Collateral Initiatives Coordination Forum (CICF) calls for urgent focus on collateral fluidity.

(London, UK) The Collateral Initiatives Coordination Forum (a grouping of European trade associations representing a broad range of financial market participants internationally) has called for regulatory authorities to focus on the efficient mobilisation of collateral in financial markets. The CICF makes the case that, as high quality collateral is in increasing demand to support transactions in financial markets, regulatory measures should ensure that it flows efficiently around the market, facilitating the matching of collateral sources and uses. The developments, and their sequencing, that are necessary to improve collateral fluidity are set out in a CICF White Paper published today.

The importance of collateral has grown since the advent of the financial crisis in mid-2007, as both market participants and official policy makers have encouraged its use to ensure that risk in financial markets is better managed. This demand for high quality collateral will increase further following the full introduction of regulatory measures including the Basel liquidity requirements and the shift of standardised OTC derivatives to CCP clearing. Given this increasing demand and in the face of limited supply, the CICF argues that it is essential that high-quality collateral be managed as a scarce resource.

Calling for an urgent focus on collateral fluidity, the CICF’s independent Chairman, Mr Godfried De Vidts, said: “The CICF is offering a vision for improvements in collateral infrastructure. Too much haste in implementing multiple regulatory changes impacting collateral will lead to adverse consequences, which are already visible through the fear of a collateral squeeze.”

The CICF’s White Paper explains that the challenge is to mobilise efficiently the flow of collateral inside and between organisations, by eliminating barriers to collateral flows and the development of an efficient market infrastructure. The CICF proposes that known problems in European financial market infrastructures need to be fixed, alongside the delivery of the major technological developments to realise both T2S and the shift to a standard T+2 settlement period.

Furthermore, the CICF considers that without the effective phasing of proposed changes, serious adverse consequences for financial markets, and hence the real economy, can be anticipated as a result of inadequate collateral fluidity; and urges that the industry and policymakers should work together to deliver well thought out, suitably phased measures.

CICF is cognisant of the fact that collateral fluidity is one of the many important aspects of collateral. It will therefore endeavour to expand its work in other relevant areas of collateral including proposals for harmonisation and standardisation at European and at international levels.

A copy of the CICF White Paper is available from www.icmagroup.org

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Notes for editors

Collateral Initiatives Coordination Forum
The CICF is a joint trade associations’ body set up at the beginning of 2012 to facilitate appropriate coordination across the private sector of all collateral-related initiatives. Through its trade association members it represents a broad range of financial market participants internationally.

Current members of the CICF are:
Association for Financial Markets in Europe (AFME)
Association Française des Marchés Financiers (AMAFI)
European Association of CCP Clearing Houses (EACH)
European Banking Federation (EBF)
European Central Securities Depositories Association (ECSDA)
International Capital Market Association (ICMA)
International Swaps and Derivatives Association (ISDA)
International Securities Lending Association (ISLA)
Loan Market Association (LMA)
Wholesale Markets Brokers’ Association (WMBA)

For further information about the CICF please see its website pages.

To aid those interested in the topic of collateral, but new to the associated concepts, the CICF is today also publishing a short primer entitled ‘Collateral Fundamentals’ available at www.icmagroup.org. Looking ahead, the CICF will consider opportunities to supplement this paper with similar papers going into further depth on more specific aspects of the overall collateral topic.