

TRI-PARTY COLLATERAL MANAGEMENT

Strate's journey thus far

AMEDA 16th Meeting
Kuwait, 28 November 2012



Leaving nothing to chance!

strate 

South Africa's Central Securities Depository

www.strate.co.za

Motivation for Strate offering Tri-Party collateral Management Services

Competitive Advantage:

As the Central Securities Depository in South Africa, Strate is:

- ***The trusted third-party,***
- ***Independent,***
- ***Neutral*** (never a counterpart to a trade),
- The holder of ***sacrosanct dematerialised records*** for Bonds, Equities and Money Market securities, all of which can be placed as collateral. As such is

The most suitable candidate as a 'Tri-Party Collateral Agent' in the South African Financial Services Market.

Window of Opportunity:

Currently there are ***no other*** Tri-Party Collateral Management service providers in the South African Market, thus Strate will enter as the Market leader.



Key Drivers

G-20
Recommendations

Strengthen Bi-lateral Risk Management

Increase Capital Requirements

Increase Transparency



- Resulting in a ZAR 900 Billion funding liquidity shortfall for Banks



- Increased capital adequacy requirements for Life Companies



- Increased collateralisation requirements



Current South African Collateral Market

Different offices/
divisions/systems



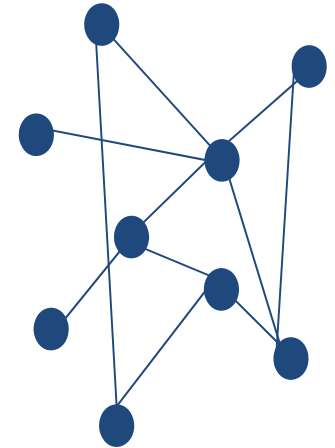
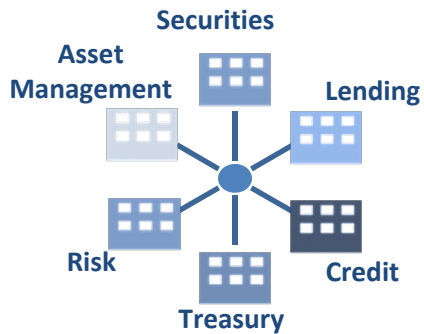
Different
instruments



Managed by different people, with
different agendas



Complex collateral
relationships



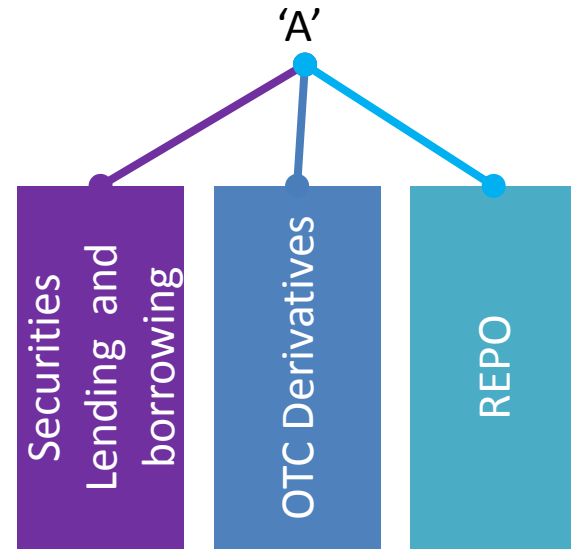
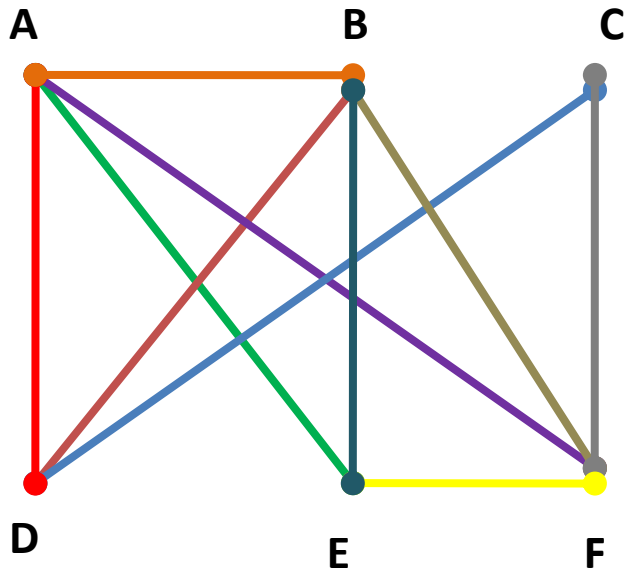
Collateral allocation must come from a central pool

Current South African Collateral Market

Multiple **collateral silos** between counterparts

AND

Multiple **collateral silos** within

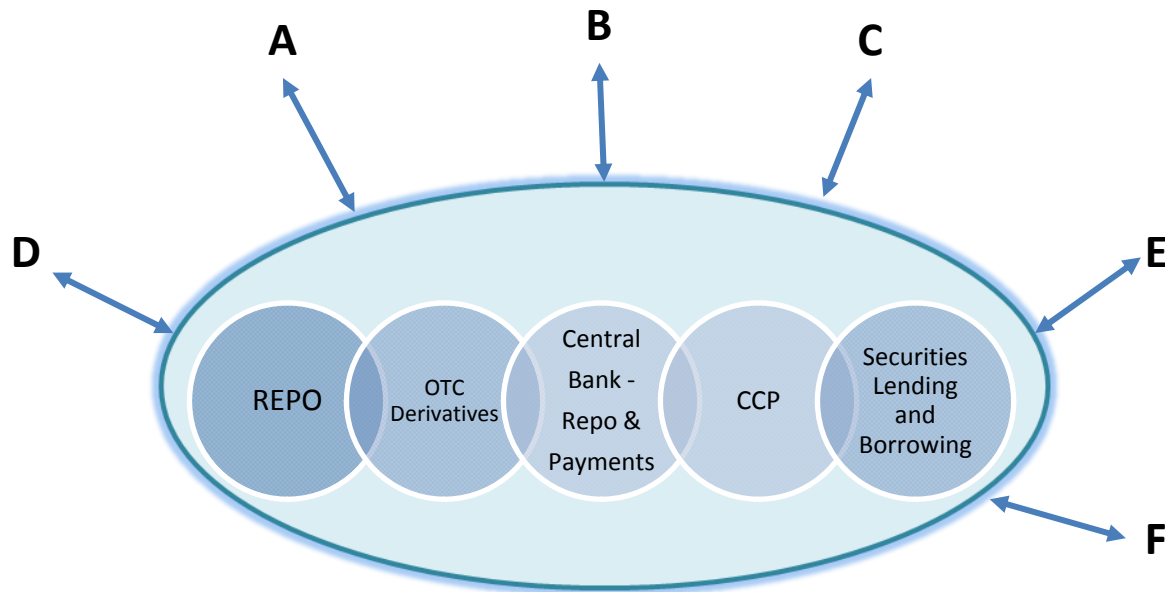


- Many **manual interventions** (use of Excel is prolific)
- Issues exist around **processing Corporate Actions in collateral substitutions**

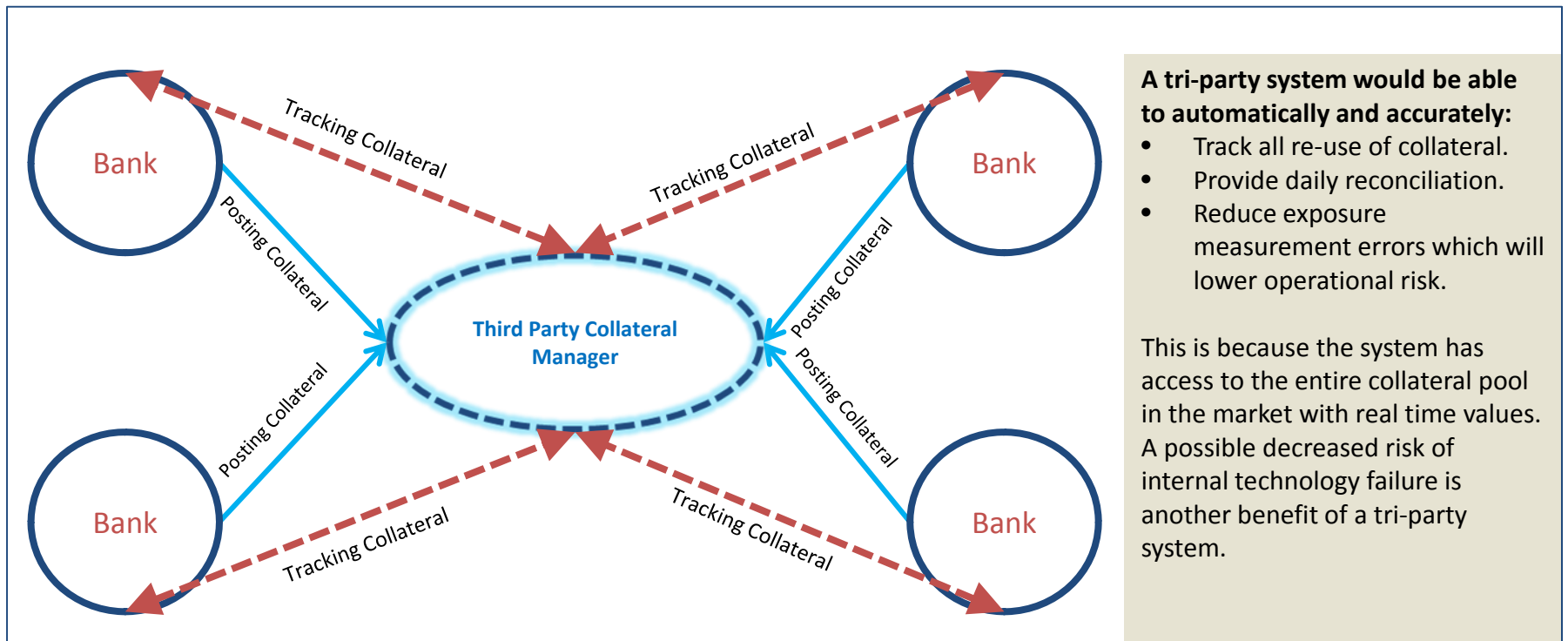


A Future Tri-Party Collateral-based Market

- Removing *External and Internal Silos*
- *Centrally automating* collateral management for the industry using a market-wide *collateral pool*
- Providing additional *Asset Safety to investors* , as assets are held in Strate SDA (Segregated Depository Accents) accounts instead of bi-laterally



Tri-Party Collateral Solution



A tri-party system would be able to automatically and accurately:

- Track all re-use of collateral.
- Provide daily reconciliation.
- Reduce exposure measurement errors which will lower operational risk.

This is because the system has access to the entire collateral pool in the market with real time values. A possible decreased risk of internal technology failure is another benefit of a tri-party system.

Market-wide collateral management solution

Exposure

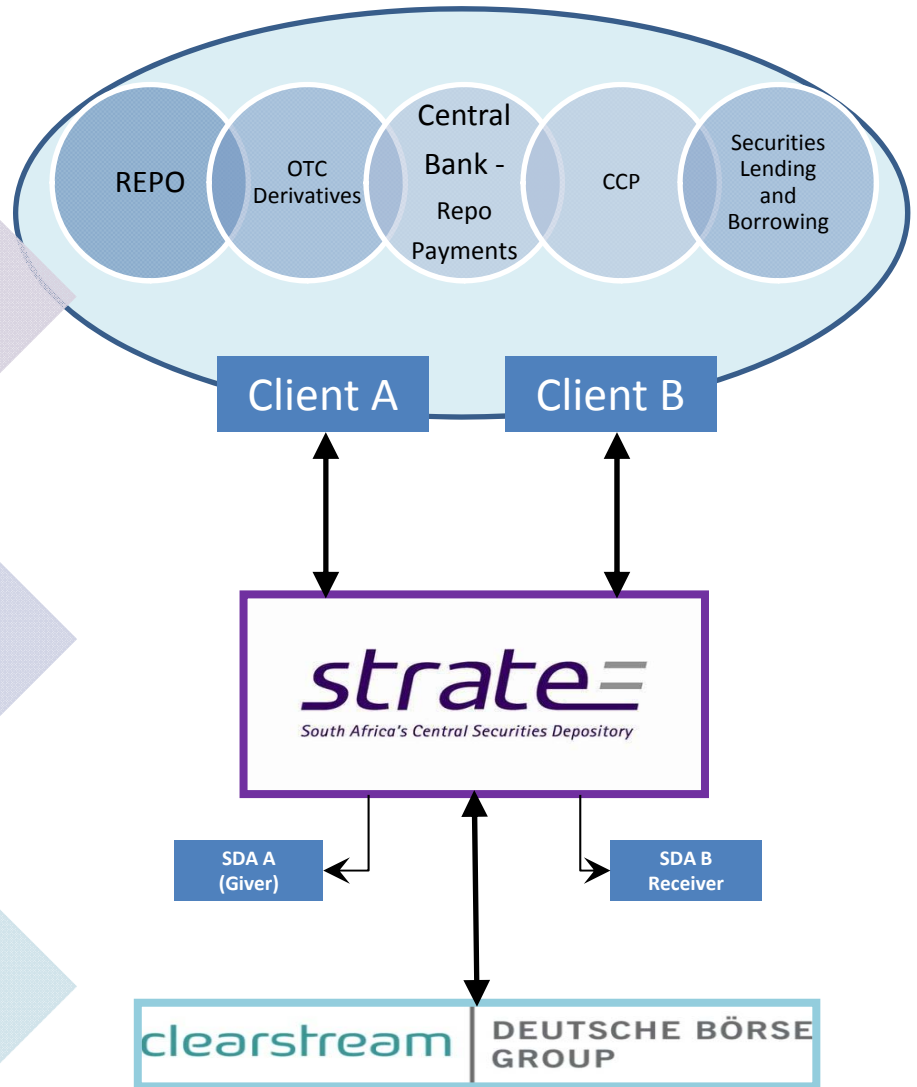
- Submissions - Portfolio or Transaction (Strate Web Portal or SWIFT)
- Matching

Collateral Management

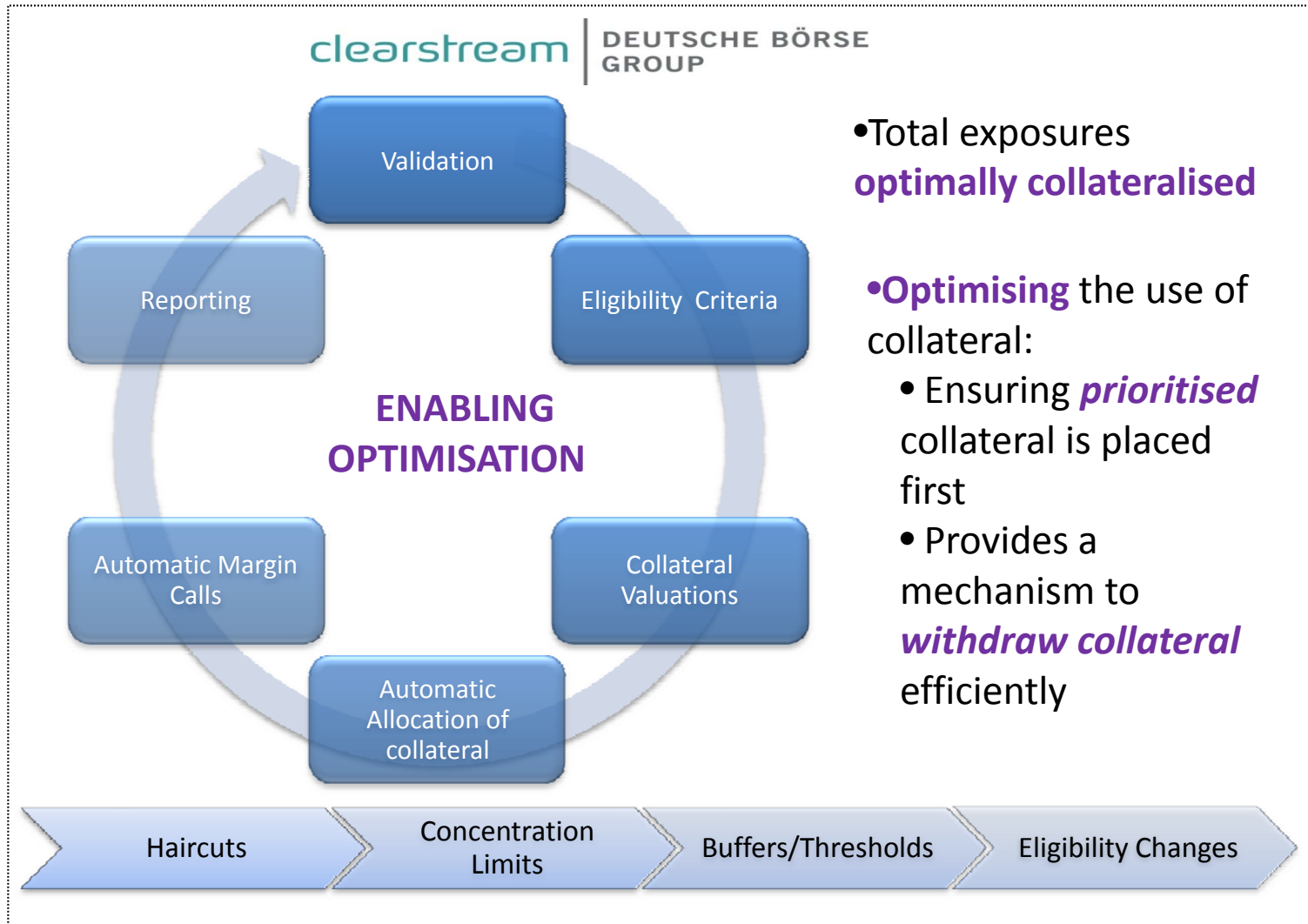
- Clearing & Settlement
- Movement within Strate SDA accounts
- Prevention of unauthorised re-use
- Facilitation of cash movement
- Corporate Actions
- Audit trail of collateral movements

Collateral Intelligence

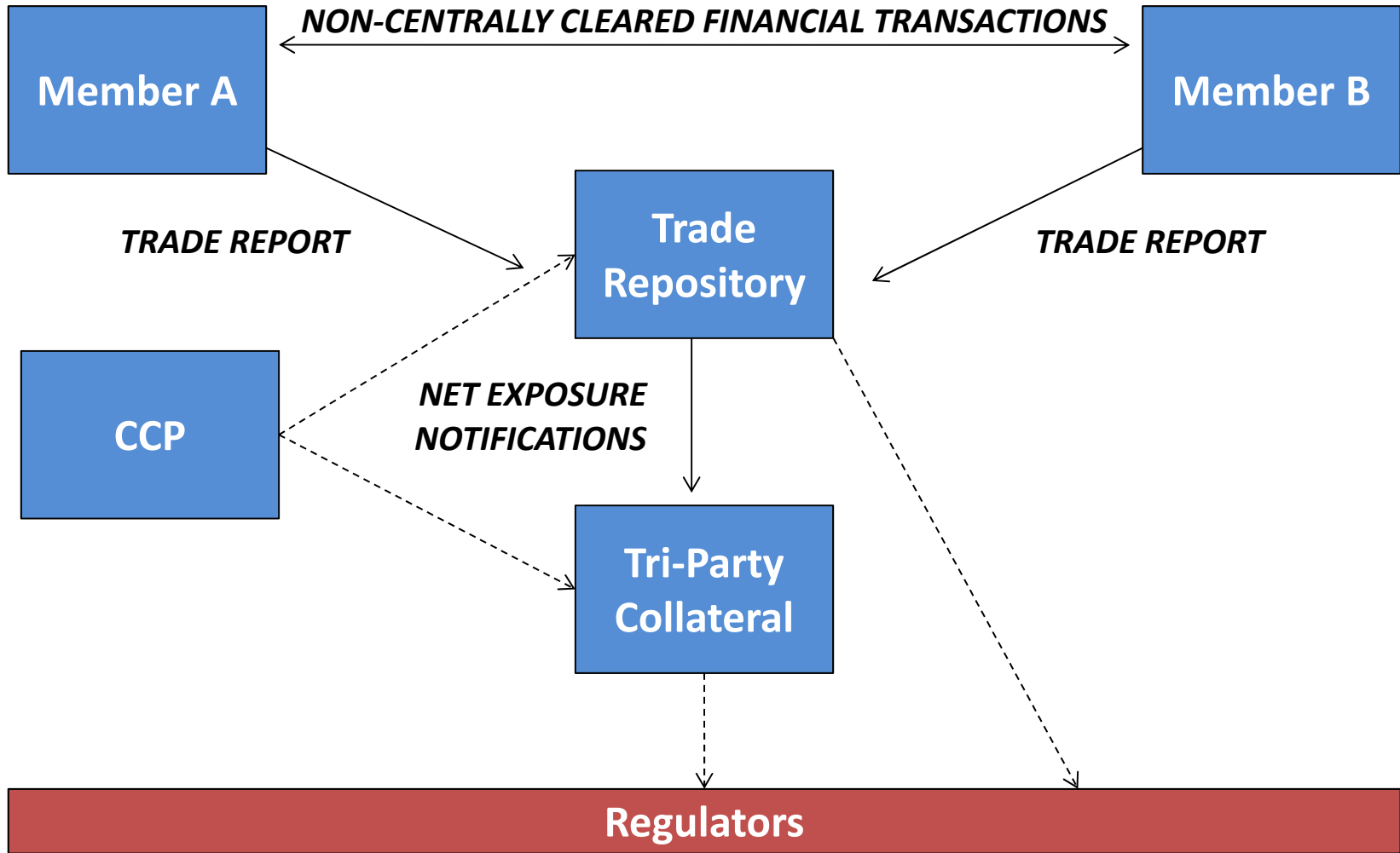
- Allocation
- Valuation
- Substitution
- Optimisation
- Reporting



Clearstream's Collateral Intelligence



How all the players work together



South African Market Response

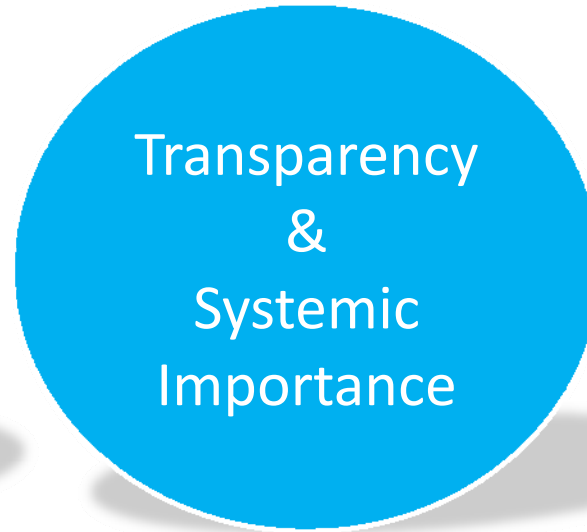
Overall *Very Positive*

BANKS



Non-disclosure agreements signed with major banks covering most exposures

REGULATORS



- Importance of linking Over-The Counter Derivatives exposures to collateral (Trade Repository)
- Securities Transfer Tax for equities can now be properly tracked

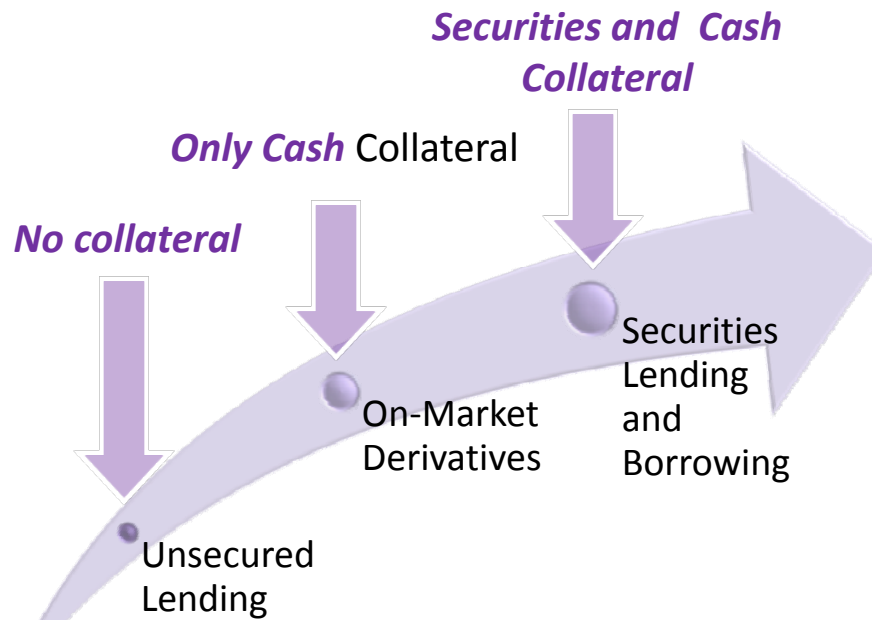
REST OF MARKET

- Attendance at the *Strate Industry Forum*
- *Detailed Workshops*
- *Ongoing Discussions*



South African Market Challenges

- Lack of **Market Education**
- Unknown **cost of Collateral** currently
- If collateralised, predominant use of **cash collateral**
- **Manual and fragmented (silos)** Market
- Different **collateral maturity models** (see diagram below) per exposure type



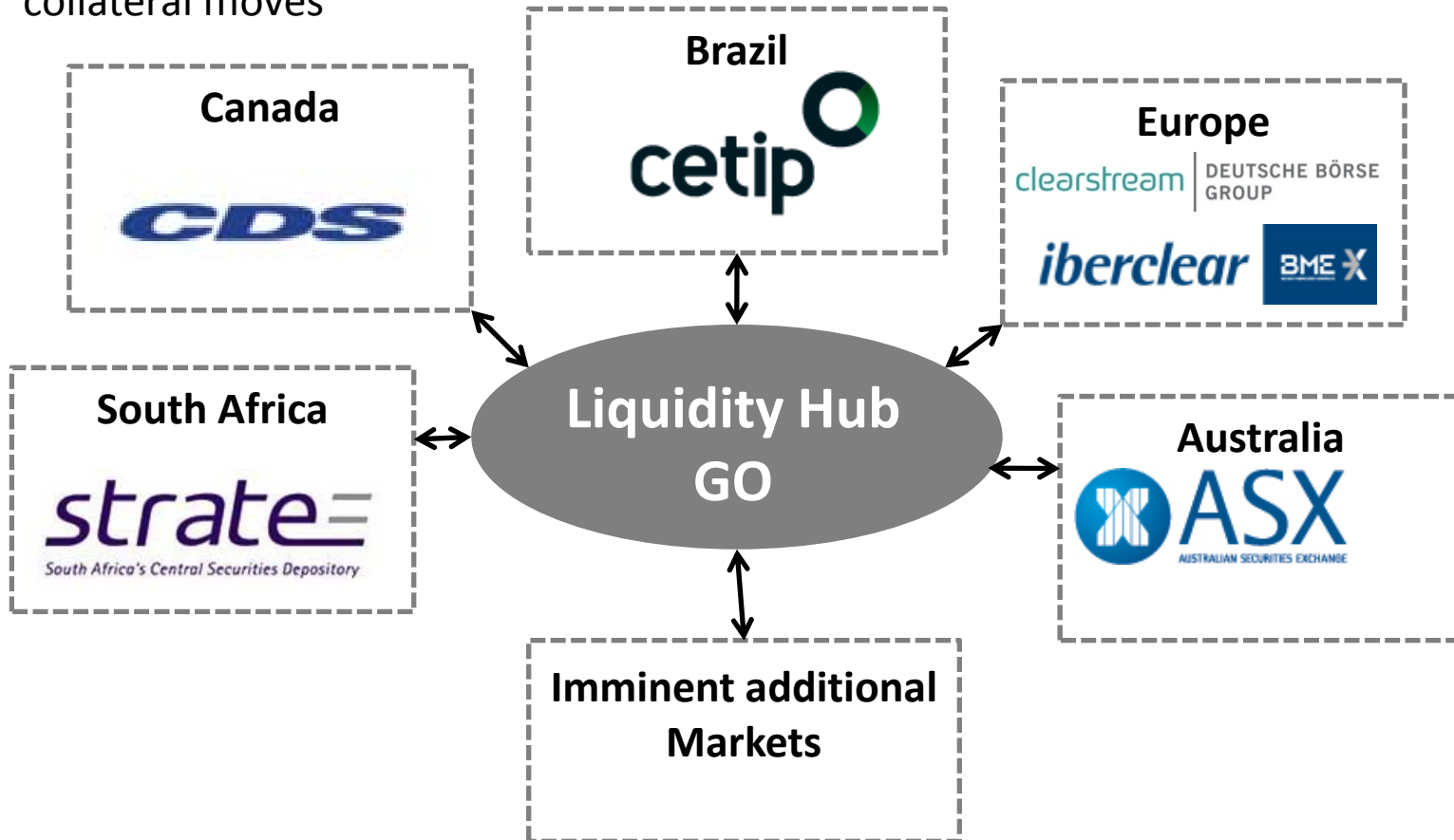
South African Market Solutions

- More Market **Education**
 - Collateral Seminars
 - Partnering with Training vendors
- Making use of the services of **independent advisors** to the Market, Strate is using Deloitte to assist in determining the **cost elements of collateral**
- **Leveraging** Clearstream's knowledge base and global best practice
- **Using successes** from **other member Markets** for South Africa, such as the Industry Design Forum (Australia) which led to the South African Industry Forum
- **Early adopter programme:** Early adopters, who assist Strate in gathering requirements will receive a fee benefit once the solution is live



Way Forward – Phase II

- **Domestic Markets CSD to CSD linking** through a common platform for global collateral moves



Way Forward (Cont.)

- Continued Market *Education and Engagement*
 - Signing additional non-disclosure agreements and gathering more requirements
 - Market-wide collateral conferences and training
 - Work closely with *early adopters*
- Undertaking the project with Clearstream from *December 2012*
- *Implementation* (4th Quarter 2013)



Thank you!

Monica Singer

CEO

Strate Ltd



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strate 

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