



Australian Government

Department of Education, Employment and Workplace Relations

FNSFMK508A Monitor and process collateral

Revision Number: 1

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Modification History

Not applicable.

Unit Descriptor

Unit descriptor	<p>This unit describes the performance outcomes, skills and knowledge required to monitor collateral activity, process agreements and manage disputes as required.</p> <p>This unit may apply to job roles subject to licensing, legislative, regulatory or certification requirements so Commonwealth, State or Territory requirements should be confirmed with the relevant body.</p>
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Application of the Unit

Application of the unit	This unit applies to a job roles involving collateral management in the financial markets sector.
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Licensing/Regulatory Information

Not applicable.

Pre-Requisites

Prerequisite units		

Employability Skills Information

Employability skills	This unit contains employability skills.
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Elements and Performance Criteria Pre-Content

Elements describe the essential outcomes of a unit of competency.	Performance criteria describe the performance needed to demonstrate achievement of the element. Where bold italicised text is used, further information is detailed in the required skills and knowledge section and the range statement. Assessment of performance is to be consistent with the evidence guide.
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Elements and Performance Criteria

ELEMENT	PERFORMANCE CRITERIA
1. Process collateral agreements and credit support documentation	<p>1.1. Terms and conditions for a credit support document (CSD) are negotiated with a predicted market to market (MTM) position</p> <p>1.2. Netting of trades is agreed between the parties to facilitate the collateral agreement, and signed off by the legal department.</p> <p>1.3. The credit rating of the collateral counterparty is assessed using external ratings and own organisational guidelines so the agreed Credit Support Annexe (CSA) terms reflect the appetite for counterparty risk and limits in the CSD</p> <p>1.4. A complete a legally binding collateral agreement is drafted, authorised and processed in accordance with organisational policies and procedures</p>
2. Monitor collateral activity	<p>2.1. The net MTM value of the trades covered by the CSD is used to calculate the collateral margining activity.</p> <p>2.2. Margin calls are initiated when the terms of the CSA dictate</p> <p>2.3. Market values for non-cash collateral such as debt is monitored and updated daily, checking that any cuts in valuations are applied in line with agreed framework</p> <p>2.4. Derivative credit exposures on long-term and short-term deals are identified and updated on the organisational credit management system</p> <p>2.5. Threshold amounts and monitored to determine options to use a break clause if necessary</p> <p>2.6. Collateral deals are negotiated and replaced when a break clause has been invoked</p> <p>2.7. Call and return amounts are processed promptly and accurately</p> <p>2.8. Segregation of roles is observed, e.g. margining team do not manage collateral settlements</p>
3. Manage collateral disputes or defaults	<p>3.1. Differences in valuations are identified and escalated to the correct stream.</p> <p>3.2. Portfolios are checked, valued and reconciled on a regular basis to ensure collateral management data is current and valid</p> <p>3.3. Disputes are dealt with according to organisational policy and procedures</p>

ELEMENT	PERFORMANCE CRITERIA
	3.4. Unresolved disputes or defaults are documented and referred to appropriate personnel where required 3.5. Non-settlement or fails of agreed collateral are investigated and escalated to the appropriate risk stream in line with agreed Service Level Agreements (SLAs).

Required Skills and Knowledge

REQUIRED SKILLS AND KNOWLEDGE

This section describes the skills and knowledge required for this unit.

Required skills

- well-developed communication skills to:
 - determine and confirm counterparty and organisational requirements, using questioning and active listening as required
 - liaise with team members and peers, share information, listen and understand
 - use language and concepts appropriate to cultural differences
- numeracy and IT skills to:
 - deal with collateral transactions and processes
 - use internet information
- highly developed research and analysis skills for:
 - accessing, interpreting and managing complex information
 - identifying gaps in information and gathering necessary information from alternative sources
- well-developed literacy skills to:
 - read and interpret market information
 - identify economic environmental factors which affect financial services and markets
- judgement skills for making financial decisions in complex situations and meeting organisational policies and procedures
- organisational skills, including the ability to:
 - plan and sequence own work
 - work effectively in a constantly changing environment
- self-management skills for complying with ethical, legal and procedural requirements

Required knowledge

- understanding of the economic environment, including:
 - characteristics and impacts of economic and business cycles
 - government monetary and fiscal policies
 - interest rates, exchange rates and inflation
- the range of market collateral products
- organisational requirements relating to collateral agreements
- financial risk analysis techniques
- financial markets report structures and characteristics
- organisational transaction limits

Evidence Guide

EVIDENCE GUIDE	
<p>The Evidence Guide provides advice on assessment and must be read in conjunction with the performance criteria, required skills and knowledge, range statement and the Assessment Guidelines for the Training Package.</p>	
Overview of assessment	
Critical aspects for assessment and evidence required to demonstrate competency in this unit	<p>Evidence of the ability to:</p> <ul style="list-style-type: none"> • manage collateral agreements and transactions and enter details in organisational systems • evaluate and adjust financial positions • interpret and comply with organisational trading rules and limits.
Context of and specific resources for assessment	<p>Assessment must ensure:</p> <ul style="list-style-type: none"> • competency is demonstrated in the context of the financial services work environment and conditions specified in the range statement either in a relevant workplace or a closely simulated work environment • access to and the use of a range of common office equipment, technology, software and consumables • access to financial markets product information.
Method of assessment	<p>A range of assessment methods should be used to assess practical skills and knowledge. The following examples, in combination, are appropriate for this unit:</p> <ul style="list-style-type: none"> • evaluating an integrated activity which combines the elements of competency for the unit or a cluster of related units of competency • verbal or written questioning on underpinning knowledge and skills • setting and reviewing business simulations or scenarios • accessing and validating third party reports.
Guidance information for assessment	

Range Statement

RANGE STATEMENT	
<p>The range statement relates to the unit of competency as a whole. It allows for different work environments and situations that may affect performance. Bold italicised wording, if used in the performance criteria, is detailed below. Essential operating conditions that may be present with training and assessment (depending on the work situation, needs of the candidate, accessibility of the item, and local industry and regional contexts) may also be included.</p>	
<p><i>A credit support document (CSD)</i> is:</p>	<ul style="list-style-type: none"> • a document setting out the terms and conditions under which collateralisation will occur.
<p><i>Market to market (MTM)</i> is:</p>	<ul style="list-style-type: none"> • the current market value of a single trade or trade portfolio. <p>NB A minimum transfer amount for single trades is a minimum amount that can be called and transferred to avoid costs of small transfers.</p>
<p><i>Netting:</i></p>	<ul style="list-style-type: none"> • permits individual trade values to be aggregated to provide a single exposure that should be included in an agreement so it is enforceable.
<p><i>Organisational guidelines and credit limits</i> may include:</p>	<ul style="list-style-type: none"> • business rules of the exchange • credit limit • deal limit • industry association codes of conduct • loss limit • organisational codes of conduct • relevant regulations and legislation.
<p><i>Financial products</i> may include:</p>	<ul style="list-style-type: none"> • cash • bonds • derivatives: <ul style="list-style-type: none"> • forward rate agreements • swaps • options • futures • foreign exchange • securities: <ul style="list-style-type: none"> • debt • equity.
<p><i>Transaction details</i> may</p>	<ul style="list-style-type: none"> • consideration • counterparty

RANGE STATEMENT	
include:	<ul style="list-style-type: none"> • face value • maturity date • price • start date • trade date.
<i>Non-cash collateral valuation percentages</i> (sometimes called a 'haircut') apply to:	<ul style="list-style-type: none"> • bonds or other forms of collateral subject to changing credit rating or liquidity.
<i>Threshold amounts</i> are:	<ul style="list-style-type: none"> • predetermined amounts of unsecured credit exposure that an organisation and counterparty are prepared to accept, set at levels that maximise credit risk mitigation.
A <i>break clause</i> :	<ul style="list-style-type: none"> • permits either party to the collateral agreement to break the swap on agreed future dates and the MTM value is exchanged.
<i>Disputes</i> may arise due to:	<ul style="list-style-type: none"> • missing trades • unreconciled trade data • variations in data used for valuations • yields calculated at different times or from different sources.

Unit Sector(s)

Unit sector	Financial markets
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Competency field

Competency field	
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Co-requisite units

Co-requisite units		

