

Collateral Exposure Reporting

Managing clients' complex business information and requirements



BUSINESS REQUIREMENT

One of OpHedge's clients wanted to better understand its current collateral exposure and periodic changes in exposure in order to facilitate and support investment management decisions.

An appropriately designed collateral exposure report provides multiple benefits to investment managers

and funds. An understanding of initial and variation margin requirements enables the margin balancing of a portfolio, as needed, by counterparty; detailed reporting by counterparty facilitates more accurate management of collateral allocations; and meaningful reporting analysis reduces a fund's overall margin exposure, while helping to maximize liquidity.

CHALLENGE

Presented with our client's insufficient (and, in some cases, non-existent) reporting capabilities, OpHedge worked in conjunction with our client's Chief Financial Officer, risk management team, and

operations management to develop enhanced reporting requirements to more effectively analyze our client's credit status and to further support collateral management and investment management decisions.

SOLUTION

After clarifying the current state of our client's credit exposure reporting relative to its actual business needs, OpHedge designed, developed and delivered the following reporting capabilities:

- ▶ A periodic Initial Margin report summarizing our client's total initial margin, variation margin, posted collateral, and collateral held by counterparty.
- ▶ An enhanced collateral exposure report summarizing our client's average initial margin on a periodic basis by counterparty (comparing prior 10-day initial margin averages with current 10-day initial margin averages and initial margin as of the last day of 10-day reporting periods).

- ▶ Initial margin reporting that identifies day-to-day changes in total initial margin and the averages over 10-day reporting periods with specific attention to significant changes (based on specific threshold points defined by total balances with particular counterparties, total deltas, and percentage deltas).
- ▶ VaR reports communicating the hedge fund manager's counterparty versus fund VaR balances and related differences in reported VaR balances.

Our client's senior management, investment managers, traders, and risk management team gained a valuable tool. The enhanced reporting developed by OpHedge provided our client with a more accurate understanding of its credit exposure and, in turn, increased confidence in our client's ability to make sound investment management decisions.

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