Clearstream
Vestima Funds Hub

Product information

Using investment funds as collateral

Key benefits

Innovative
- New and large source of collateral as alternative to cash, bonds, etc
- New distribution opportunity for investment managers

Secure
- Increase the security of financial transactions involving counterparty risk
- Removal of re-investment risk for counterparts

Efficient
- Same centralised collateral management process as for other asset classes

Growing need for new sources of collateral

Collateral management has traditionally been supported by well established asset classes, such as government securities or even cash. However the post-crisis environment has sharply increased the need for security.

Against the risk of collateral shortage, market participants welcome new and large sources of collateral in order to secure a growing number of financial transactions.

Creating global liquidity

We responded to the growing market need for collateral by including investment funds to the list of eligible asset classes. Investment funds can be used as collateral to efficiently secure financial transactions involving counterparty risk.

A new asset class for collateral

With €17.5 trillion of worldwide assets under management, the investment funds industry can position its products as a valid alternative to cash, government securities and other categories of general collateral.

The combination of a well-established UCITS regulatory framework, high capital preservation and strong liquidity profile explains the attractiveness of many funds as a way to control counterparty risk.

More efficient use of an investment fund's liquidity

Count on our support

Using funds as collateral responds not only to a concrete market requirement, but it also creates a new distribution opportunity for investment managers.

Flexibility from Collateral Receivers will be crucial to establishing a liquid market for funds as collateral.

In the meantime, we are already supporting this activity through our Triparty Collateral Management Services (CmaX) in the two scenarios below:

Scenario 1 – Clearstream Triparty Repo Service

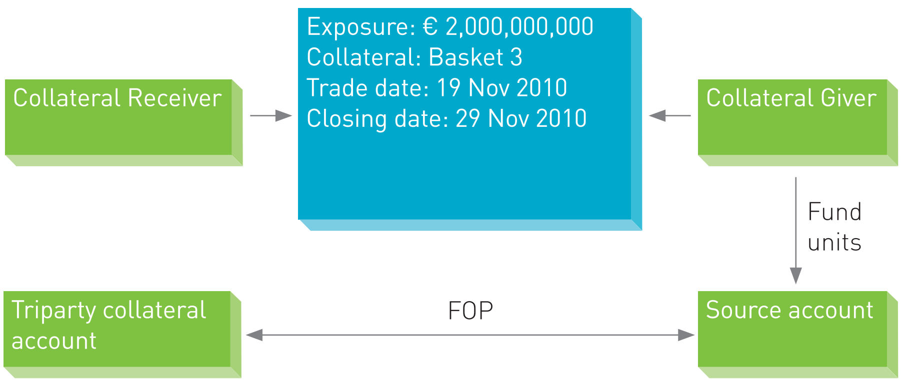
Pre-requisites for the trade between Collateral Receiver and Collateral Giver:

- Sign a bilateral master repurchase agreement
- Select Clearstream as triparty agent
- Execute the Collateral Management Services Agreement (CMSA) Appendix A.

Scenario 2 – Clearstream Triparty Collateral Management Service

Pre-requisites for the trade between Collateral Receiver and Collateral Giver:

- Sign a bilateral agreement (principal agreement)
- Select Clearstream as triparty agent
- Execute the CMSA Appendix A.



Always a step ahead

Our well established collateral management system has proven to easily accommodate classic investment funds, exchange traded funds (ETFs) and publicly traded investment funds. Funds are just another asset class that benefit from the same centralised process.

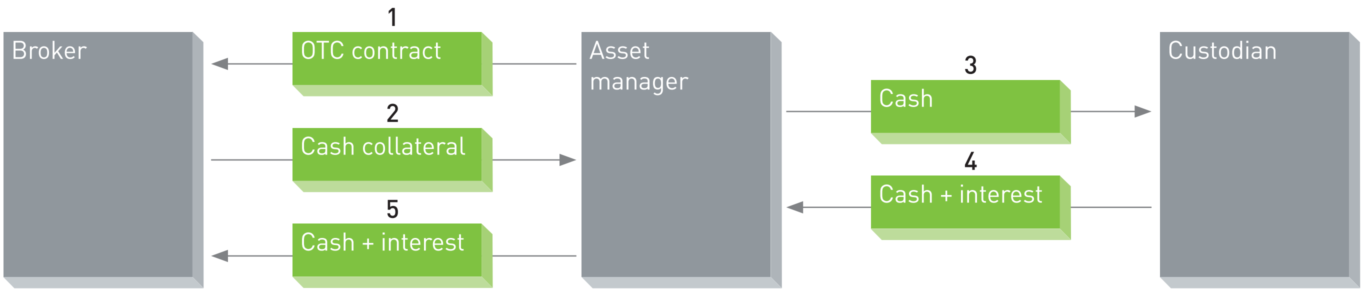
Clearstream has been a long-standing partner of investment managers in their effort to distribute funds globally.

Our collateral management capabilities were therefore designed to address the specific product features of the investment funds industry.

Supporting funds in our Triparty Collateral Management Services

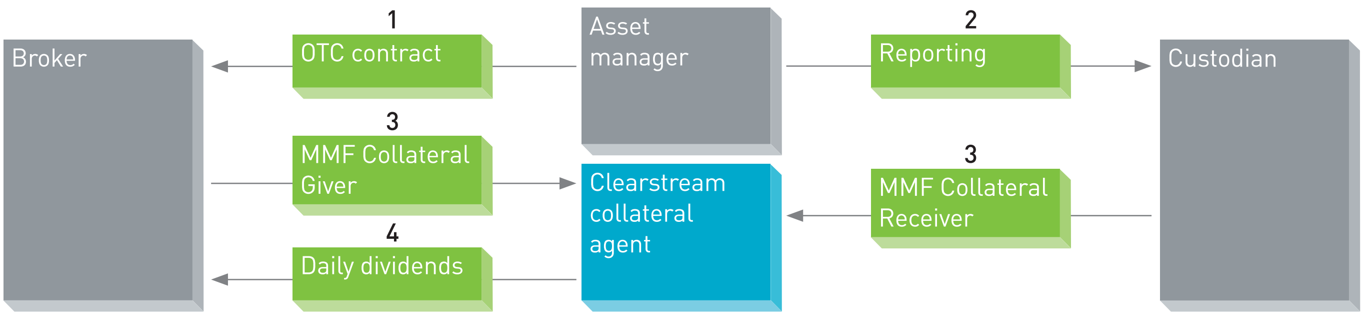
Business need	Our competitive advantage
Simply use the same existing Vestima Statement of Holdings report (FMRS)	The existing Vestima Statement of Holdings report will, for the purpose of trailer fees calculations, reflect the collateralised positions in the account of the Collateral Giver despite fund units having been posted in favour of the Collateral Receiver.
Position control in CmaX and Vestima with Automatic Substitution Mechanism	Collateral Givers can send a redemption order for fund units posted as collateral. Vestima will query CmaX to free up the required holdings and substitute them with another eligible asset. Upon positive confirmation from CmaX, Vestima will execute the redemption order.

Live example:
An asset manager and his broker enter into an OTC derivative transaction. According to the 2010 ISDA Margin Survey, more than 80% of the value of the underlying collateral of OTC derivative contracts takes the form of cash.



Problem identified:
The asset manager faces a cash re-investment risk. Should his custodian be unable to remunerate this cash at an interest rate agreed by the asset manager with the broker, a negative delta can result from the collateral transaction with his broker.

Solution:
"Transform" cash collateral into money market funds.



The broker will invest the cash into a money market fund and use the fund units as collateral.

Advantage for the asset manager (Collateral Receiver):
The re-investment risk disappears. The broker is remunerated directly by the money market fund as daily dividends are automatically re-allocated by Clearstream.

Advantage for the broker (Collateral Giver):
In addition to accruing daily dividends, fund units that form part of the collateral are ring-fenced against the defaulter, while cash given as collateral would have been included in the liquidation mass.

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