

## Collateral Management for Centrally Cleared Derivatives

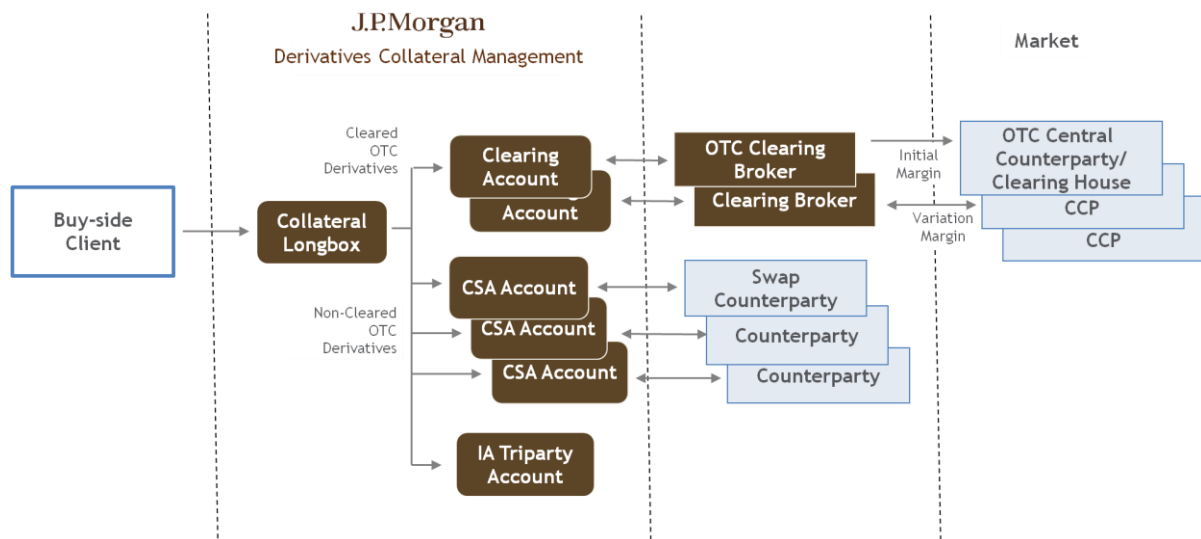
As part of its comprehensive suite of custody and collateral management services, J.P. Morgan supports the needs of clients trading and collateralizing OTC derivatives via a Central Counterparty (CCP) / Clearing House.

Existing and emerging regulations, such as the U.S. Dodd-Frank Act and the European Markets Infrastructure Regulation (EMIR), include the mandatory central clearing of certain OTC derivatives, including Credit Default Swaps and Interest Rate Swaps. J.P. Morgan is at the forefront of these industry developments and is fully prepared to meet client needs in the changing regulatory environment.

### Impact of Central Clearing on Collateral

Clients wishing to trade and clear CCP-eligible instruments will hire a clearing broker to gain access to the clearing houses. The clearing broker guarantees the client's trades to the clearing house and aggregates their trading activities against all their executing counterparties. Clients will be required to establish collateral relationships with each clearing broker they hire, in addition to maintaining existing collateral arrangements for OTC trades which are exempt from the central clearing requirements.

CCPs require clearing members to post both initial and variation margin on behalf of their underlying clients. Clearing brokers will make daily margin calls to cover the initial and variation margin required by the CCP. CCPs will likely accept cash and highly-liquid securities (such as government bonds) for initial margin but will require cash collateral for variation margin. Buy-side entities can, therefore, expect significant changes to the amount and type of collateral required.



### J.P. Morgan's Collateral Agency Services

J.P. Morgan's comprehensive service allows clients to seamlessly handle all collateral requirements related to their centrally cleared and bilateral OTC derivatives trades. Whether assets are safe-kept within the J.P. Morgan custody network or at existing custodians,

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clients benefit from integrated margin call management and detailed client reporting.

### Benefits of using J.P. Morgan as Collateral Agent

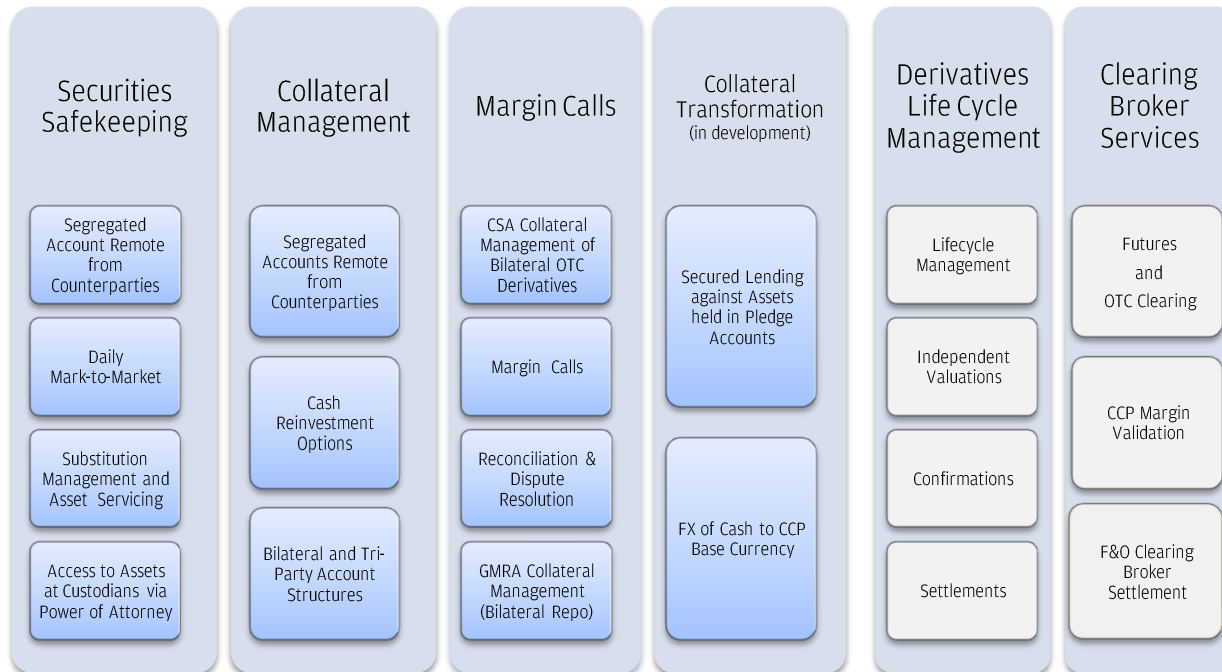
- Collateral accounts are segregated by appropriate identification on our books and records, and maintained within J.P. Morgan’s global custody network for cash and securities.
- Automated handling of margin calls from clearing broker(s)
- Full collateral management services including CSA and margin management, reconciliation and dispute resolution for OTC bilateral trades
- Efficient usage of collateral assets including automated cash reinvestment options
- Secured financing to facilitate collateral transformation and meet CCP cash collateral requirements
- Comprehensive reporting of client balances, margin calls and exposure by counterparty

### OTC Markets and the Transition to Central Clearing

Regulatory timeframes are driving the pace of central clearing adoption, which varies across asset class, instrument type, institutions and jurisdiction. Most institutions are likely to have a bifurcated model, with both centrally cleared and bilateral OTC derivatives trades operating in parallel. A sustainable model must, therefore, offer the functionality and flexibility to meet these changing needs without compromising robust and automated operational processes.

The Collateral Agency Service delivers a core set of services for managing margin requirements of centrally cleared and bilateral trades with the flexibility of margin financing. This facility can be extended with a selection of complementary services from J.P. Morgan to create a complete derivatives solution.

### DCM Collateral Agency Service Offerings



## J.P. Morgan's OTC Derivatives Solution

J.P. Morgan supports the needs of clients trading OTC derivatives, whether bilaterally or centrally cleared. This includes collateral agency services, managing margin requirements, futures and OTC clearing, Central Clearing House margin validation, trade lifecycle management, independent valuations, confirmations and settlement. Once the regulations take effect, including the new margin requirements outlined above, J.P. Morgan will also support collateral transformation using its repo, FX and secured credit lines for eligible clients.

As active leaders in industry groups, such as ISDA, J.P. Morgan experts consistently work with market participants to define industry best practices. J.P. Morgan's expertise in managing risk and exposure forms the foundation of the specialized services we deliver in support of OTC derivatives trading. We provide clients with a more robust, scalable and cost-effective means of managing their trading, collateral and counterparty/market risk – particularly critical to institutions managing their compliance with regulatory requirements or changing market practices.

J.P. Morgan's clients benefit from a service that seamlessly supports the forthcoming regulatory changes while delivering additional capabilities such as collateral transformation. J.P. Morgan can deliver a full end-to-end solution by incorporating its suite of middle office derivatives services, such as lifecycle management and independent valuations.

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