CASE STUDY

Navigating the Challenges of Collateral Optimisation

KYNEC

"KYNEC really understood our challenges and their Rubicon platform was quickly and easily implemented. This has enabled us to save significant collateral funding costs."

Head of FVA, Leading Investment Bank

The Challenge

The use of collateral in derivatives markets has increased rapidly since the Global Financial Crisis and the implementation of mandatory clearing and uncleared margin rules.

Collateral is no longer perceived as only a risk mitigation tool but by Traders as a core input to derivatives pricing, liquidity, funding, balance sheet and capital management. This increased usage and scope of collateral also placed greater pressure on Collateral Operations to support Front Office and Risk.

The bank identified the need for a collateral platform able to:

- extract and consolidate margin information from multiple CCP, Clearing Brokers and in-house systems
- spot opportunities for collateral funding optimisation
- quick and effective drill-down into the data behind collateral positions
- connect to CCP margin calculators for what if and stress testing
- facilitate a varied and wide-ranging reporting suite

The Objectives

The bank primarily wanted **margin information to manage liquidity and funding and to ensure proper pricing of derivatives transactions**. They identified the following opportunities:

- reduce margin requirements
- reduce excess margin buffers
- optimise collateral posted
- reduce fees and interest expense
- remove all manual processes where possible

The bank quickly realised the value of **consolidated firm-wide collateral information to other stakeholders** and collaborated with Collateral Operations and Risk to ensure these benefits were realised across the bank.

They saw that Kynec's Rubicon platform fulfilled these requirements and importantly **could be implemented with minimal disruption to existing systems**.

KYNEC

Why Rubicon?

- Improve P&L
- Win new transactions
- Increase risk appetite
- Save costs
- Improve operational resilience

Features

- Real time alerts to drive actions
- Consolidated margin store
- Workbench for analysis
- Connect to CCP analytics
- Integrated reporting tool
- Insight on collateral risks
- No searching for margin information
- No IT support costs
- Retire local spreadsheets
- Full audit trail

Functions

- Cloud native, API first, SaaS platform
- Modular connectors to CCP, Brokers and collateral systems
- Data mapped to single common domain model
- Extensive security and monitoring framework
- Implement rapidly with no internal IT development

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The Solution

The bank decided to run a pilot through its Innovation Lab to validate the Rubicon platform. The initial scope would be LCH SwapClear and Eurex OTC Rates, and the Innovation Lab route was chosen to accelerate procurement and IT risk assessment.

The bank authorised each CCP to give Kynec assess to their data via their respective client portal. Kynec then extracted the reports and loaded the data into its cloud hosted relational database. Each CCP's data was **mapped to Kynec's common domain model** to harmonise and consolidate the information. A series of microservices and APIs then delivered the data to the Rubicon GUI.

All data is **end to end encrypted** with comprehensive security and monitoring in line with the bank's policies and procedures. Approved users accessed Rubicon using multifactor authentication.

User acceptance testing was successfully completed within one month and Rubicon was rolled out to users across Markets, Collateral Operations and Risk.

Benefits and Results

The bank now has a secure golden source of CCP data updated in real-time for all users to access delivered as a SaaS model with no internal maintenance or support costs.

Rubicon delivers a **dashboard of consolidated key margin information** and a daily collateral P&L. It's Funding, Risk and Operations **workbench features enable users to dig deeply** into all the underlying numbers for further insight and investigations. The **integrated Business Intelligence tool facilitates further data and trend analysis** with reports published directly.

The bank was able to improve its monitoring of collateral across the two CCPs significantly, **reducing funding costs and improving the profitability** for the front office.

"KYNEC has delivered a valuable piece of market infrastructure for Financial Markets. Our Innovation Lab enabled us to pilot the technology quickly and prove it worked for us."

Head of Infrastructure & Innovation
Leading Investment Bank

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