Collateral manager of the year

J.P. Morgan

J.P. Morgan has demonstrated a real capacity for expansion in the Asia-Pacific (Apac) region through innovative product development, an eye for opportunity and investment in client support.

According to analysis from business intelligence provider Crisil Coalition, J.P. Morgan's Apac collateral services had a 17% market share and 23% year-on-year revenue growth, while its customers have lauded its quality of service and breadth of support across the region in tri-party collateral arrangements, with 77% growth in new Apac broker-dealers using tri-party in the last year.

"[We] appreciated the variety of J.P. Morgan's product line-up in places like Korea and Taiwan, and China Connect tri-party. These are value-added products that differentiate J.P. Morgan from the others," noted one.

Another said: "[The] efficiency of the platform makes J.P. Morgan tri-party our preferred partner in the region."

This support has become all the more important as low-yield markets have increased the appetite for derivatives-based strategies, necessitating better support, management and control of collateral.

"One of the demands in the over-the-counter derivatives space, looking at the current market conditions, is the increasing demand for collateral, whether that is cash or other assets," says O'delle Burke, global innovation head for collateral services at J.P. Morgan.

Assisting clients in this space became more challenging in 2020 when Covid-19 added unprecedented volatility into the market. A report by analyst firm Acuiti, published in April, found there were serious concerns around the ability to support margin calls and increased collateral requirements among the buy side, while banks were primarily concerned about the impact on staff and teams.

"From a J.P. Morgan collateral management space specifically, one of the areas that was key in responses was around the operational infrastructure," Burke says. "We were fortunate in that, just before Covid picked up in March and April, we had conducted exercises to ensure we had the right mechanisms in place for a smoother transition. From a client perspective, we didn't really have any disruption or interruption. We also shared some lessons learned and best practices with them."

From a competitive perspective, making its collateral offering more attractive than those of rival banks has required the firm to fight its peers on several levels. Firstly, it has engaged on a country level with specific offerings that are able to handle the local regime.

"The big issue for clients are regulatory constraints applied to their various trading entities," he says. "For example, if you have a local affiliate in a particular jurisdiction, it must be able to raise liquidity locally. If a parent institution currently uses tri-party collateral arrangements, that doesn't translate into a solution directly because of nuances in local law. We figure out those challenges and create solutions like our Japan Onshore Model."

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The Japan Onshore Model is a tri-party product under Japanese law that uses market transfer with the securities depository and handles the complexities of Japanese law pledges of assets using a local agent. The model has seen a 75% increase in balances year-on-year, with two new Japanese trust banks onboarded during the reporting period.

"J.P. Morgan offers a unique onshore pledge offering, which was developed by us after we looked at the needs of our wider client base," Burke says.

The collateral manager has also tried to look for other areas where it can compete by supporting the nuanced needs of clients, such as superannuation funds in Australia and life insurers in Taiwan.

To support upcoming regulatory requirements for uncleared margin rules, J.P. Morgan developed its Collateral Transport Model, which it is piloting with an Australian asset owner. This model allows clients to deploy unused assets in a custody platform, by becoming a borrower via J.P. Morgan's agency securities lending programme, to move assets from the asset owners' lendable pool to the collateral agent efficiently.

In the case of one asset manager client, J.P. Morgan developed a model to support the inclusion of real estate within collateral arrangements, using three different portfolios of assets, which created complexity around asset and sector concentration, portfolio prioritisation and the allocation order, including the default waterfall model.

"While the counterparty was willing to have real estate included as collateral to be posted, their concern – as you would expect from the default standpoint – was not only liquidity. From an execution perspective, they also worried about who would step in and would they need to go to the reinsurer to get the title of the asset so they could liquidate it," explains Burke. "That was dealt with by having the property turned over to a trustee to resolve."

The overall success of the unit is seen not only in client advocacy but in the bank's numbers; its Apac collateral balances now constitute greater than 25% of the bank's global balances, which surpass the balances for Europe, the Middle East and Africa, supported by growth in Japanese government bond business and onshore business in Korea, Taiwan and Australia. ■