Clearstream Spotlight

Study reveals potential for equity capital savings

A Clearstream-sponsored study by Elton-Pickford finds that European banks could reduce their Basel III equity capital requirements by up to 20 percent – an equivalent of EUR 40 billion – through the set up of a collateral value chain.

The new study "Collateral optimisation - the value chain of collateral: Liquidity, cost and capital perspectives" by Clearstream and Elton-Pickford highlights a market need for a collateral value chain to meet regulatory requirements and optimise balance sheet usage. The study defines this value chain as a succession of processing steps which ensures the availability, mobility and liquidity of a security.

Increasing demand for HQLA

The Basel III and Dodd Frank regulations require banks to increase their equity levels to strengthen their solvency in case of a crisis. Banks are therefore striving to hold as much high-quality liquid assets (HQLA) as possible to reduce the amount of equity which needs to be mobilised.

In addition, banks are required to set aside liquid assets that can be sold quickly for cash. These regulatory requirements result in an increased demand for HQLA. According to the study, the challenge here is to make the right selection of HQLA and to put in place the procedures for converting these assets into cash.

Streamlined collateral optimisation

To meet this challenge, both banks and buyside customers such as corporates, pension funds and asset managers are looking for collateral management and optimisation solutions for maximising the use of their securities. The study finds that this collateral optimisation is best achieved through the implementation of a collateral value chain.

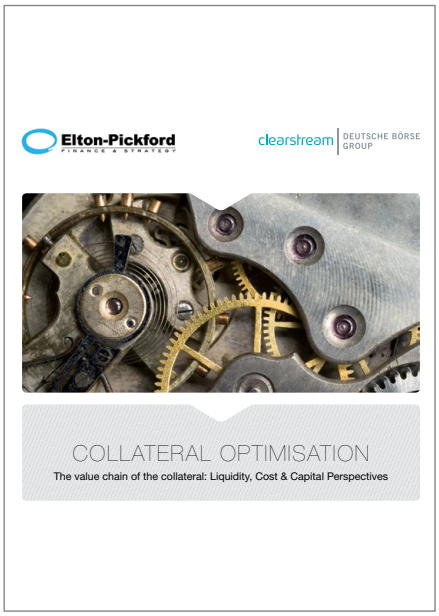
Customers can benefit from Clearstream's Global Liquidity Hub to maximise the effective use of collateral through its comprehensive services that cover the full collateral value chain. Its automated succession of processing steps ensures the availability and liquidity of a security anywhere in real-time. The study highlights that collateral optimisation could result in savings of up to 20 percent or a total of EUR 40 billion for banks.

The study consisted of a qualitative and quantitative analysis based on interviews of 22 financial and non-financial institutions in the first quarter of 2014. This sample represents around 20 percent of European banks' balance sheets and includes eight of the top 30 major financial institutions considered "systemic" by the European Central Bank.

The collateral value chain

The study by Clearstream and Elton-Pickford introduces the concept of a collateral value chain as a solution to the collateral optimisation needs of banks and buyside customers. The collateral value chain is defined as a succession of steps that make it possible to select securities and to ensure their availability and the general robustness of the liquidation process.

Institutions wishing to implement the value chain must ensure that the equity, fixed income and treasury businesses are all working together. The rationale of this model is to align collateral management processes with the banks' overall activities to increase revenues.



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