital cost analysis tool that enables you to simulate whether it is optimum from a cost point of view to route a trade through a CCP or bilaterally.

If prime brokers and agent lenders are going to

pass on the capital savings from trading via a CCP to clients, then this can help to model the transaction cost benefits in order to price CCP trades and fee splits correctly.

## Looking ahead

The market is starting to embrace the idea of a securities lending CCP. As more participants come aboard and cleared volumes grow, momentum will increase.

Moving to a new trading model can seem daunting. However, Eurex Clearing's Lending CCP preserves many of the nuances of bilateral trading. This means that the changes required to technology systems are relatively low impact and the onboarding process can be completed reasonably quickly.

Firms in the securities finance markets should now start engaging in a dialogue with customers and counterparties on clearing. The cost drivers behind the move to clearing are not going to go away. It is therefore important for each firm to begin the process of identifying their target operating model for CCP trading in order to adapt smoothly to the new paradigm in securities finance. [SLT](#)



**Martin Seagroatt**  
Head of global marketing  
4sight Financial Software