HQLA^X

Accelerating Collateral Mobility

www.hqla-x.com

Overview

Our **core clients** are financial institutions active in securities lending and collateral management.

Our **shareholders** include market-leading service providers in the global financial ecosystem.

We formed a **strategic partnership** with Deutsche Börse Group to provide market participants with improved collateral mobility across a fragmented securities settlement eco-system.

Our **vision** is to accelerate the financial ecosystem's transition towards frictionless ownership transfers of assets.

Our immediate **goal** is to improve collateral mobility amongst market-leading triparty agents and custodians.

HQLA Portfolio Management

Since the 2008 financial crisis, the Basel Committee on Banking Supervision (BCBS) introduced **four key financial ratios**:

- Capital ratio
- Leverage ratio
- Net stable funding ratio (NSFR)
- Liquidity coverage ratio (LCR)

As a result, **HQLA portfolio management** has become increasingly important.

The HQLA^X operating model enables market participants to manage HQLA portfolios more efficiently, via **capital efficient** ownership transfers of baskets of securities.

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Addressable Market

Every €1 billion reduction of excess HQLA holdings equates to approximately €10 million in annual cost savings[1]

HQLA and LCR data from Basel Committee on Banking Supervision
"Basel III Monitoring Report" (April 2020)

- Total HQLA holdings by global banking industry **€13.5 trillion** (Cash 5.4t, Securities 8.1t)

  - of which G-SIBs (30 banks) **€9.2 trillion** (Cash 3.7t, Securities 5.5t)

    - average HQLA holdings per G-SIB **€306 billion**

    - average LCR per G-SIB **134%** (min. requirement 100%)

    - average excess HQLA holdings per G-SIB **€78 billion**

    - average cost of excess HQLA holdings per G-SIB **€780 million per year** (using 100 bps. cost estimate for HQLA holdings[1])

[1] According to a report by Oliver Wyman, "Intraday Liquidity: Reaping The Benefits of Active Management"

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Atomic Collateral Transfers

Market practice is to settle collateral upgrade transactions either by:

- **Two Free of Payment (FoP)** deliveries, or

- **Two Delivery versus Payment (DvP)** deliveries.

- Both settlement practices **consume costly bank capital.**

The HQLA^X operating model introduces a **new market practice** for exchanging ownership for baskets of securities.

- A **digital collateral registry** is used to record ownership of baskets of securities, whilst the underlying securities remain static in the custody location of the collateral giver.

- This enables financial institutions to execute **delivery versus delivery (DvD)** ownership transfers for baskets of securities across triparty agents and custodians at precise, predetermined moments in time.

- DvD reduces intraday credit exposures and intraday liquidity requirements, thereby achieving **capital savings**.

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Operating Model

MARKETPLACE
- Eurex Repo electronic trading market (new segment for HQLA^X collateral swaps)
- Ability to enter specific opening/closing date & time (to the nearest minute)

DIGITAL COLLATERAL REGISTRY
- Enables atomic change of ownership of baskets of securities
- Delivery vs Delivery "DvD"

TRUSTED THIRD PARTY (TTP)
- Holds baskets of securities at multiple custodians on behalf of participants
- Management of exposure requests to triparty agent services

CUSTODY LAYER (Triparty Agents and Custodians)
- Safekeeping of securities in accounts opened by the TTP
- Collateral management of securities in and out of segregated TTP accounts

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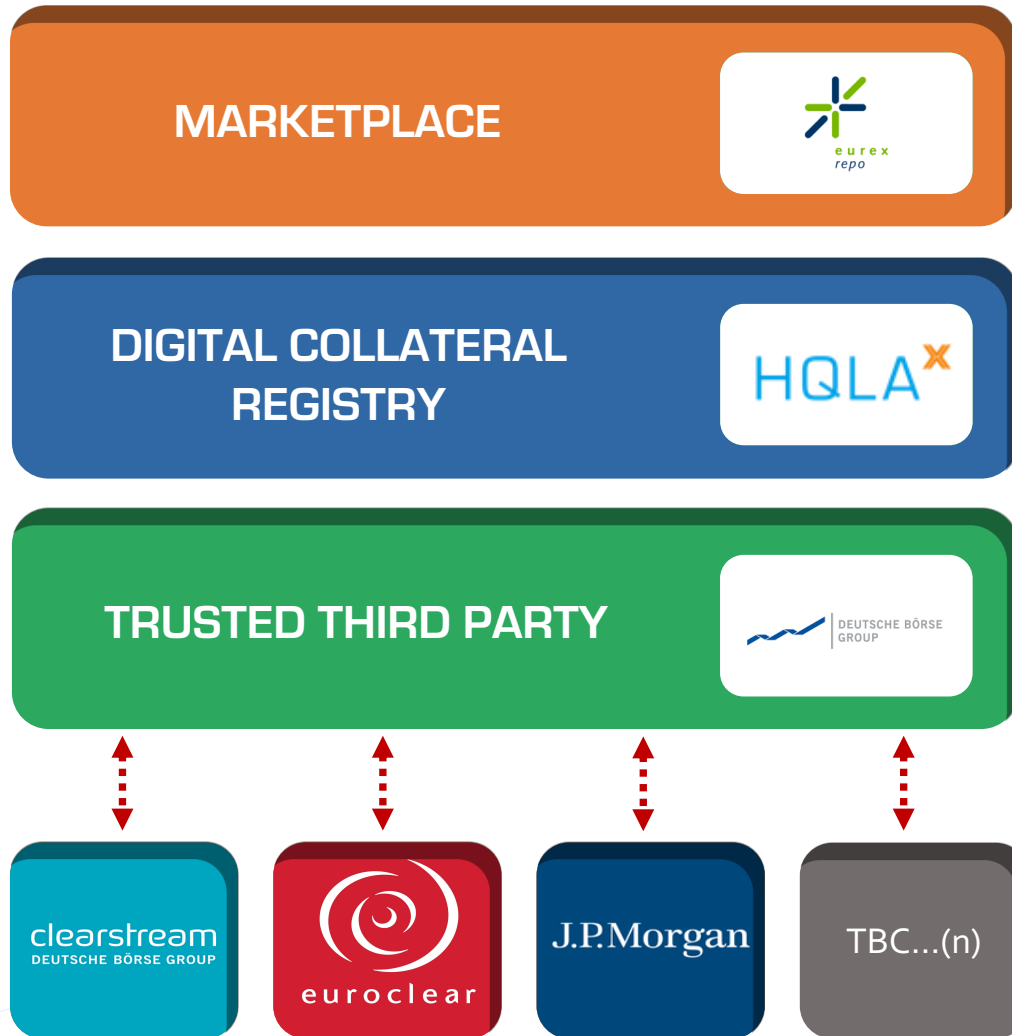
Current Benefits

- Collateral mobilised across triparty agents and custodians at precise, predetermined moments in time

- Reduction in intraday credit exposures

- Reduction in intraday liquidity requirements

- Reduction in operational risk (e.g. reduced fails)

Future Benefits

- Regulatory transparency

- Reduction in fire sale risk

- Scalable for other asset classes

- Mobilise hard-to-move assets

- Intraday liquidity management

- Margin pledge for uncleared margin rules (UMR)

- Margin for CCP exposures

- Reduced operational burden of reconciliations