



SUNGARD ADAPTIV COLLATERAL

Risk Management
and Operations
Solutions

Facing the Challenge – Industry Demands

Increasing trading volumes have resulted in growing pressures on financial institutions' credit lines. In the absence of credit risk mitigation techniques, gross exposures can easily move close to or exceed authorised limits. Collateral is increasingly being used as a credit risk mitigation technique, by replacing the simple default risk of the counterparty with the more complex, yet more diversified and more readily managed combination of counterparty default risk, collateral issuer default risk and legal and operational risks.

Collateralisation can equalise disparities in creditworthiness with lower rated or unrated counterparties, or with counterparties with deteriorating credits. The client base is therefore expanded as trading becomes possible with counterparties across the credit spectrum. Additionally, this allows longer dated and higher value transactions than would otherwise be possible on a non-collateralised basis. This leads to an institution's potential revenue base being extended and assists in maintaining its market advantage.



ADAPTIV COLLATERAL HELPS AN INSTITUTION TO MAXIMISE ITS TRADING OPPORTUNITIES. IT ENABLES TRADING TO CONTINUE BETWEEN AN INSTITUTION AND ITS COUNTERPARTIES, WHERE IT MAY OTHERWISE HAVE BROKEN DOWN BY EQUALISING DISPARITIES IN CREDITWORTHINESS.

Meeting the Challenge - Adaptiv Collateral

Evaluating collateral calls can be a complex process. Adaptiv Collateral is designed to help institutions mitigate credit risk by measuring credit exposure with their counterparties, and enabling them to call or post collateral to cover this exposure. Adaptiv Collateral collects and measures counterparty credit exposures to determine collateral requirements. It then guides the collateral practitioner through the satisfaction of all outstanding exposure responsibilities, records new collateralised positions, and supports notification of position information to other areas of the organisation.

Collateralisation has become the credit risk mitigation strategy of choice in many markets. Interestingly, the collateral assets used are the same across these diverse markets. Such similarities have led to great interest by risk managers in the concept of enterprise collateral management.

Enterprise collateral management can be defined as “the optimal management of credit, collateral, capital and all related execution, pricing, operational, documentation and risk management aspects of a portfolio across all products, all business units and all locations.”

Adaptiv Collateral is the ideal tool for global and local collateral management teams. It is aimed at both buy- and sell-side institutions and can be utilised by any institution using collateral as a method of mitigating risk. Additionally, it is ideal for corporates as a powerful operational and management reporting tool – tracking the activities of their trading divisions or broker dealers.

Adaptiv Collateral's strength in the field of asset management from the perspective of accounting, settlements and risk analysis, and its comprehensive approach to agreement definition, make it applicable across a broad spectrum of business areas – from derivatives, repo and foreign exchange (FX) trading to energy trading and more traditional banking book products.

The modular nature of Adaptiv Collateral allows it to be tailored to suit initial requirements, and then easily extended to meet growing needs.

THE MODULAR NATURE OF ADAPTIV COLLATERAL ALLOWS IT TO BE TAILORED TO SUIT INITIAL REQUIREMENTS, AND THEN EASILY EXTENDED TO MEET GROWING NEEDS.



Adaptiv Collateral Service Overview

Adaptiv Collateral collects trade and valuation information from internal sources and market data suppliers. This information is used to calculate counterparty credit exposures and collateral obligations. The system guides the collateral practitioner through the process of executing collateral calls as well as satisfying incoming demands for collateral.

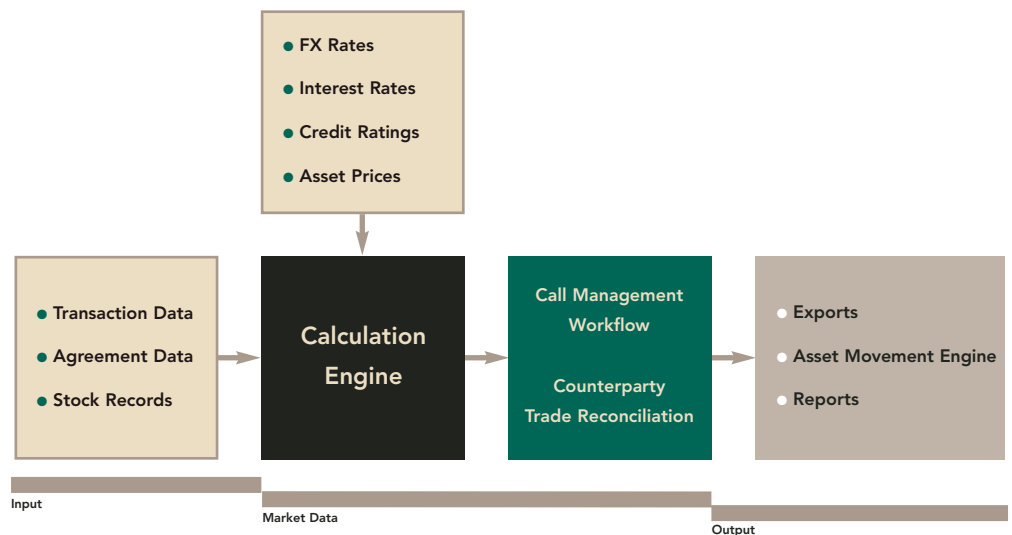
Adaptiv Collateral records new collateralised positions, helps to optimise collateral asset allocation, supports efficient settlement practices, and provides critical information for credit systems and risk officers.

Building a collateral solution for your business

Adaptiv Collateral consists of one core application supported by a number of ancillary services and modules.

The components illustrated below help users perform the key tasks involved in collateral management, including:

- Scheduling the reception of corporate, reference and market data
- Definition and maintenance of collateral agreements
- Bulk and ad-hoc calculation of credit support obligations
- Communicating with counterparties, providing details of collateral calls, asset movements, substitutions and cash flows
- Negotiating the specifics of the exchange of collateral
- Passing collateral settlement instructions to custodians and back offices
- Follow-up of settlements – performing reconciliations



ADAPTIV COLLATERAL'S DASHBOARD CONCEPT ALLOWS USERS TO CONFIGURE THE WORKSTATION TO SHOW EXACTLY WHAT THEY NEED TO DO THEIR JOB.

- Full processing of interest accruals and distributions on cash collateral
- Delivery of revised collateral positions by agreement/counterparty to other interested parties within the organisation.

Global and multi-centre ability

Adaptiv Collateral is designed for global use across multiple physical sites. It employs the concept of collateral centres to allow the segregation, management and reporting of collateral agreement information on a global basis.

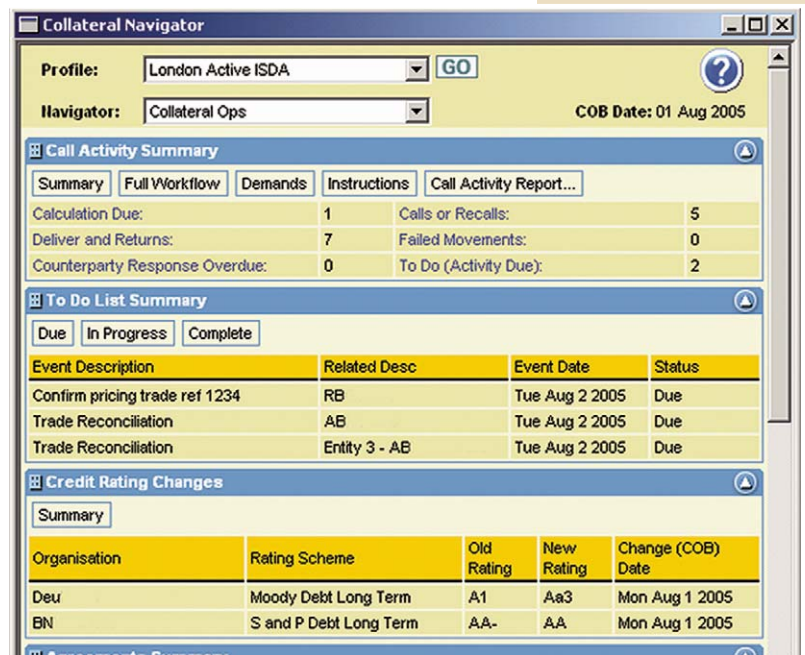
Cross product, asset, business line

Adaptiv Collateral allows any number of agreements to be established between the same two signatories and for these to be governed by any one of the legal documentation types registered in the system. Below this, the system allows any selection or subset of trades, products, assets, branches, subsidiaries and currencies to be associated with particular agreements.

Users can model the exact nature of their collateralised obligations whilst, at the same time, the system ensures that no duplication occurs. Adaptiv Collateral supports agreements covering specific named trades as well as pool type agreements where the coverage can be governed by secondary characteristics such as type, maturity or branch.

A friendly, fast and safe environment

Adaptiv Collateral's dashboard concept allows users to configure the workstation to show exactly what they need to do their job. Navigation is intuitive, allowing users to move around the system quickly using



hyperlinks rather than vertical menus.

Comprehensive, configurable workflow

Adaptiv Collateral provides a comprehensive, configurable workflow process to guide the collateral practitioner through all elements of the collateral call. It provides the essential checks and controls to ensure that all active collateral agreements are implemented correctly. Unnecessary manual processes are eliminated, whilst allowing the practitioner to retain control.

The configurable nature of the workflow coupled with the employment of user defaults mean that the system can be adapted to suit the working practice of the enterprise. Timing, deadline controls and monitoring ensure that the call proceeds according to the schedules set out in the agreements. In this way, potential errors and omissions can be largely eliminated.

Figure 1: The collateral navigator provides summary information on the status of the daily processes around collateralisation. It is configured for each user to show information relevant to them.

THE CONFIGURABLE NATURE OF THE WORKFLOW COUPLED WITH THE EMPLOYMENT OF USER DEFAULTS MEAN THAT THE SYSTEM CAN BE ADAPTED TO SUIT THE WORKING PRACTICE OF THE ENTERPRISE.

The collateral practitioner uses a system of work queues and a summary call activity monitor to plan resource allocation and actively monitor the daily workload. Security levels are set around the collateral call process. For example, the system can be configured to require that instructions must always be authorised by a second user before transmission (4-eyes authorisation). Alternatively the authorisation process may be skipped and a single user can process the call alone. A straight-through process can also be employed where calls are sent without manual intervention.

The required level of authorisation is set at the collateral agreement level, freeing the collateral practitioner to concentrate on those agreements that require special handling whilst providing the maximum operational efficiency.

Full cash management

Adaptiv Collateral provides agreement-level rules governing the accrual, capitalisation and distribution of interest on cash collateral. Cash flows are channelled automatically into the workflow module, giving users absolute control over the updating of account positions

and ensuring that the repayment of interest does not result in under-collateralisation. Comprehensive statements can be auto-generated according to a schedule or produced on demand.

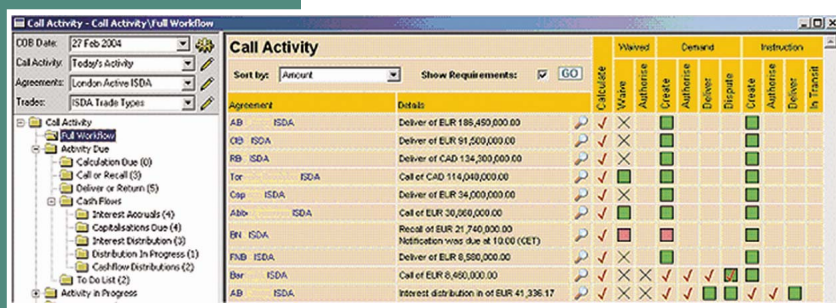
Collateral asset management

Pre-defined rules regarding eligibility and preferences allow the easy selection of assets to be received or delivered following a collateral call. Tracking may be further controlled and audited by the reconciliation of movements and positions presented by custodians and back offices with the records in the system. Manual clearance facilities are also provided. A suite of concentration reports is available to control the collateral asset pool and limits can be applied to manage the concentration risk arising from the collateral portfolio.

Flexible reporting capabilities

Adaptiv Collateral provides flexible, on-line facilities for running pre-defined or customised reports. These are developed utilising the Crystal Reports development engine and cover the wide spectrum of data routinely required by collateral practitioners. Adaptiv Collateral also allows users to add their own custom reports. Each report can be individually assigned to specific users and groups for added security. Reports may be directed to the screen or to a printer, or published in a wide variety of formats, including Microsoft Excel, Microsoft Word and HTML. The system also provides users with the facility to wrap documents into Adobe Acrobat files. Adaptiv Collateral can assign distribution lists to specific reports, so that

Figure 2: The call activity dashboard shows the progress of the collateral calls.



PRE-DEFINED RULES REGARDING ELIGIBILITY AND PREFERENCES ALLOW THE EASY SELECTION OF ASSETS TO BE RECEIVED OR DELIVERED FOLLOWING A COLLATERAL CALL.

they can be disseminated appropriately across the institution.

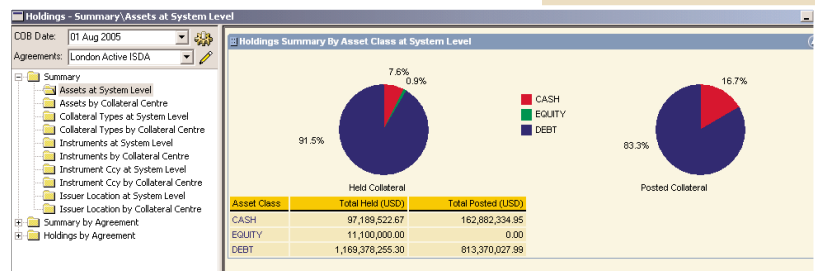
Further significant advantages of Adaptiv Collateral include:

- Internal and external credit ratings support
- Extensible Markup Language (XML) messaging for seamless real-time or batch interfaces
- Wide set of import and export options available using standard file formats, such as Microsoft Excel, CSV and HTML
- Automated trade reconciliation module using SunGard IntelliMATCH.

Ease of implementation

The implementation of Adaptiv Collateral into an institution's infrastructure is a straightforward process. It can be installed directly on-site or delivered as an Application Service Provider (ASP) service hosted by SunGard Availability Services. For daily market, trade, custodial and corporate information Adaptiv Collateral employs simple, standard file structures and Application Programming Interfaces (APIs) for import and export.

Automation of many processes, such as the receipt of daily market information can be handled by the 'daily processes monitor' – a sophisticated tool for controlling and scheduling the potentially large number of background tasks required by collateral management functions. Adaptiv Collateral supports user preferences and configurations, enabling individual tailoring at any time during or after the implementation lifecycle.



Summary

In a financial services landscape defined by ever increasing volumes and complexity, institutions are being pressed to ensure that risk management practices, policies and processes encompass all risks faced by the organisation and within a risk profile specifically defined by the organisation.

Adaptiv Collateral is a sophisticated global, cross-product, enterprise collateral management tool. It provides the ideal platform to help organisations manage the process of calling and delivering collateral to mitigate credit exposure.

Adaptiv provides the solutions and services designed to meet current and future risk management and operations requirements of financial institutions.

Figure 3: An example of the concentration reporting. Drill-down facilities provide excellent analytical tools for the collateral asset manager.

SunGard Adaptiv

Adaptiv Collateral is part of the SunGard Adaptiv solution. Adaptiv is an enterprise wide credit and market risk management solution for financial services institutions. Adaptiv assists institutions of varying size and complexity to deploy technology to meet both internal and regulatory requirements for risk management and operational control. We help more than 160 financial services institutions from the banking, hedge fund, asset management, insurance and corporate sectors with our deep understanding of risk management and operational processes.

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