Accelerating Collateral Mobility
Overview

HQLA is an innovative financial technology firm founded by financial market practitioners. Our vision is to accelerate the financial ecosystem’s transition towards frictionless ownership transfers of assets, and our core clients are financial institutions active in securities lending and collateral management.

Our immediate goal is to improve collateral mobility amongst market-leading triparty agents and custodians. Together with Deutsche Börse, we created a multi-layer operating model which enables our clients to exchange ownership of baskets of securities across disparate collateral pools at precise moments in time.

The atomic nature of our Delivery vs Delivery (DvD) ownership transfers provides our clients with capital cost savings by reducing credit risk, intra-day liquidity requirements, and operational risk.
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\textsuperscript{X} operating model enables market participants to manage HQLA portfolios more efficiently, via capital efficient ownership transfers of baskets of securities.
### HQLA<sup>x</sup>

**Addressable Market**

Every €1 billion reduction of excess HQLA holdings equates to approximately €10 million in annual cost savings<sup>1</sup>

<table>
<thead>
<tr>
<th>Metric</th>
<th>Details</th>
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<tbody>
<tr>
<td>Total HQLA held by Group 1 banks&lt;sup&gt;2&lt;/sup&gt;</td>
<td>€12.9 trillion (of which €9.2 trillion held by 30 G-SiB)&lt;sup&gt;3&lt;/sup&gt;</td>
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<tr>
<td>HQLA composition</td>
<td>Securities €7.7 trillion, Cash €5.2 trillion</td>
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<td>Average LCR per bank</td>
<td>136% (min. requirement 100%)</td>
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<td>Average excess HQLA holdings per bank</td>
<td>€32 billion</td>
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<td>Estimated cost of excess HQLA holdings per bank</td>
<td>€320 million per year (using 100 bps. cost estimate for HQLA holdings&lt;sup&gt;1&lt;/sup&gt;)</td>
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1 According to a report by Oliver Wyman, “Intraday Liquidity: Reaping The Benefits of Active Management”
2 Group 1 banks are those that have Tier 1 capital of more than €3 billion and are internationally active
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.
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**
- Simultaneous ownership transfer of baskets of securities at precise moments in time (Delivery vs Delivery “DvD”)
- No settlement movement between custodians or tri-party agents at point of ownership transfer

**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
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