

Connecting the assets

Regulation has pushed Clearstream into the forefront by virtue of the fact that regulation demands the segregation of collateral, says Charlie Bedford-Forde

What is the ethos behind the Global Liquidity Hub?

The ethos behind the Global Liquidity Hub was to provide our clients with a single global collateral pool. It allows securities to be used to cover securities lending transactions and repo, along with other collateral management functions, without having to re-align securities across borders.

The Global Liquidity Hub's open architecture enables market participants to connect to our collateral management system. It involves for example a partnership with Citibank, BNP Paribas Securities Services and Deutsche Bank in a number of Western European markets, and Standard Chartered Bank in Singapore. The system allows for the use of their domestically held custody positions with triparty agents in Clearstream's Global Liquidity Hub.

That flexibility was created in response to regulatory demands. As more counterparties look at Basel III and its impact on capital, they are beginning to realise that they need to mobilise as much inventory as possible. While Clearstream allows them to mobilise assets they already hold with us, the Global Liquidity Hub allows access to assets held with other domestic sub-custodians. Users can retain those custodian relationships while allowing those assets to be mobilised as part of a book entry transfer process within the custodian, but also make them visible within Clearstream. The assets remain local but their owners are able to get international financing to them.

Regulation has pushed Clearstream into the forefront by virtue of the fact regulation demands the segregation of collateral. The Liquidity Hub will cater to a lot of these needs.

How do all of Deutsche Börse Group's subsidiaries work together within the Global Liquidity Hub?

It very much depends on the circumstances, which speaks to the flexibility of our solutions and the level of customisation that can be delivered for clients. A good example was the decision to combine Clearstream, Eurex Repo and Eurex Clearing's agency lending services to enhance the group's overall securities lending capabilities. The combined service offers customers greater capital efficiency and straight-through processing. Each player performs an essential function. Clearstream manages the transaction as the agent lender and triparty collateral agent, via the Liquidity Hub. Eurex Repo's SecLend market manages the trading venue through its GC Pooling client base, while Eurex Clearing provides clearing services as the central counterparty (CCP) to both sides of the transaction.

We also expect to see more cooperation with other Deutsche Börse companies soon. 360T, a foreign exchange platform, was recently acquired and Clearstream has an exclusive relationship to provide its corporate clients with triparty repo. With the advent of the European Market Infrastructure Regulation, more corporates are likely to want to raise collateral through repo to cover their counterparty needs.

Deutsche Börse Group's securities financing offering is extensive—isn't there a chance that clients could be overwhelmed?

You can't force solutions on clients. We try to present our advantages as individual companies but also highlight the extended benefits of

the group. Again, the direction that regulation has taken will make this feature more attractive. At the same time, budgets are tight and people are looking at where they can make wholesale changes to streamline relatively cheaply and we offer that possibility.

What advantages do your European and Asian partners offer?

Our decision to partner with BNP Paribas Securities Services, Citi and Deutsche Bank was driven by client demand. These are local custodians that are strong in equity custody in Europe, so being able to offer mutual clients the ability to finance fixed income and equity held with us locally made a lot of sense.

We chose Standard Chartered in Asia for a similar reasons, as it's actually Clearstream's sub-custodian for a lot of the Asian markets. We saw a lot of opportunities in Asia where Standard Chartered's presence could complement our service offering. In Singapore, for example, we see an opportunity to mobilise more Singapore government bonds internationally.

Do you have a presence in other regions of the world?

If you look at South Africa as an example, the reason we have partnered with Strate is because they have specific needs to manage collateral onshore as part of the domestic solution. A lot of South African banks are unable to invest rand offshore because of the tax implications. Therefore, the ability for Strate to use our technology within the domestic market gives us another arrow in our quiver.

What future opportunities do you foresee with this initiative?

We are looking to engage the buy-side and non-financial entities in this collateral management initiative. Historically, many have just used cash and have no experience in mobilising assets.

We are working with technology vendors and custodians to make sure we can offer a solution that is not only applicable to the wholesale clients that have used us for years, but is also simple and provides the security for those new counterparties that are now going to start looking at collateral for the first time. **SLT**



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