

State Street collateral optimization

Greg Donovan, Vice President in our EMEA Collateral Client Solutions group, assesses how State Street collateral optimization solutions can help clients more efficiently deploy inventory across their range of portfolios.

Historically, many buy-side industry participants have fulfilled their collateral obligations by sourcing inventory against exposures on a like-for-like basis across accounts within the same legal Entity, or by running cumbersome internal processes to aggregate inventory into one account to cover all exposures under that entity.

Our collateral optimization engine allows clients to specify algorithmic rules for sourcing inventory across their account range into centralized collateral Long Boxes. The inventory in these Long Boxes is then used to facilitate settlement against counterparty exposures according to client-configured rules.



Available collateral from client account(s) to the Long Box(es)



Best deployment of Long Box collateral to counterparties



Return of excess collateral from the Long Box(es) to the client account(s)



Transfer of Long Box excess collateral that no longer meets the collateral quality standards back to the client account(s)

Here's how it works

Clients can customize the allocation of inventory from their accounts to the Long Boxes and from the Long Boxes to counterparties to best suit the needs of their trading relationships. Settlement of inventory between client custody accounts, Long Boxes and counterparties is automated by the optimization engine to improve process efficiency and reduce operational risk.

Collateral optimization helps clients more efficiently meet funding requirements and collateral delivery considerations, taking into account the collateral supply and counterparty agreement needs.

We use the collateral optimization process to manage the selection of:

- Available collateral from client account(s) to the Long Box(es)
- Best deployment of Long Box collateral to counterparties
- Return of excess collateral from the Long Box(es) to the client account(s)
- Transfer of Long Box excess collateral that no longer meets the collateral quality standards back to the client account(s)

Clients can configure the optimization engine according to combinations of various rules, including:

- Inventory sourcing locations
- Long Box to counterparty settlement configuration
- Concentration limits (minimums as well as maximums)
- Collateral eligibility rules
- Haircuts
- Aggregation rules
- Asset level Inclusion / exclusion rules
- Prioritization and hierarchy rules
- Exposure requirements
- Collateral market pricing / valuation rules

For more information about our solutions,
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