



THE FIELD EFFECT

# Securities Financing

Industry challenges & TFE solutions





# Securities Financing Challenges

The Field Effect has identified 4 key areas that will strengthen the value proposition a Securities Finance desk provides across the trading floor

## Capital inefficiency

- Capital consumption has reduced profitability of transactions
- Securities Finance is uniquely placed to reduce capital consumption across the entire trading floor
- Capital requirements can be reduced by restructuring and not unwinding business

## Liquidity inefficiency

- Firms are not optimising the P&L opportunities that exist within their liquidity books
- The asset side of the balance sheet is not being maximised
- Financing desks are not structuring activities which compliment the needs of their Treasury departments

## Leverage synergies

- Most Investment Banks have adopted a silo operating approach and cross-divisional synergies are not identified
- Capital reduction opportunities are not recognised
- P&L opportunities are not captured
- Cost savings are not maximised

## Regulatory strategy

- Regulatory problems are often executed sub optimally and seldom improved upon
- Regulatory solutions are rarely designed to solve for multiple regulations
- Too often, regulatory change is viewed as negative but with any change comes opportunity



# Capital Inefficiency

Capital costs have materially eroded profitability of many transactions. Securities Finance is uniquely placed to reduce capital consumption across the trading floor, so protecting the revenue of proprietary and client facing transactions

## The TFE Approach

- Review and enhance liquidity buffer management process
- Introduce new short coverage model
- Identify and solution for areas of sub optimal capital consumption
- Maximise asset usage with group wide collateral trading policy
- Develop off balance sheet collateral strategies
- Review approach to managing LCR/ NSFR

**The Field Effect track record** - has designed solutions to enable capital consumption reduction by in excess of 10 billion US \$ by improving asset utilisation and implementing new trading strategies

Work products
<ul style="list-style-type: none"> <li>▪ Multi asset class capital mitigation strategy</li> <li>▪ Group wide collateral policy</li> <li>▪ Tactical trade ideas</li> <li>▪ Quantitative P&amp;L and capital benefits model</li> <li>▪ Impact of change and create execution plan</li> <li>▪ Roadmap to deliver optimal control framework</li> </ul>





# Leverage Synergies

Cross-divisional synergies have not been recognised or acted upon due to the silo approach most investment banks have adopted. Consequently, capital reduction has not been actioned, P&L opportunities have not been captured and cost savings have not been maximised

## The TFE Approach

- Review cross divisional trading desks for offsetting funding and capital usage/generation
- Strengthen the value proposition of the securities finance desk by positioning it as a division wide business enabler
- Measure impact of change and provide a target operating model
- Create a multi dimensional transfer pricing model
- Create internal collateral market place
- Capture intra entity asset liability flows

**The Field Effect track record** - has enabled clients to identify intra and cross divisional synergies that offered multi billion US \$ reduced capital consumption whilst simultaneously increasing P&L by in excess of 50 million US \$

Work products
<ul style="list-style-type: none"> <li>▪ Cross desk/divisional multi asset class trading strategy</li> <li>▪ Group wide collateral policy</li> <li>▪ Tactical trade ideas</li> <li>▪ Quantitative P&amp;L and capital benefits model</li> <li>▪ Multi dimensional transfer pricing model</li> <li>▪ Impact of change and create execution plan</li> </ul>



Capital consumption



Operating cost



P&L



Regulatory compliance



# Regulatory Strategy

Desk based solutions to regulatory change are often structured with a short term outlook, rarely is the process reviewed and improved upon. Regulatory change can generate both trading and client opportunities. With any change comes opportunity

## The TFE Approach

- Identify regulatory synergies to reduce solution build
- Identify areas of sub optimal regulatory compliance and create implementation roadmap to strengthen process
- Unify multi divisional approach to liquidity ratios, resolution planning and SFTR
- Create an enhanced control framework
- Develop strategy to streamline process and reduce operating cost
- Reduce ratio buffers by leveraging available data
- Define optimal technology solution by balancing internal delivery capabilities with impartial external vendor solutions

**The Field Effect track record** - has structured solutions to strengthen regulatory compliance and reduce the requirement for excessive regulatory buffers

Work products
<ul style="list-style-type: none"> <li>▪ Securities Finance focused regulatory strategy</li> <li>▪ Tactical regulatory trade driven benefits</li> <li>▪ Quantitative P&amp;L and capital benefits model</li> <li>▪ Impact of change and create execution plan</li> <li>▪ Roadmap to deliver optimal control framework</li> </ul>





# Liquidity Inefficiency

Front to back businesses have procedural weaknesses prohibiting the ability to maximise the value contained within the asset side of the balance sheet. Financing desks need to structure their activities to complement the needs of their treasury departments

## The TFE Approach

- Create robust funding book strategy incorporating ALM, WAM, geographical and client considerations
- Create multi asset class group wide liquidity and funding strategy
- Enhance distribution ability of unencumbered assets
- Enhance collateral management function to cover all group wide exposures and collateral obligations
- Develop and document solutions to monetise multi asset class esoteric assets
- Devise asset / liability model per asset class
- Design an off balance sheet liquidity buffer avoiding negative deposit rates

**The Field Effect track record** - has structured opportunities to increase liquidity generation and release trapped cash by in excess in 15 billion US \$

Work products
<ul style="list-style-type: none"> <li>▪ Multi asset class trading strategy</li> <li>▪ Intraday liquidity management strategy</li> <li>▪ Group wide collateral policy</li> <li>▪ Tactical trade ideas</li> <li>▪ Quantitative P&amp;L and capital benefits model</li> <li>▪ Multi dimensional transfer pricing model</li> <li>▪ Impact of change and create execution plan</li> </ul>



Capital consumption



Operating cost



P&L



Regulatory compliance



# The Field Effect

## About TFE

The Field Effect is an independent consultancy specialising in accelerating change in **securities financing & collateral management**, providing advisory services to every participant in the industry value chain

Our services include helping clients to **enhance trading and customer service strategies; improve operating efficiency; and simplify technology infrastructure to reduce run costs**

Finance, Capital & Collateral Specialists

## Our clients

- Buy-side
- Sell-side
- Custodians
- CCPs

# TFE Services



## Vision

- **Vision, Objectives & Goals (VOG)** – structured exposition of what the business objective and goals are, backed by quantifiable metrics
- **Pain Points, Opportunities & Gaps** - structured approach for diagnosing and analysis of the problem domain & validating the solution



## Target Operating Model

- **Target Process model** – structured workflow mapping with integrated data and control requirements
- **Target functional model** – integrated with the process model to inform architecture
- **Architecture models** – conceptual, logical, physical
- **Information model** – data model glossary, taxonomy, entity relationship, governance
- **Organizational model:** roles & responsibilities definition



## Roadmap & Business Case

- **Program Building Blocks (PBB)**– units-of-change required to deliver the proposed solution (TOM)
- **Roadmap** – simple or sophisticated tools for implementation planning
- **Scenario analysis** – different roadmap scenarios aligned to change & business initiatives
- **Business case** – a comprehensive business case per building block aggregated to the entire roadmap



## Implementation

- **Strategy** – integration, environments, testing, development, resourcing & governance
- **Detailed planning** – design program, workstream planning (detailed project planning) & resourcing plan
- **Delivery** – establish program office, establish governance, mobilise program, procure environments, execute plans, manage internal & vendor relationships, test, BAU support & handover