

## MEMORANDUM

TO: File No. S7-08-11  
FROM: Andrew Blake  
Division of Trading and Markets  
RE: Meeting with Representatives from Omgeo  
DATE: July 21, 2011

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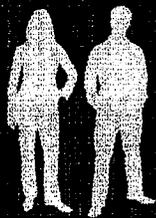
On July 21, 2011, representatives from the Securities and Exchange Commission (“SEC”) met with representatives from Omgeo. SEC representatives were Joe Kamnik, Andrew Bernstein, Andrew Blake, Pam Kesner, Nancy Sanow, Tom Eady, Jack Habert, Catherine Moore, Ken Riitho, Ignacio Sandoval and Paula Sherman. Omgeo representatives were Marianne Brown, Norman Reed, Mark James, Lee Cutrone and Martin Loxley.

During the meeting, the representatives discussed the SEC’s proposed rules for Clearing Agency Standards for Operation and Governance (File No. S7-08-11).

# SEC/Omgeo Meeting

## Collateral Management Overview Session

July 21, 2011



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## Agenda

- Omgeo Background
- Understanding Collateral Management
  - The role of Collateral Management software
- Omgeo ProtoColl
  - Value proposition
- Summary: Omgeo ProtoColl is not Clearing Agency Function
- Q&A/Discussion



## About Omgeo

**Omgeo is the global standard for efficiency, certainty and confidence in post-trade operations.**

Through our “core” solutions (ALERT, TradeSuite & CTM), we create “settlement certainty” in post-trade operations through the automation and timely confirmation of the economic details of trades between investment managers, hedge funds, broker/dealers, and custodian banks.

Our established, global community includes:

- 6,000 community members
- 46 countries
- 80 firms in partnership network



## Our Background

**Omgeo's heritage is based on a unique partnership between a leading global utility and the commercial sector. Our priorities are guided by the industry and delivered across borders and asset classes.**

Global joint venture established in 2001

- Equally owned by The Depository Trust & Clearing Corporation and Thomson Reuters
- Predecessor companies enjoy over 30 years of experience servicing the world's financial markets

Industry governed Board of Managers

- 7 of 11 Board members come from our global client community

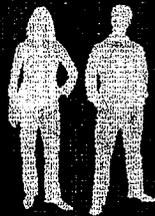
Omgeo's "core" transaction services (TradeSuite & CTM) are currently subject to SEC regulation by virtue of our Exempted Clearing Agency status. Omgeo is also subject to FSA & MiFID compliance in the UK

In 2008, Omgeo entered the installed software solution space through the acquisition of ProtoColl, a software tool to enable our clients better manage their trading collateral requirements.

- ProtoColl is one of several software solution providers in this space

# Understanding Collateral Management

## The Role of Collateral Management Software



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# The Collateral Management Value Proposition

What is Collateral Management?

The mitigation of counterparty risk via the measurement of exposure and securing of necessary collateral.

Why does it matter?

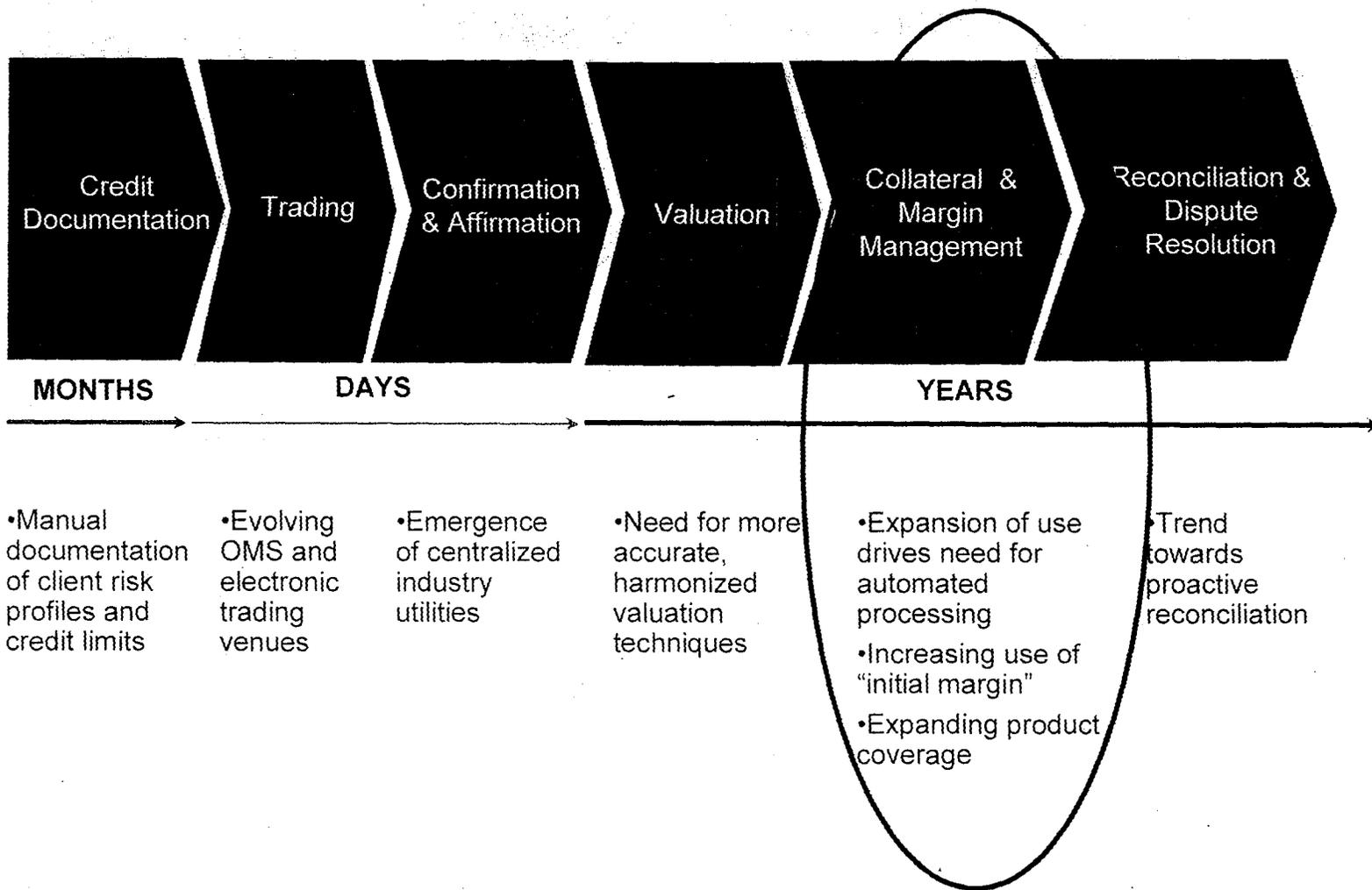
Additional benefits to a firm doing active Collateral Management include:

- Reduced Capital Adequacy Requirements
- Freed up credit limits with counterparties
- Trading with new counterparties



# Collateral Management in the OTC Derivatives Life Cycle

OTC Derivatives Life Cycle





## Drivers affecting Collateral Management

More sophisticated strategies



Use of leverage has imposed new demands on counterparty risk management

\$600tn outstanding notional on OTC (2010)



Necessitates greater use of Automation and Risk management solutions

Market volatility



Requires proactive monitoring of exposure and positions

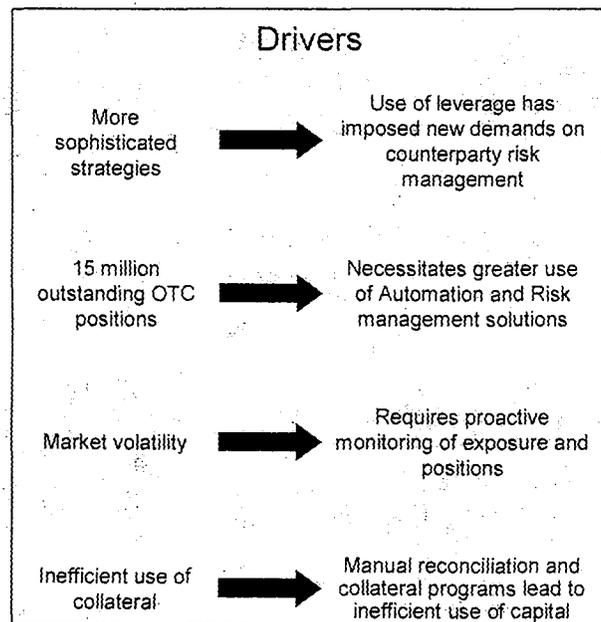
Inefficient use of collateral



Manual reconciliation and collateral programs lead to inefficient use of capital



# Cause and Effect: the Collateral Management Process

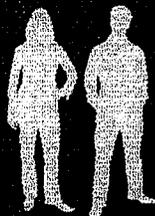


## New Collateral Management Process

- Stand alone software emerged to address the need of the OTC space
- Now also served by trading system & outsourcers (TPAs)
- Use of software enables users to:
  - ✓ consolidate trade data (exposure bearing)
  - ✓ manage collateral balances
  - ✓ manage margining parameters
  - ✓ perform margin call calculations
  - ✓ support collateral call process (incl. substitutions)
  - ✓ support selection of collateral
  - ✓ support the movement/segregation of collateral
  - ✓ manage cash collateral interest parameters
  - ✓ perform interest calculations
  - ✓ support interest call process
  - ✓ support movement/rolling of interest

# Omgeo ProtoColl

## Value proposition



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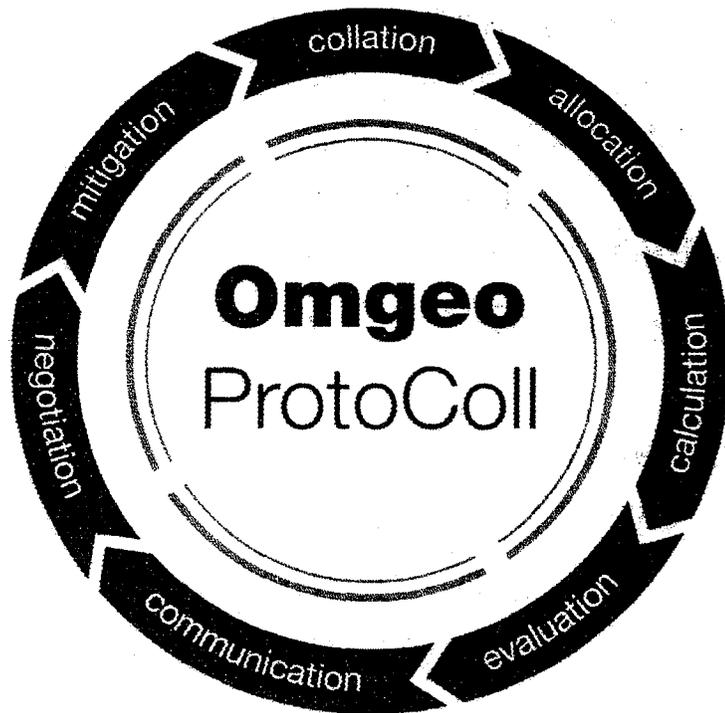


## Collateral Management Our Approach

- Historically, collateral management solutions have been fragmented:
  - Architecture, data, systems, staff
  - Products, counterparties, agreements, eligible collateral
- The creation of **ProtoColl** enables firms to:
  - Employ a **company-wide, scalable platform** (across entities, branches)
  - Provide support **across business lines** (OTC, ETD, Repo, SBL etc.)
  - Make **effective use of collateral**
  
  - Utilize real-time, **event-driven** technology
  - Follow an **exceptions-based approach**



## Omgeo ProtoColl enables clients to:



**Collate** trades, collateral and market data

**Allocate** using agreement parameters

**Calculate** collateral obligations from provided data

**Evaluate** collateral requirements from provided data.

**Communicate** with counterparties and custodians  
(via email, fax or telephone)

**Negotiate** margin requirements, collateral  
substitutions, cash interest (incl disputes)

**Mitigate** through collateral transfer/segregation.

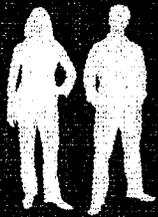


## In summary, ProtoColl enables users to:

- ✓ Collateralise traded products – now and into the future
- ✓ Capture and monitor collateral terms
- ✓ Manage collateral balances
- ✓ Compile and report exposure on each counterparty
- ✓ Determine collateral requirements based on client defined margin parameters
- ✓ Also manage collateral substitutions, collateral interest
- ✓ Communicate collateral related requirements to external counterparties (outside of ProtoColl via email, fax or telephone)
- ✓ Identify eligible collateral
- ✓ Effect 'delivery' of collateral, collateral interest

## Summary:

Omgeo ProtoColl is Not a Clearing Agency Function



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## Why ProtoColl Software is NOT a Clearing Agency Function

- Section 3(a)(23) of the Exchange Act defines a '**clearing agency**' as 'any person who acts as an **intermediary** in making payments or deliveries or both in connection with transactions in securities or who provides facilities for comparison of data respecting the terms of settlement of securities transactions, to reduce the number of settlements of securities transactions, or for the allocation of securities settlement responsibilities'.

- **ProtoColl software does not act as an intermediary or perform the other functions in the above definition.**



# Why ProtoColl Software is NOT a Clearing Agency Function (continued)

## 1. ProtoColl is an Enabler vs Intermediary

Commission: "entity that calculates net payments, provides payment instructions (quarterly interest, credit events & upfront fees among swap counterparties) may be acting as an "intermediary" and therefore required to register as a Clearing Agency"



ProtoColl software does not calculate net payments, or provide payment instructions – it merely enables a user to do so.  
*ProtoColl has limited liability and takes no financial risk*

## 2. Reconciliation Services and Collateral Management Services are both Enablers

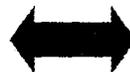
Commission: Reconciliation services do not fall within the CA definition if they are bi-lateral. See page 89 of Release No, 34-64014 (March 3, 2011)



Collateral management solutions should be viewed in the same light. ProtoColl is a tool to support bilateral collateral management activity

## 3. ProtoColl vs "Core" Omgeo functions

Omgeo's core business (TradeSuite, CTM) is a "community" model, where Omgeo acts as an intermediary in bringing multiple counterparties together to confirm trade details through a central facility. Hence it is an Exempted Clearing Agency.



ProtoColl is not a "community" based business – it is merely a software enabler for our individual clients to better manage their collateral needs bilaterally

# Q&A/ Discussion

