



THE BANK OF NEW YORK MELLON



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Collateral Management Services

Best Practices in Collateral Management Services

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Topics For Discussion

- **Overview of Collateral Management Services**
- **Collateral Management Key Components**
- **Tri-Party Repo**
- **Municipal Deposit Collateral Management**
- **Derivatives Collateral Management**

Overview of Collateral Management Services

- **An integrated approach to the management of collateral that has a goal to:**
 - **Optimize use of financial assets by making more collateral usable and optimizing how it is used**
 - **Reduce Cost & Enhance Risk Management by providing a fast, accurate service that ensures full compliance with regulatory and client requirements**
 - **Enhance the client experience by employing state of the art technology**
- **All service delivered via a fully integrated platform to simplify and streamline daily operations**
 - **Fast & Easy -- daily processing completed in a matter of minutes**
 - **User-friendly; enhanced front ends, coupled with robust processing engine**
 - **Flexible & robust reporting for clients, auditors and bank operations**
- **Three key modules provide a complete collateral management service:**
 - **Tri-party Repo**
 - **Municipal Deposit Collateral Management**
 - **Derivatives Collateral Management**

Collateral Management Key Components

- **Custody of collateral**
- **Pricing of collateral from independent 3rd. party vendors**
- **Verification of collateral eligibility**
- **Assurance of collateral sufficiency throughout the transaction**
- **Processing of collateral substitutions and margin calls**
- **Reporting to both parties in the transaction**

Benefits of Triparty Structure verses Bi-lateral Repo

***The tri-party structure mitigates operational risks inherent in a delivery structure.
Benefits of a tri-party transaction versus a delivery repo structure***

Delivery Repo Verses Payment (2-party)

Risk of settlement failures (collateral is moved over the FED wire, and therefore must meet Fed deadlines).

Investor incurs costs to receive and deliver securities and manage collateralization process.

Dealer and investor pay custody fees to agent bank.

Dealer and investor must agree on collateral prices.

Tri-Party Repo

Once securities are with BNY, there are no Fed deadlines to meet, therefore there is no failure to deliver and/or receive.

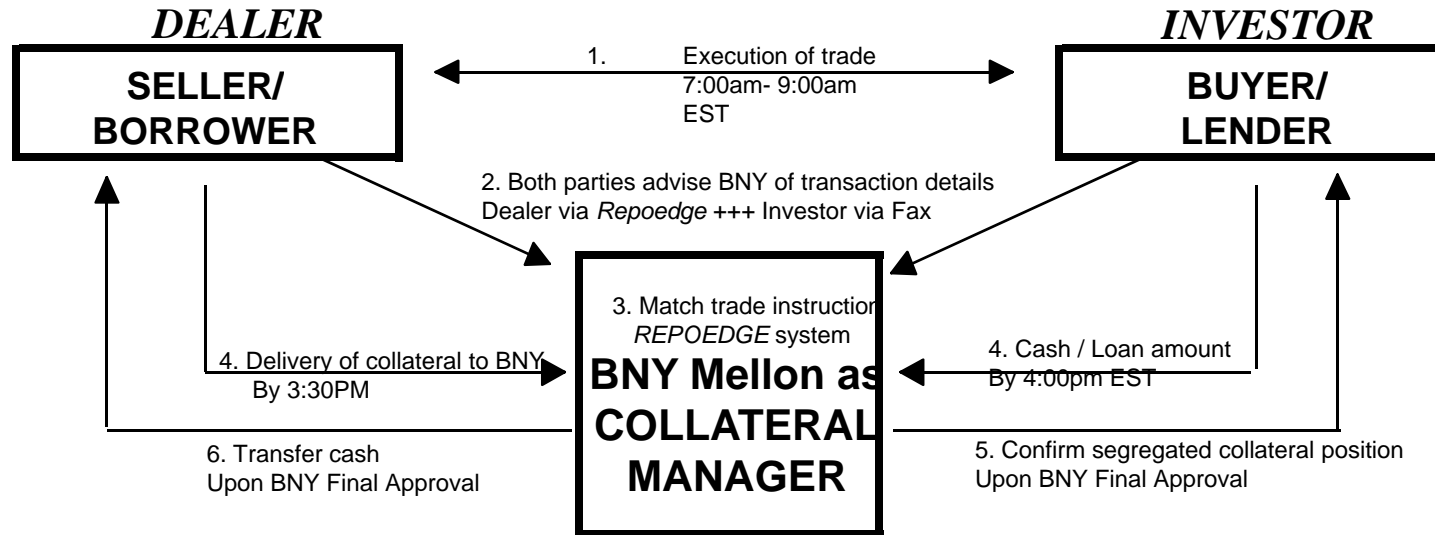
No Fed wire charges (allocation of collateral is a book entry move on BNY Mellon's books).

Collateral prices are provided by independent pricing sources.

Dealer pays all tri-party fees.

Reduces daylight overdraft charges.

Tri-Party Transaction Flow



- Upon the closing of the Fed Security system, Borrower(Dealer) moves securities from BNY Mellon’s *Government Securities Clearance system, (GSCX)* to *Repoedge*, BNY Mellon’s collateral management system.
- All allocated securities are held in a segregated account within the *Repoedge* collateral management system in the name of the Buyer/Lender.
- Tri-party “shells” and allocation of collateral performed by Borrower on *Repoedge* system.
- Reporting delivered to both parties via direct line communication and over the internet.

Benefits of BNYM Municipal Deposit Collateral Management

- **Optimizes use of investment portfolio**
 - **More of the investment portfolio can be used, e.g., small pieces**
 - **Over-collateralization is eliminated**
 - **Clients can prioritizing the use of collateral, enhancing its utilization**
- **Reduces Risk & Operating Costs**
 - **Process is fast and resource light**
 - **System ensures use of eligible collateral and correct margining**
 - **Virtually no risk of under-collateralization; eliminates waste of over collateralization**
- **Efficient For Municipalities**
 - **Collateral held by well capitalized third party Custodian who systematically verifies collateral eligibility and margin**
 - **Third Party Custodian prices collateral daily by using Pricing Vendors**
 - **Reporting on collateral details available on demand via internet**
 - **Auditing requests easily satisfied**

Benefits of Derivatives Collateral Management

- **Enables investment portfolio to be used more widely**
- **Reduces dependency on cash as collateral**
- **Reduces costs by facilitating netting and re-hypothecation**
- **Fully integrated with other portfolio management activities**



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