

USE CASE

Collateral Management

Using Baton Systems' **Core-Collateral** solution to automate and optimise your collateral management.



Clearing firms need to deploy their assets effectively, optimising collateral allocation across multiple CCPs.

The treasury and collateral management functions at clearing firms generally rely on multiple manual processes. They consume a variety of batch-based CCP reports in different formats and use dedicated portals to communicate pledge and recall instructions. Very few clearing firms have reliable access to consistent intraday data, so struggle to dynamically manage their inventory of eligible collateral.

The industry needs technology that provides a consolidated, comprehensive and accurate view of a firm's exposures and obligations in real-time, along with eligibility checks and fast movement of assets. Read on to see how Baton Systems' Core-Collateral solution can eliminate inefficient and time-consuming processes, introduce zero-friction workflows and accelerate productivity – digitally transforming the collateral management process.

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THE CHALLENGE

Hundreds of billions of dollars are posted as collateral across a multitude of CCPs. But industry processes have evolved in piecemeal fashion resulting in financial and operational inefficiencies that need to be remedied.

Market volatility, sparked by the COVID-19 pandemic, led to a substantial and sudden rise in margin requirements from CCPs. Many of these increased requirements remain in place, adding further pressure for FCMs seeking to manage collateral as effectively as possible.

FCMs face a multitude of ongoing challenges to support their customer and house exposures. These include collateral monitoring, checking eligibility and haircuts, and the laborious processes of initiating and tracking movement instructions, all across multiple CCPs. All of this takes away the focus of the treasury function from operational and financial efficiency.

The challenge becomes even greater as CCPs broaden their collateral scope to include a wider range of products. Clearing clients are seeking to post these newly eligible assets to their clearing members, requiring a degree of operational agility that legacy processes simply don't support.

INTRODUCING BATON'S CORE-COLLATERAL SOLUTION

Core-Collateral enables FCMs to optimise collateral holdings and automate movements of cash and securities across major CCPs.

This is achieved by providing an up-to-date view of a firm's margin obligations and collateral posted to CCPs. Via a single, consolidated interface, FCMs are directly connected to multiple CCPs, providing a common platform for instructing pledges or recalls. This includes:

- ✔ **Re-checking the eligibility of proposed collateral moves**
- ✔ **Processing internal checks**
- ✔ **Tracking CCP acknowledgements**
- ✔ **Monitoring the status of the moves**

The CCP data is supplemented with a real-time, detailed view of assets available for use, aggregated across multiple data sources including custodians and nostro accounts.

Core-Collateral also includes a configurable optimisation tool that automates the delivery or recall of assets, according to predefined rules and waterfalls.

Often, a collateral allocation that was appropriate at the time an initial decision was made becomes suboptimal over time. With so many variables in play, this can be hard to pick up manually. Core-Collateral can automatically check for, and remedy, this situation using configurable rules.

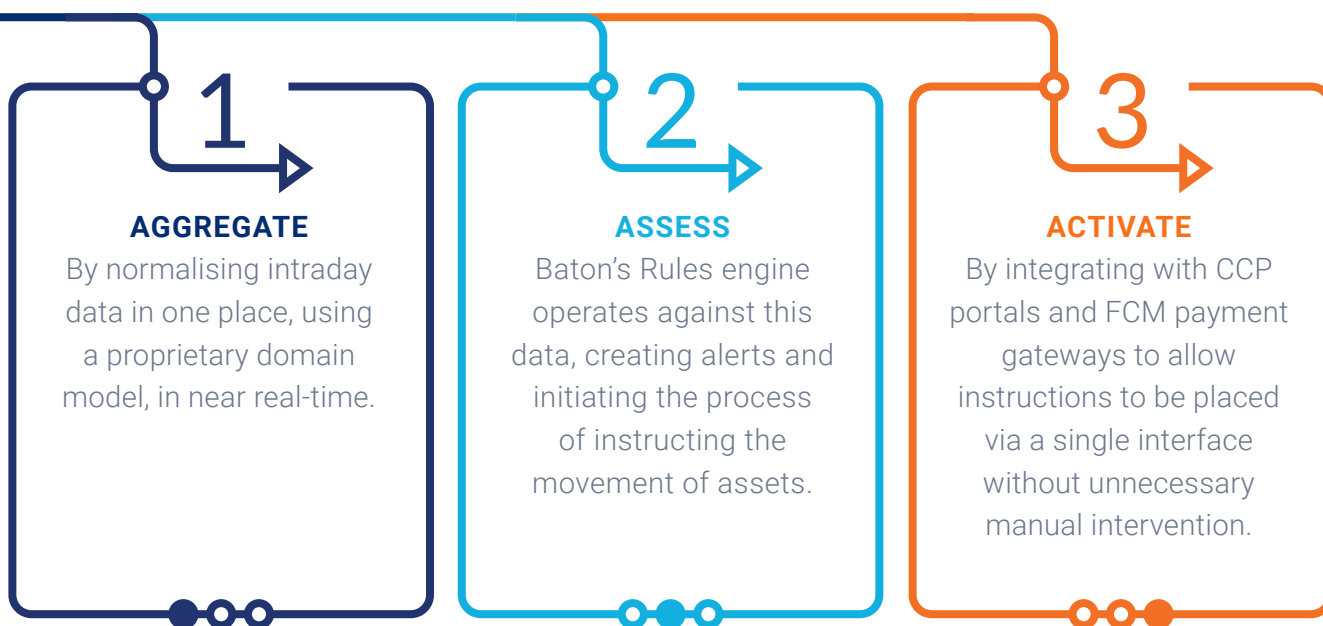
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HOW IT WORKS

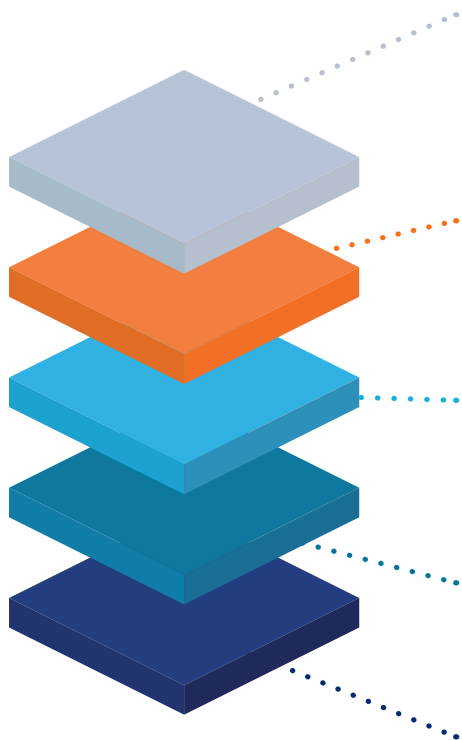
Access to real-time information via Baton's technology, delivered via UI or API, allows firms to identify and action the right collateral moves, quickly and efficiently. In other words, it enables better informed decision-making and the ability to reliably implement and validate the proposed moves.

Baton uses native integration to all key data sources, aggregating and normalising this data within proprietary domain models. Rules and alerts run on a continuous or scheduled basis, and users are able to create and track instructions in real-time.

Core-Collateral allows firms to:



PLATFORM COMPONENTS



The **Baton Gateway** is the communications layer used to connect Baton's core technology with key elements of the Financial Market's Infrastructure (including CCPs, Custodians and CSDs) and a customer's own systems. The Gateway supports a variety of API protocols as well as SFTP and robotic program applications (RPA).

The **Baton Aggregator** provides a high-level summary of the margin requirements and collateral on deposit at CCPs. The normalised data is fitted to a specific domain model that has been designed to support the states and processes associated with collateral operations.

The **Baton Longbox** provides a consolidated view of all the client's assets, both 'encumbered' – i.e. already posted to the CCPs – and 'unencumbered', which may be held in custodial accounts. The former are obtained via direct connectivity with the CCP, while the latter can either be uploaded to the Baton interface by the client or can be obtained using Baton's direct custody integrations.

The **Baton Optimiser** automates the selection of collateral to pledge or recall, based on the priorities determined by the user. It also calculates and implements rebalancing instructions where collateral is being deployed suboptimally.

The **Baton Rules Engine** allows for rules to be configured in a manner that is specific to each client's requirements, allowing for the automation of many processes. Each rule has a trigger, a condition and an action.

IMPLEMENTATION

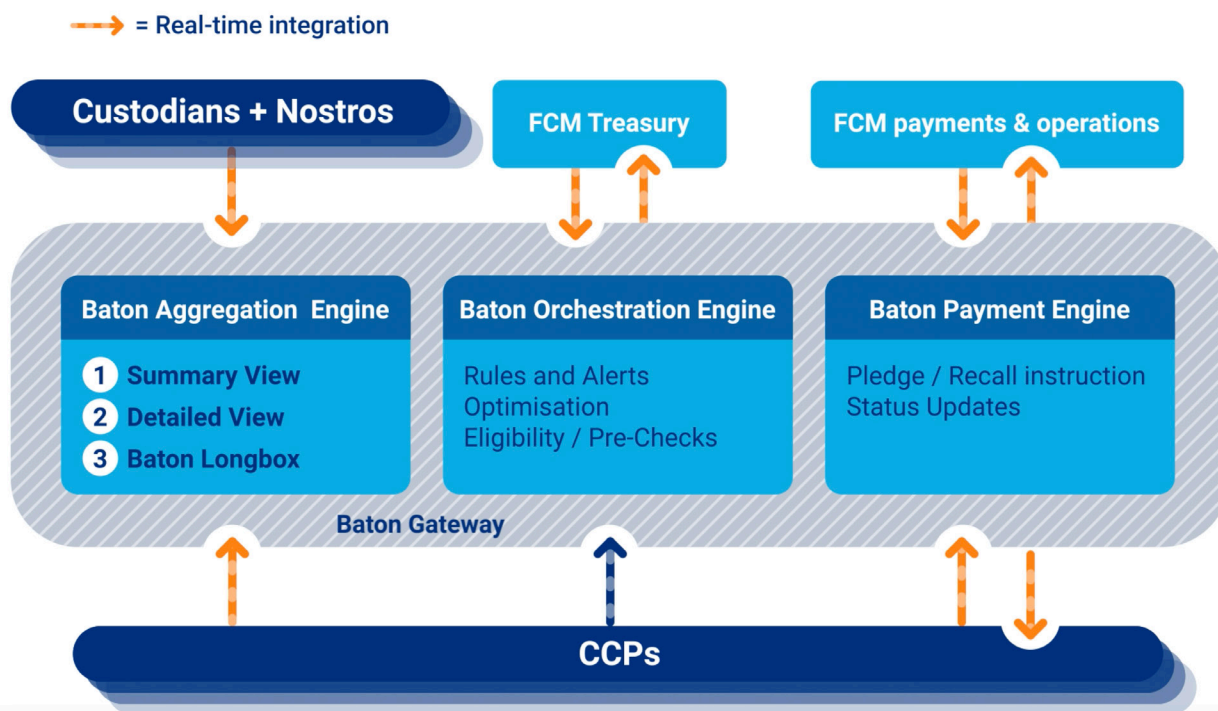
Initial deployment requires no integration.

Baton will deliver the UI pre-configured with connectivity to the selected combination of CCPs. Within just a couple of weeks, the client is able to visualise data, implement rules and process movements – ROI is achieved almost immediately. This zero-integration model can also be used if a PoC is required as part of an evaluation process.

Many firms ultimately choose to integrate the Core-Collateral data and workflows with their own systems and processes. All elements of the solution are available via API and the solution is specifically designed to facilitate interoperability.

Delivery of the solution is a quick and straightforward process with Baton's secure, cloud-based, single-tenant architecture. Enhancements can also be delivered by Baton quickly in accordance with an agreed spec.

Baton takes full responsibility for the development and maintenance of the integration with the CCPs. Because Baton integrates directly with CCPs, our client's internal technology teams are free to concentrate on delivering solutions that are specific rather than generic.



We've done the work so that you don't have to.

Baton is already connecting many of the largest clearing members with the major CCPs. The team has learned from the experience of onboarding both new clearing members and new CCPs. As new clearing members are onboarded, they are able to take advantage of the connectivity already in place. Baton has a well-established process for onboarding new clearing members, enabling

users to benefit from the functionality Core-Collateral offers, very quickly.

These connectivity advantages are not limited to just CCPs. Baton has also integrated to a variety of industry service providers on behalf of clients, such as custodians, CSDs and nostro banks.

RESULTS

Baton's technology provides users with real-time aggregated data supported by configurable rules and alerts, along with the ability to seamlessly create and check movement instructions across multiple CCPs. The financial benefit of optimisation is derived from the client's ability to make better decisions, and to implement these, in a timely manner, with full confidence and visibility. This enhanced level of control is of particular importance during periods of high market volatility. Existing clients report a meaningful uplift in their net interest income as a result of implementing this solution.

Additionally, the re-engineering of collateral management processes reduces operational costs and drives increased capacity and workflow efficiencies across the end-to-end process. Clients have reported a fourfold increase in capacity from using Core-Collateral, which in turn contributes to the overall positive impact on liquidity and financial efficiency.

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Learn more, book a demo: www.batonsystems.com/core-collateral



About Baton

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 with automated, rules-based workflows, access to real-time information, and on-demand settlement, 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.

Find out more at www.batonsystems.com