

Transforming your collateral management processes with Baton Core-Collateral



Alex Knight
Global Head of Sales
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Alex Knight, Baton Systems' Global Head of Sales, demonstrates Core-Collateral, a solution which enables FCMs and CCPs to automate and optimise collateral holdings and expedite the movement of cash and securities.

Alex begins by observing that clearing firms post billions of dollars of cash and securities across a large number of CCPs. The way that this is handled has a huge impact on the profitability of these firms.

Baton Core-Collateral, Alex explains, is the only solution to give clearing firms real time visibility and control by providing direct, real time interfaces with the main CCPs and custodians. Using Core-Collateral, firms can see margin and collateral data and can generate and track pledge and recall instructions, all from one system, through a UI or via API.

"Rules and alerts ensure that collateral is placed appropriately in the first instance," Alex says, "and automate the monitoring of its effectiveness on an ongoing basis."



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The importance of control

It is vitally important for FCMs to be in control of their collateral, but it is likely, Alex says, that their collateral management processes involve multiple legacy systems, spreadsheets and manual processes. Operating these takes the focus of a firm's treasury function away from the goal of maximising net interest income and delivering the best customer service.

"CCPs are broadening their collateral scope to include a wider range of products," he explains. "As you seek to pass on this increased flexibility to your customers you're probably finding that this requires a level of agility that legacy processes simply don't support."



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Reaping the benefits

Alex describes how access to real time information via Baton facilitates better decision-making since firms can monitor CCP requirements, excesses and deficits in real time.

“Baton uses native integration to aggregate and normalise data efficiently within proprietary domain models,” he says, going on to explain that Core-Collateral’s rules and alerts can run on a continuous basis while Baton’s connectivity to the CCPs give one consolidated point of entry for pledge and recall instructions for an entire business.

Since better data enables better and faster decisions, Alex explains, FCMs can reduce the overall value of collateral posted to CCPs by downsizing their buffers and managing excesses. “You can ensure that the collateral which is posted is as efficient and effective as possible, he says. “You can also ensure that the collateral posted to you by your clients can be moved efficiently and automatically on to the CCPs.”

Overall, Core-Collateral allows firms to benefit from better control, higher net interest income and a more scalable business, with less dependency on manual processes.

“What really makes a difference,” says Alex, “is that clearing members can benefit from two-way integration across multiple accounts and CCPs within just a few weeks. Baton uses its existing integration with the CCPs on your behalf, so we do all the hard work.”

The Solution

Going on to demonstrate Core-Collateral, Alex stresses that all data and functionality is available via API as well as UI.

He first demonstrates the Summary screen, which allows users to see at a glance their margin requirements and collateral on deposit across their universe of accounts and integrated CCPs, reminding viewers that the information is sourced by Baton directly from the CCPs, then normalised.

By toggling the ‘Excess’ column on the screen, Alex demonstrates how a user can see which account has the greatest excess or deficit, using intraday data from the CCPs. The screen also shows when the information was last updated and whether there is an outstanding margin call.

“Having access to intraday information is a game-changer,” he says, explaining that if an account at a CCP is moving towards a deficit position and a margin



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call, it is possible to pre-position cheap-to-deliver securities, rather than waiting to have cash pulled from a PPS account, only to subsequently claw this cash back and replace it with securities.

The Longbox screen allows users to see the location of their assets at the various CCPs as well as information on haircuts, interest rates and collateral usage fees, and thus to identify any inefficiencies in the collateral posted.

“As well as representing the assets you have placed at the CCPs, we can also pull in the data from your custodians and nostro accounts through direct integration,” Alex says. “So you have a real time view of the assets you have available to meet your obligations.”

He goes on to explain that the aggregated and normalised data can be used with smart workflows and pre-configured rules to create alerts and actions according to a user’s specific needs.

Since each CCP has its own eligibility criteria and mechanism for creating pledge and recall instructions, Alex says, most clearing members are constrained in terms of the number of moves they can make on any one day because of the manual processes involved. Even if the team can process the instructions, there is uncertainty as to whether those instructions will be accepted by the CCP.

“Core-Collateral provides a central venue for creating instructions or consuming them from an external source, for pre-validating them and for transmitting them to the CCPs and tracking their acceptance and their status,” Alex says.

“Core-Collateral can be integrated with your existing systems so that there is no need to key in the payment or receipt instructions. You can instruct as many collateral moves as you like with confidence, accuracy and transparency.”

Clearing: a business striving for improvement in collateral processing

Following the Core-Collateral demo, Alex is joined by Jerome Kemp, President of Baton. Having spent a large part of his career building and running large clearing businesses, Jerome believes that there is still room for improvement in the collateral flow and optimisation space.

“Clearing is only going to grow,” he says. “That’s what the regulators want. Margin requirements will increase and this will translate to increased liquidity pressures on clearers.”

Jerome says that there is a plethora of factors to juggle in order to optimise this process. He cites real-time transparency on margins at the CCPs, as well



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as on custodial locations where collateral is held; accurate information on collateral utilisation fees and haircuts; and the ability continually to measure and action the margin coverage of posted collateral.

“There is no way that manual processes will ever be able to cover these points,” he says, “let alone optimise across a complex set of client and CCP requirements.

“Baton’s solution cracks this open for clearers and provides them with the means to squeeze every basis point of revenue performance out of the margining process.”

About Baton Systems

Baton Systems is revolutionising the entire front-to-back post-trade process, introducing interoperable and connected digital market infrastructures from trade matching through to settlement.

Empowering financial institutions to take control, Baton is redefining what post-trade processing should look like: fully connected, friction-free, flexible and transparent. Founded in 2016 by Silicon Valley technologists and capital market specialists, Baton’s solutions are now being used by several of the world’s largest financial institutions to facilitate the movement of billions of dollars of cash and securities on a daily basis.

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