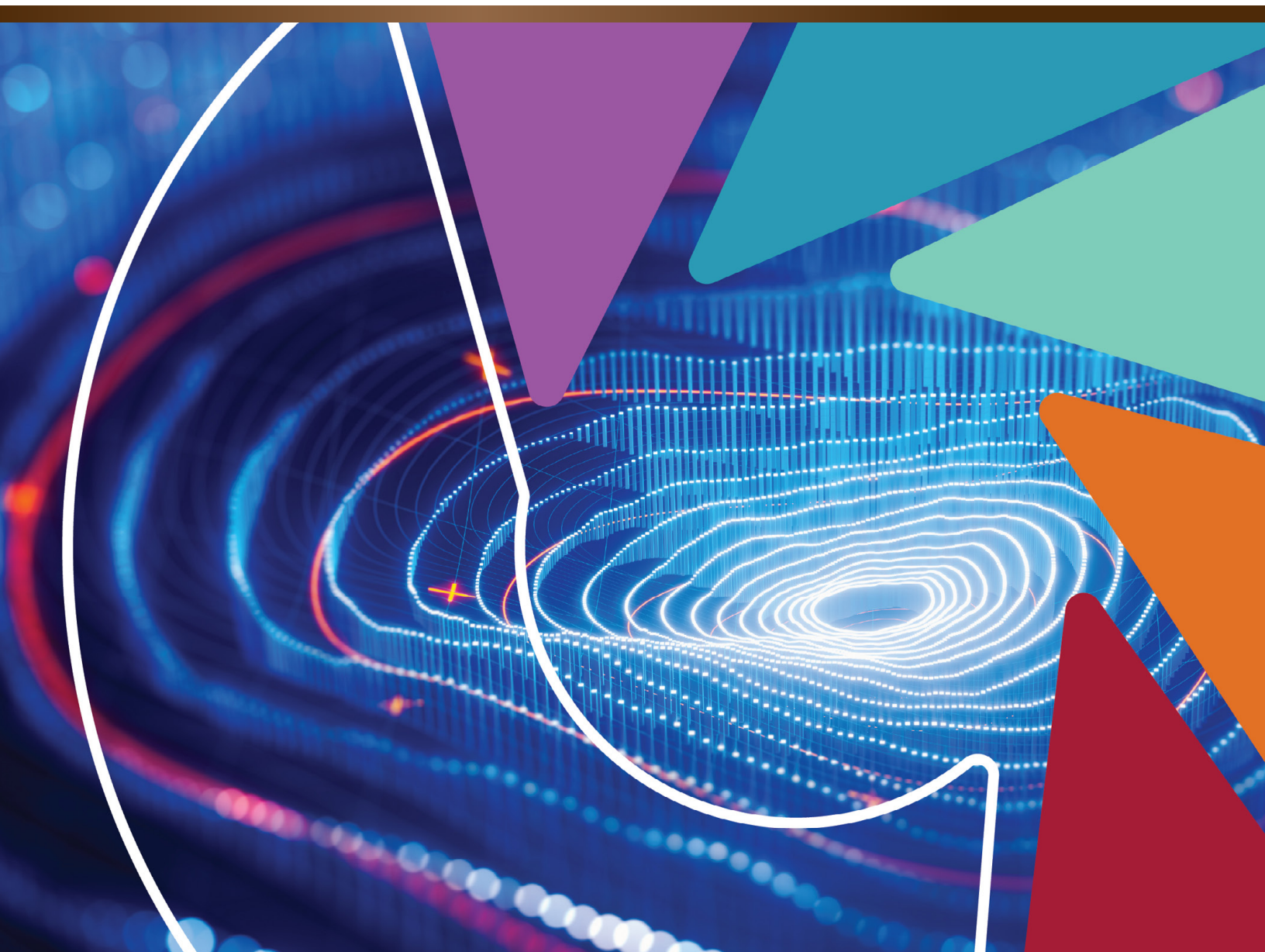


# Unpacking the Rise of Asset Pool Optimization in Buyside Securities Finance

Liability-driven institutional investors are facing operational friction created by the complexities of managing diverse asset pools. With the right outsourced operating model, though, they can improve scalability, control, and efficiency.



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## Key takeaways



### **Asset pool optimization is now front-office critical**

Market complexity and stress events have exposed liquidity and funding fragility, pushing firms toward a broader range of assets beyond cash to use as collateral in securities finance.



### **Buy-side firm are anchoring strategy in three priorities**

Reliable liquidity access, operational efficiency, and alpha with tighter drawdown—often via derivatives that increase collateral intensity.



### **Uncleared Margin Rules (UMR) structurally raised collateral needs and encumbrance**

Segregated, largely non-rehypothecatable Initial Margin (IM) plus frequent Variation Margin (VM) made forecasting, eligibility, and settlement core capabilities and expanded segregation relationships, increasing the cost of carry and reducing balance-sheet flexibility.



### **Solutions are consolidating around external, platform-led models**

A fully outsourced, custodian-agnostic collateral management solution supported by a global operations team can help buy-side firms surmount operational friction. By centralizing counterparty agreements and eligibility criteria, such a platform can deliver a holistic view of margin obligations and automate the end-to-end margin lifecycle.

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# Introduction

*As the global financial system has become increasingly complex and scrutiny of liquidity, alpha generation, and risk management has intensified, buy-side institutions have elevated asset pool optimization to a critical focus and a front-office priority.*

Rising trading volumes, the emergence of new counterparties, and ongoing shifts in infrastructure and regulatory requirements present firms with a wide range of challenges as they work to optimize portfolio management – particularly as geopolitical dynamics and broader economic conditions remain unpredictable.

At any point, a stress scenario may arise that challenges—and potentially unsettles—the financial system. Recent examples include the liability-driven investment (LDI) crisis in 2022, the collapses of Silicon Valley Bank and First Republic Bank during the 2023 banking turmoil, and a sharp market sell-off triggered by U.S. tariff threats in April 2025. Additionally, a sustained period of elevated interest rates or geopolitical conflicts affecting global supply chains can further compound systemic risks. These events underscore the importance of robust asset pool optimization and liquidity management for buy-side institutions.

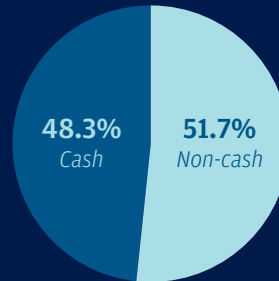
To address these challenges, asset owners are increasingly embracing a holistic collateral management and securities finance approach that mobilizes a broader range of asset types, including corporate bonds and equities, rather than relying primarily on cash and cash equivalents.

This shift enables more efficient asset pool utilization, supports incremental return opportunities, and strengthens the ability to manage liquidity and risk dynamically. By expanding the eligible collateral set and improving collateral mobility, asset owners can be better positioned for market shocks that can rapidly tighten liquidity and amplify funding pressures. Despite the liquidity and funding flexibility this shift can provide, operational constraints can be binding, preventing many firms from fully adopting and scaling the strategy. Employing securities as collateral for margin and funding brings added complexity, including settlement and delivery reliability, asset-servicing events, substitution mechanics when positions are sold, pricing of derivatives, and potential balance-sheet implications. These demands are reshaping operating models and prompting firms to upgrade infrastructure, refine processes, and recalibrate relationships with counterparties and service providers.

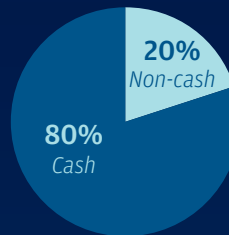
As asset pool optimization and intensified liquidity management remain buyside priorities, we unpack the main considerations these firms are facing - investment strategies, the regulatory environment, and operational friction - before exploring the available solutions to pain points.

According to an analysis of how leading derivatives market participants are optimizing liquidity in a shifting financial landscape, drawing on the ISDA

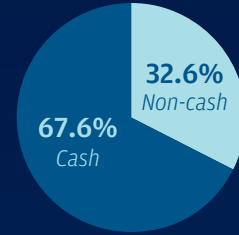
### Margin Collateral Received for Non-Cleared Derivatives Exposures 2025



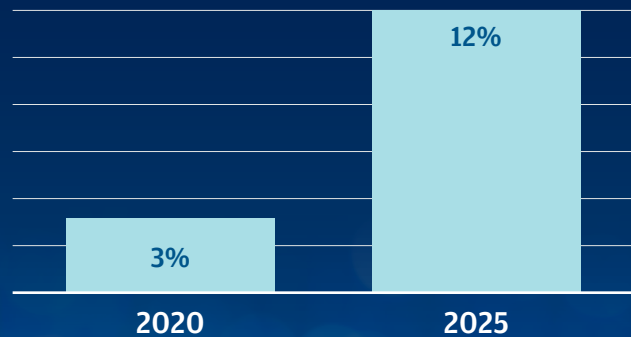
### Collateral for VM 2020



### Collateral for VM 2025



### Non-government securities collateral for VM



*This indicates not only a rise in non-cash collateral but also diversification within non-cash collateral away from purely government bonds.*

Sources: ISDA Margin Survey Year-End 2025 & 2020

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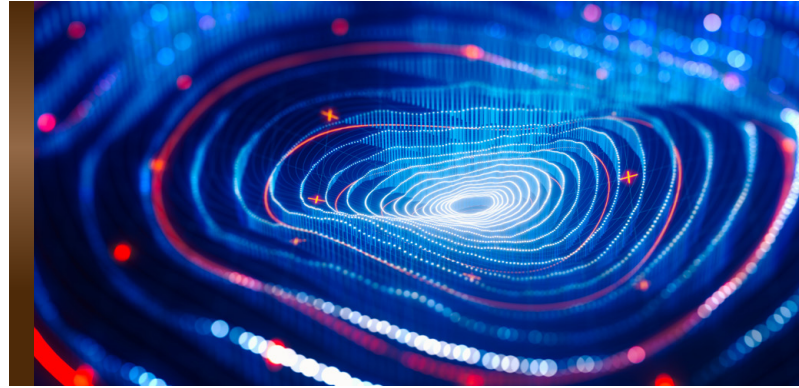
# Top Buyside Considerations

## Investment Strategy Game Plan

With public-sector balance sheets under strain and structural funding gaps widening, buyside institutions are reevaluating how best to satisfy near-term cash flow requirements while preserving long-horizon return objectives. For pension funds, insurers, and other liability-driven institutional investors, the challenge is not merely to find yield, but also to deliver a dependable funding pathway: meeting beneficiary obligations on schedule, maintaining portfolio resilience through market cycles, and avoiding forced asset sales during periods of volatility. In this environment, three priorities increasingly anchor strategic decision-making across the buyside: liquidity, operational efficiency, and alpha.

Liquidity has become a first-order constraint rather than a secondary portfolio attribute. The post-crisis evolution of market structure—alongside higher rates, episodic risk-off events, and more variable funding conditions—has amplified the cost of illiquidity and the penalty for fragmented collateral. Buyside firms are therefore scrutinizing the sources and uses of cash across the enterprise, from margin calls and settlement obligations to benefit payments and rebalancing flows. The objective is clear: to ensure that liquidity is available where and when it is required, without eroding strategic exposures that underpin long-term performance. As liquidity increasingly means reliable access to cash, rather than simply the ability to sell assets, buyside firms are complementing portfolio liquidity with pre-positioned funding capacity, establishing facilities that enable them to meet calls and obligations without forced sales or dilution of strategic exposures.

Operational efficiency is the second pillar. As portfolios grow more complex, the operational burden of managing collateral across multiple venues, counterparties, and regulatory regimes can create substantial friction. Disconnected processes—spanning custody networks, collateral schedules, eligibility rules, and settlement timelines—can lead to suboptimal asset utilization, avoidable fails, and an overly conservative liquidity posture. In practice, inefficiency often expresses itself as a hidden cost: excess buffers held just in case, unproductive assets trapped in silos, or delayed collateral movements that exacerbate intraday funding needs.



Alpha remains essential, but its role is evolving. The current environment rewards managers who can generate returns while managing the path of those returns—minimizing drawdowns, controlling convexity, and maintaining flexibility. This is particularly evident among pension funds exploring ways to meet obligations using a broader set of asset pools while increasingly relying on derivatives. Derivatives can provide efficient market exposure, support liability-hedging programs, and facilitate tactical positioning. Yet they also introduce a collateral dimension that must be actively managed: margin requirements can rise quickly, VM can become a recurring liquidity drain, and dispersed collateral arrangements can raise the effective cost of maintaining exposures.

This is where an end-to-end collateral platform can become strategically differentiating. A comprehensive solution that enables firms to mobilize collateral locally and globally can reduce friction and improve response time during periods of market stress. When collateral can be sourced, substituted, and delivered across geographies and counterparties with speed and control, buyside firms are better positioned to meet margin obligations without compromising investment intent. Moreover, the ability to optimize margin exposure through one consolidated pool of assets can improve overall collateral efficiency—supporting netting opportunities, reducing redundant buffers, and enhancing transparency into eligibility, concentration, and haircut impacts across the enterprise.

Finally, securities lending deserves a reframed perspective. While it can be a contributor to incremental return, it is not always solely about driving alpha. In many cases, securities

lending is a lever for optimizing what is left over. That means it can improve the utility of idle inventory, enhance collateral optionality, and support a broader funding and margin-management strategy. When integrated thoughtfully with collateral and liquidity management, it can help buy-side firms pursue performance objectives while strengthening the operational foundations required to deliver on their obligations consistently and over time.

## Regulatory Shifts

The phased implementation of Uncleared Margin Rules (UMR) from 2016 through 2022 has been a primary catalyst behind the buy-side's intensified focus on funding and collateral management. By design, UMR reshaped bilateral OTC derivatives markets by requiring counterparties to exchange both IM and VM, strengthening safeguards against counterparty credit losses and reducing systemic risk in the event of a default.

For banks, hedge funds, insurers, and asset managers, these requirements introduced a more operationally demanding and capital-intensive margining regime. IM must be segregated and is typically not available for rehypothecation, while VM may be met with high frequency as market exposures move. Together, these obligations have increased the day-to-day importance of collateral forecasting, eligibility management, and settlement discipline—capabilities that were previously less central to many buy-side operating models.

A defining structural outcome of UMR has been the rapid expansion of collateral segregation arrangements offered by banking and custody providers. The industry's transition to segregated IM fostered an ecosystem in which more than 1,000 additional firms entered collateral segregation relationships, bringing new custodial workflows, documentation requirements, and collateral movements into standard practice. While these changes improved transparency and protections, they also created a tangible funding impact: a greater share of high-quality assets became encumbered as posted collateral, effectively reducing balance sheet flexibility and increasing the opportunity cost of maintaining derivatives exposures.

In parallel, UMR's collateral standards—particularly the requirement that securities collateral be used for IM in many derivatives contexts—have heightened the strategic value of high-quality liquid assets and eligible securities inventories. As a result, buy-side firms increasingly treat collateral not as a back-office utility, but rather as an enterprise resource that must be actively optimized across portfolios, counterparties, and liquidity horizons.

## Operational Friction

Institutional investors continue to face increasing operational friction in collateral and securities finance as markets, regulatory infrastructure, and margin frameworks evolve. Many organizations remain anchored in execution-heavy operating models in which internal teams devote disproportionate capacity to routine processing, reconciliations, and exception management—activities that can obscure accountability, dilute governance, and slow response times. Operationally, the non-linear onus of the operational management causes these friction points. Many institutions still rely on fragmented systems, which create delays in collateral movement and increase the risk of errors.

These challenges are often compounded by spreadsheet-centric workflows. While spreadsheets can provide tactical flexibility, they also concentrate key-person risk, weaken end-to-end controls, and heighten the probability of operational errors. The resulting breaks, remediation cycles, and control gaps can translate into elevated audit findings and, critically, avoidable funding friction—particularly when time-sensitive margin and settlement obligations must be met under tight intraday windows.

At the same time, the operating environment is driving a structural convergence between securities financing and collateral management. Settlement discipline, regulatory expectations, and heightened scrutiny on performance and cost have reinforced the reality that collateral is an enterprise-wide resource rather than a desk-level utility. For many institutional investors, collateral inventories are distributed across custodians, legal entities, strategies, and jurisdictions, while obligations—IM, VM, repurchase agreements (repo), and securities lending—compete for the same pool of eligible assets. This fragmentation can impede a firm's ability to allocate assets dynamically, reduce over-posting, and preserve liquidity buffers without disrupting investment objectives.

Meeting these demands requires more than incremental process refinement. Firms increasingly need scalable operating capabilities supported by technology that provides consolidated visibility, codified eligibility and concentration rules, automated margin workflows, and reporting that supports governance and stakeholder transparency. Scalability is essential: volumes can rise sharply during periods of volatility, margin requirements can shift intraday, and the ability to mobilize collateral efficiently across regions can become a differentiator when markets are stressed.

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# The Evolution of Solutions

Non-cash collateral can improve returns and strengthen risk management outcomes for U.S. buy-side participants, but it also introduces meaningful operational demands. As the collateral ecosystem expands—across cleared and bilateral derivatives, repo, and securities lending—firms must manage greater product complexity, tighter settlement and margin timelines, and more stringent control expectations. In this environment, the ability to scale efficiently and maintain robust governance increasingly depends on leveraging specialist third-party infrastructure rather than building and sustaining bespoke in-house capabilities.

Collateral segregation arrangements provide a practical foundation for this evolution. Buy-side firms can appoint a collateral segregation arrangement partner to administer key elements of collateral management across securities finance and derivatives activity, including collateral processing, eligibility and concentration controls, and connectivity to a broad counterparty network. The relationship has moved beyond the legacy construct in which collateral segregation arrangements largely served as a collateral “receive” utility for dealers; it has matured into a value-added service model in which the buy-side gains access to operational scale, market connectivity, and standardized processing.

This approach can generate measurable economic benefits by consolidating assets into a single collateral pool, centralizing the mobilization of securities across counterparties, and broadening the range of inventory that can be deployed as collateral. It also supports tighter integration between financing and margin requirements—enabling firms to source liquidity through repo and securities lending relationships and apply that liquidity within the same collateral ecosystem. The result is a more streamlined and cost-effective framework to source, optimize, and deliver collateral while preserving investment intent.

A key differentiator of collateral segregation arrangements is the ability to optimize collateral across margin obligations within the same operating perimeter—particularly the capacity to mobilize collateral efficiently between variation margin and initial margin requirements where permitted by the applicable framework.

Limitations in cross-margin optimization create structural inefficiencies, including excess posting, reduced inventory velocity, and avoidable liquidity drag—outcomes that become more pronounced during periods of volatility and elevated margin activity.

To address these demands, leading firms are adopting outsourced operating models that shift internal teams away from execution-heavy workflows and toward oversight, governance, and strategic decision-making. Delegating routine processing, reconciliations, and exception management to a specialist provider can reduce operational risk, strengthen control environments, and free capacity for higher-value activities such as portfolio construction, risk management, and liquidity planning—while reducing dependence on manual tooling.

The operating model is most effective when paired with a technology-enabled, modular platform that delivers consolidated views of inventory and exposures, rules-based eligibility and concentration management, automated margin workflows, and transparent reporting aligned with governance and regulatory expectations. For buy-side firms operating under intensifying regulatory and capital efficiency pressures, an end-to-end platform with the ability to mobilize collateral locally and globally—integrated with agency financing capabilities—supports a more resilient, economically efficient collateral strategy designed for sustainable performance over time.



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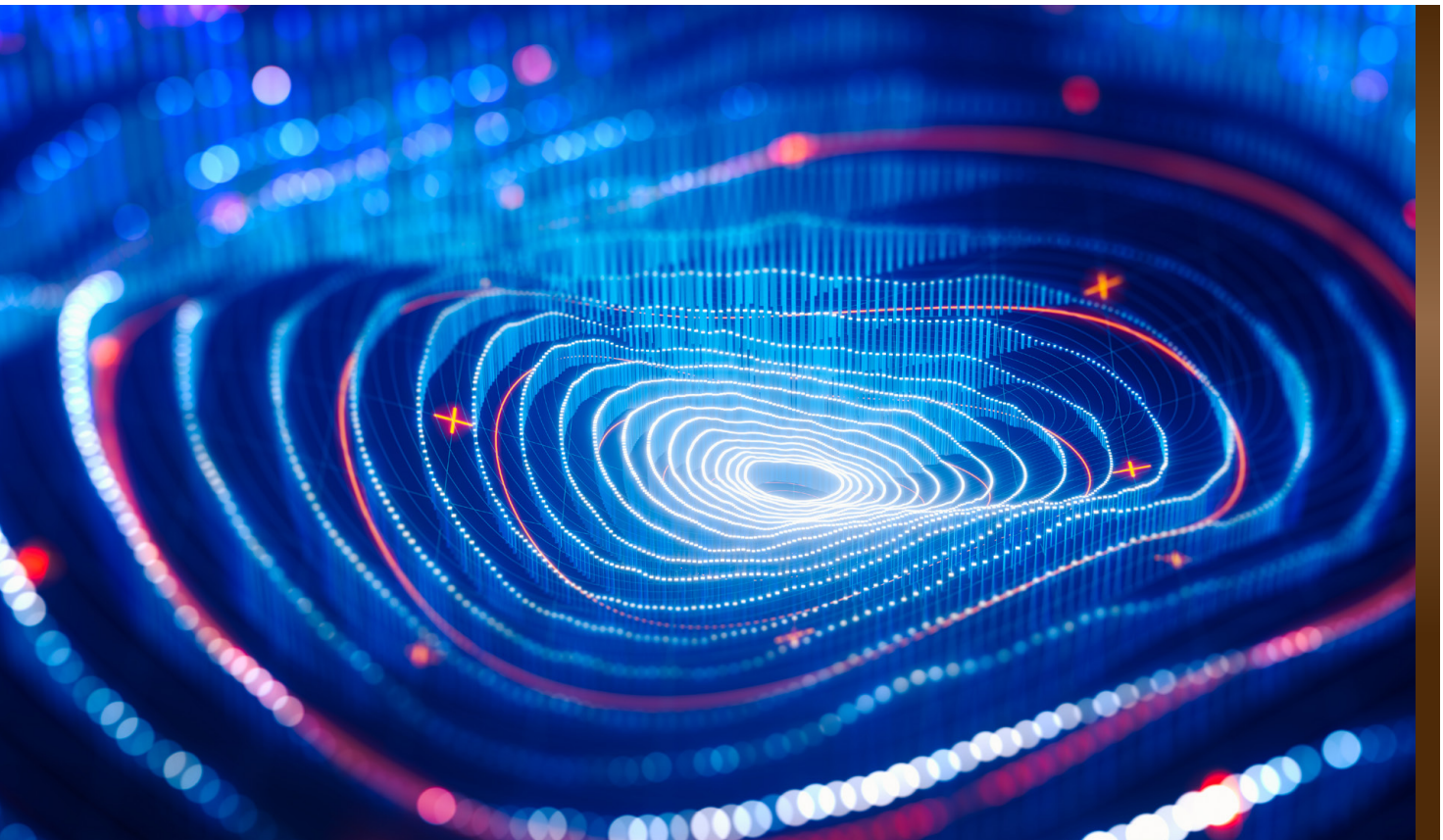
## A Glance Ahead

Buyside adoption of securities as collateral continues to accelerate, supported by regulatory developments that broaden eligible collateral types. Historically, Securities and Exchange Commission (SEC) Rule 15c3-3 constrained collateral posted by securities borrowers to a narrow set—principally cash, U.S. Treasuries, and U.S. agency debt. In March, the SEC approved a no-action letter expanding permissible collateral under Rule 15c3-3 to allow broker-dealers to pledge customer equity securities (a prescribed list) as collateral when borrowing securities, rather than being limited to cash, U.S. Treasuries, or letters of credit.

In parallel, buyside firms can extend the role of collateral segregation arrangements beyond traditional securities finance by incorporating margin management for cleared and uncleared activity, particularly with central

counterparty clearing houses (CCPs) that maintain direct connectivity. Banking and custody providers have already built CCP integrations for dealer clients, creating a proven framework that can be leveraged by asset owners. Additional enhancement comes from forecasting bilateral margin to improve allocation across cash and non-cash collateral, and from using advanced data services—such as rate-curve projections—to better align investment decisions with collateral needs.

Collectively, these shifts reinforce the case for building a scalable operating model and counterparty network that enables broader, more dynamic use of non-cash collateral—supporting liquidity readiness for beneficiary obligations while enabling balance sheet and portfolio growth.



## The J.P. Morgan approach to collateral optimization

Margin Services provides a fully outsourced, custodian-agnostic collateral management solution supported by a global operations team. By centralizing counterparty agreements and eligibility criteria, the platform delivers a holistic view of margin obligations and automates the end-to-end margin lifecycle—reducing manual processing and control risk while enabling clients to operate in an oversight model.

### Key capabilities include:



Broad collateral enablement across IM, VM, and repo, with automated optimization and eligibility management



Rules-based allocation (50+ instrument-level rules) to codify preferences by counterparty, collateral type, source, and portfolio constraints, leveraging waterfall logic for efficient collateral use



Operational execution at scale, including asset servicing events and substitutions, delivered through an outsourced model



Projections and analytics, including daily liquidity snapshots, simulations, and preliminary allocation views to support decision-making



OneMargin real-time reporting and analytics to provide transparency and control across collateral activity, with integration to client custodians via a custodian-agnostic architecture

Tri-party is integrated into the derivatives collateral management platform, enabling clients to deploy excess cash or securities efficiently via repo to generate incremental return, or to source collateral that can be forward-pledged for new IM obligations. This integration supports dynamic asset pool management—across general accounts and trust structures—while enhancing resiliency during periods of market stress. Membership in the Tri-party platform also streamlines onboarding, reduces legal lift, and accelerates time to value.

Embedded within the broader Securities Services suite, Trading Services unifies Margin Services, Tri-party Collateral Management, and Agency Securities Finance under a single coverage and operating model to deliver transparency, efficiency, and operational robustness across clients' collateral and financing activities.



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