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Societe Generale Securities Services

Bruno Prigent, head of SGSS, speaks to Andrew Neil about the increasingly important role of collateral management

Regulation is reshaping the way collateral is managed, exchanged and kept. One of the main challenges will be the ability to swiftly adapt to these new requirements, involving major investment in technology and expertise.

Many counterparties will soon either exchange collateral for the first time or collateralise positions that weren't previously. Clearing OTC derivatives will require delivering collateral to CCPs or clearing brokers; non-centrally cleared collateralisation – initial margin (IM) and variation margin (VM) – will be exchanged bilaterally.

Firms will have to manage risks more effectively and the use of collateral is crucial. Efficiency in mobilisation, allocation (maximising the use of the balance sheet and minimising funding requirements) and segregation (to ensure a secure environment) have become essential.

Collateral management is moving towards front office functions, given the increasing operational complexity and the impact on investment strategies.

"Investment managers will have to factor in the cost of collateralisation in their overall investment strategies," says Bruno Prigent, global head of SGSS. "Moreover, as the assets may be otherwise deployed, collateralising other exposures, it will require increased proactive management of positions in order to trade them."

Societe Generale's solution – TEMPO – brings this necessary proximity required by the front office.

As overall collateral movements greatly increase, generating a significant workload for the reconciliation of margin amounts and derivatives valuations, operational risk and potential losses also increase.

"We have developed a service offering to address these major challenges but also to go a step further in supporting our clients by providing value added solutions such as collateral sourcing and optimisation, while trying to perfectly match their requirements with flexible service components," says Prigent.

"We believe that collateral has to be centrally managed across asset classes – cleared and uncleared OTC derivatives, listed derivatives, REPO and securities lending – to achieve optimum cost efficiency and this is what we have implemented."

Compared to pure IT collateral management services, Societe Generale's solution not only gives access to leading platforms but also to the highly trained professionals that operate them.

"Our solution allows our clients to benefit from all the advantages without substantial drawbacks," he says citing operational expertise, IT developments, regulatory watch & compliance implementation, employee training. "For example, our clients can benefit from the latest market practices for which they wouldn't have had access to if they had chosen an IT provider."

"We can fairly say that advanced financial engineering is core to Societe Generale's DNA. Paired with our innovation skills, we have all the elements to meet these new challenges that are increasingly quant-related," he says noting derivatives pricing and IM based on sensitivity calculations.

"We can provide several financing strategies with sophisticated risk management. We are observing that requests for collateral management in overall requests for proposal (RFPs) are increasing. Clients are looking for global partners that can support them all along the value chain."

"SGSS and SG Prime Services are complementary in this area, bringing together the expertise in the cleared and OTC space. As many clients for both businesses have common needs, it made complete sense to build a joint offer to provide clients with a full and complete value chain – from execution and clearing, to collateral management and custody services."

SGSS has been providing collateral management agency services for more than eight years and provides the full value chain, from trade confirmation to derivatives valuation and collateral management.

Prigent says collateral management is strategic for Societe Generale and has received significant investment. He says TEMPO can be considered "one of the leading solutions available in the market today" and clients can rely on "the solidity of a European-based financial institution".

"In a more or less distant future, rising interest rates in Europe should change the way collateral is managed and optimised thus leading to the increased use of non-cash collateral. As a result, collateral optimisation will play a bigger role. T2S is likely to facilitate exchanges of collateral within T2S markets, but the impact on collateral management from a cost-efficiency and mobilisation perspective is hard to assess at this stage of implementation."