Collateral tagging

Provides a benchmark to optimize allocation & reduce inter-firm disputes

Complying with new collateral segregation rules is time & resource intensive

As part of their ongoing efforts to reduce systemic risk in the banking system, global regulators have introduced a series of reforms in the OTC market. The new BIS/IOSCO margin requirements (1) for non-centrally cleared derivatives establishes minimum standards took effect in many jurisdictions globally, including US and Europe, from September 2016 and will oblige covered firms that engage in non-centrally cleared derivatives to exchange initial margin and variation margin. The regulation goes as far as to define the types of eligible collateral and their respective haircuts for margining.

The challenges firms have been facing during implementation of margin requirements include (i) the maintenance of multiple collateral eligibility rules based on different national jurisdictions, (ii) the need to continually maintain and monitor the latest requirements as the regulatory requirements around margin and collateral continue to evolve, (iii) the fact there is not an industry standard established for collateral classification, contributing to the number of discrepancies and disputes between dealers. The accumulation of these factors result in significant operational and related cost, including resources, time, infrastructure etc. dedicated to managing the collateral.

Bloomberg has developed an efficient, first-to-market solution

Bloomberg's Collateral Tagging solution provides customers with an efficient mechanism to determine and classify eligible collateral for margining of noncentrally cleared OTC derivatives across various global regimes. The solution is based on regulatory requirements, regulatory expertise and industry feedback, thus providing a standardized, accurate and consistent classifications and haircuts for eligible collateral across the industry, eliminating the guesswork for the firms' capital and collateral managers.

Firms often have Credit Support Annexes (CSAs) in place, which list acceptable asset classes that can be posted as collateral. However, due to the diversity and complexity of existing CSAs, firms are not always able to agree on the classification of products in these sub-asset classes, along with the applicable minimum haircut. The Collateral Tagging product provides a consistent, up-to-date and precise tagging of approximately 3 million securities, reducing discrepancies between the classifications that firms use, the associated haircuts, and hence the occurrence of collateral disputes between firms.

Key benefits

Consistent
Collateral classifications for various instruments posted as collateral have been derived in conjunction with industry participants.
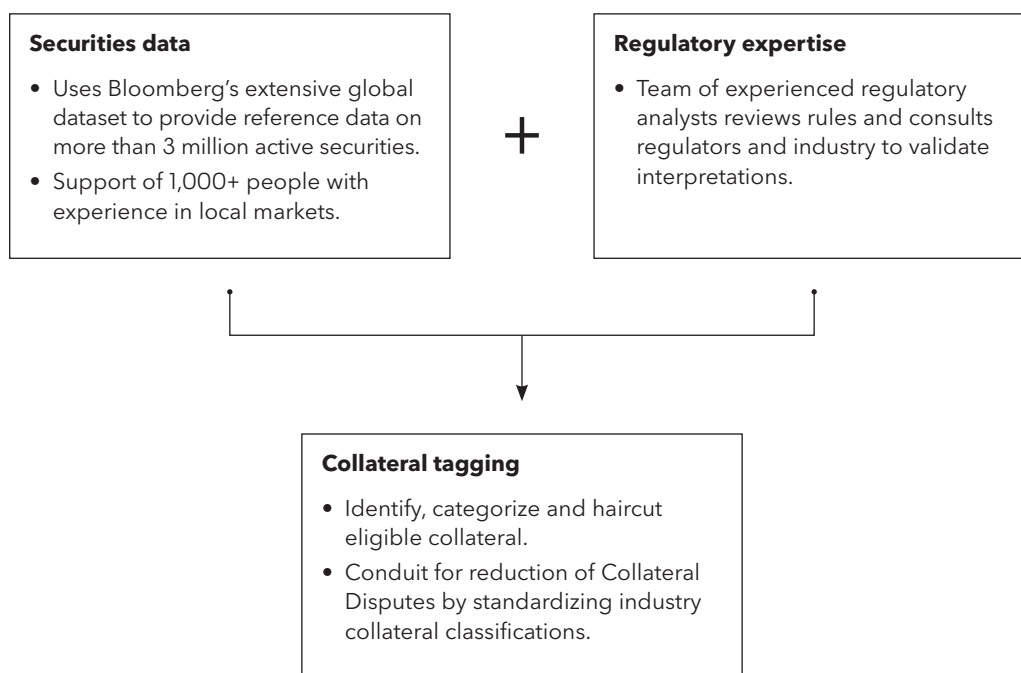
Comprehensive
Broad coverage of the securities universe with approximately 3 million securities included.

Global
Classifications are based on rules from multiple jurisdictions to help internationally active firms manage their collateral more easily.

Bloomberg

Regulatory reporting teams that need to classify their exposures into predefined types to calculate their credit risk capital charge will also be able to use Collateral Tagging to accurately and consistently classify their positions, helping them to apply the appropriate risk weights.

Securities data

- Uses Bloomberg's extensive global dataset to provide reference data on more than 3 million active securities.
- Support of 1,000+ people with experience in local markets.

+

Regulatory expertise

- Team of experienced regulatory analysts reviews rules and consults regulators and industry to validate interpretations.

Collateral tagging

- Identify, categorize and haircut eligible collateral.
- Conduit for reduction of Collateral Disputes by standardizing industry collateral classifications.

Bloomberg for enterprise

To succeed today, financial institutions must respond to challenges that are not addressed by traditional approaches. They require world-class solutions that integrate people, processes, information and technology for the front office, middle office and operations. Bloomberg partners with these institutions to protect and capitalize on data, manage risk, deliver transparency and control costs. Through enterprise-level expertise and three decades of deep industry experience, Bloomberg creates real value through the use of innovative technology that turns data into a strategic asset.

Learn more

Bloomberg is currently consulting with industry working groups to incorporate their considerations into its Collateral Tagging solution and develop a consensus around the classifications ahead of bringing the product to market.

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