



Development and Implementation of Collateral Management Framework for CCP/Non-CCP Cleared Products (incl. OTCs)

Abstract

The client was seeking to document the Collateral Management ("CM") Framework to ensure CRD IV and EMIR compliance. The CM Framework scope included all products subject to collateral requirements for Counterparty Credit Risk ("CCR") mitigation, including CCP and non-CCP cleared products such as OTC derivatives.

Avantage Reply provided the subject matter expertise required to conceptualise, develop and formalise the CM Framework.

THE CLIENT

The client is a Fed-16 Institution.

THE CHALLENGE

The client was seeking to document the Collateral Management ("CM") Framework to ensure CRD IV and EMIR compliance. The CM Framework scope included all products subject to collateral requirements for Counterparty Credit Risk ("CCR") mitigation, including Central Counterparties ("CCPs") and non-CCP cleared products such as OTC derivatives.

The client required Avantage Reply to provide the subject matter expertise required to conceptualise, develop and formalise the CM Framework due to a lack of client resources given time constraints.

APPROACH AND SOLUTION

The high-level approach that Avantage Reply took to the Engagement was to:

- We engaged the key stakeholders involved in collateral management activities (i.e. Front Office, Credit Risk, Operations, Legal, Documentation, Treasury, Finance and Internal Audit), and defined the objectives, scope, risks to be encompassed, ownership and governance structure of the CM Framework.
- Conduct an impact assessment of the organisation structures, roles and responsibilities, the policies, processes and controls and the supporting systems in place relating to collateral management.
- The collateral management activities reflected a collection of disparate functions rather than an integrated whole with clear accountabilities. We formalised the means for ensuring compliance with CRD IV and EMIR by developing a conformance evaluation tool, which formed the basis of an action plan devised to remediate the gaps.

RESULTS AND BENEFITS

- The formalisation of the CM Framework has enabled clearer roles to be defined; this in turn has improved the effectiveness of the management of both CCR and collateral.
- The client also has a document and conformance tool that:

- evidences compliance with CRD IV and EMIR and facilitates the regular update of policies, procedures and controls; and
- enables the quality of the CM Framework to be developed in line with best practice and regulatory developments.

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