



Investor Services



## The Next Frontier: *From cost center to alpha engine*

How integrated treasury management is transforming collateral into a powerful competitive advantage.

In the first article in this series, we talked about how to get the basics of collateral management right, by adopting scalable straight-through processing (STP), real-time inventory visibility, disciplined counterparty oversight, and robust settlement infrastructure.

The firms that have done this work are now well-positioned to convert collateral management from a cost-center into a source of alpha generation.

### **Your Collateral Program Is Leaving Money on the Table**

The traditional collateral management model — agency lending managed by one team, collateral by another, cash reinvestment by a third — is not just inefficient, but expensive.

“A lot of mid-sized buy-side firms, such as asset managers, pension funds, and insurance companies, are not getting the most out of their collateral, because they operate in silos, rely on manual processes, or do not spend enough on internal technology systems.

*A more portfolio-driven mindset is required in operations and collateral management, if firms are to realize their full potential,”* said Eric Ilardi, Global Head of Collateral Management, Citi Investor Services.

With global securities lending revenues hitting \$15.3 billion in 2025,<sup>1</sup> the cost of this inefficiency has never been higher. Capturing value from collateral could give asset managers a useful return boost at a time when their operating costs are outstripping revenues.<sup>2</sup>



Source: S&P Global Market Intelligence, 2025

Source: S&P Global Market Intelligence, 2025

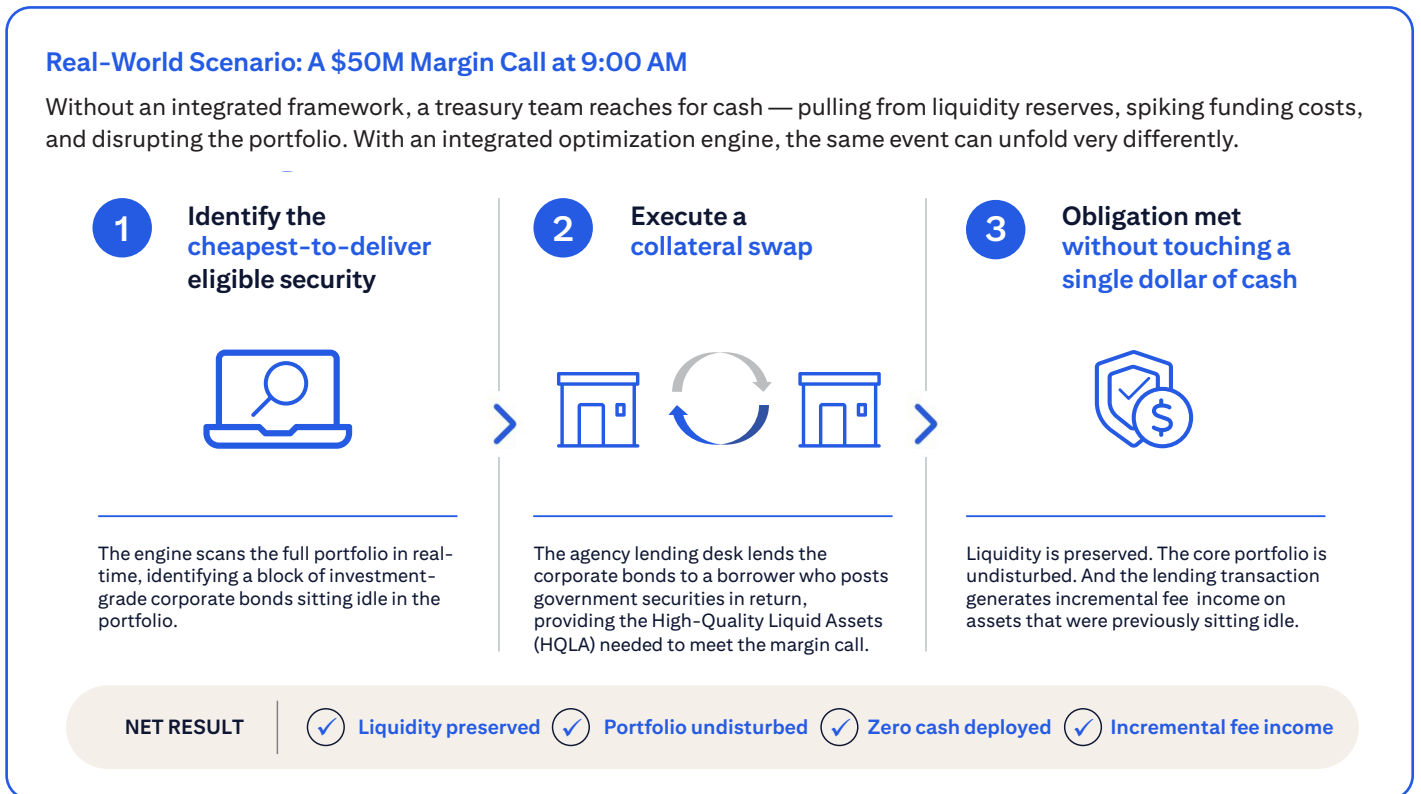
Source: Industry Research, 2025

“It needs to be explained to the leadership at organizations that *collateral is not an operational function, but a strategic tool*,” said Ilardi.

**THE INTEGRATED FRAMEWORK: Three Capabilities. One Engine. Zero Idle Assets**

Extracting value from collateral will require firms to re-think their operating models.

To do this, firms should develop an integrated framework, connecting agency securities lending, collateral management, and cash reinvestment through a single algorithmic optimization engine.



<sup>1</sup>EquiLend – January 6, 2026 – [Securities Lending Revenue Soars to all-time highs of \\$15.3 billion](#)

<sup>2</sup>Boston Consulting Group – April 2026 – [An imperative for Growth](#)

## COLLATERAL TRANSFORMATION & SELECTION: Turning What You Have Into What You Need

The industry is doubling down on collateral transformation, namely the conversion through repo or securities lending transactions of ineligible margin assets into eligible margin assets, according to Ilardi.

A firm holding corporate bonds, equities, or structured credit instruments may find that many of these assets are not directly eligible under a given counterparty's collateral schedule or a Central Counterparty's (CCP) margin framework. But through a carefully curated securities lending or repo transaction, these assets can be exchanged for universally accepted HQLA — government securities — while the firm earns an incremental fee income on the trade.

Equally important is **collateral selection optimization**, namely posting the cheapest-to-deliver eligible asset rather than defaulting to cash.

A sophisticated algorithmic engine evaluates the full eligible collateral universe in real time, weighing haircuts, funding costs, opportunity costs, and counterparty-specific eligibility schedules to identify the optimal asset for each call.

**“This is not a marginal improvement. It is the difference between *a collateral program that costs money and one that makes money*,”** said Ilardi.

## EXPANDING THE ELIGIBLE UNIVERSE: Broadening What Can Be Pledged and Received

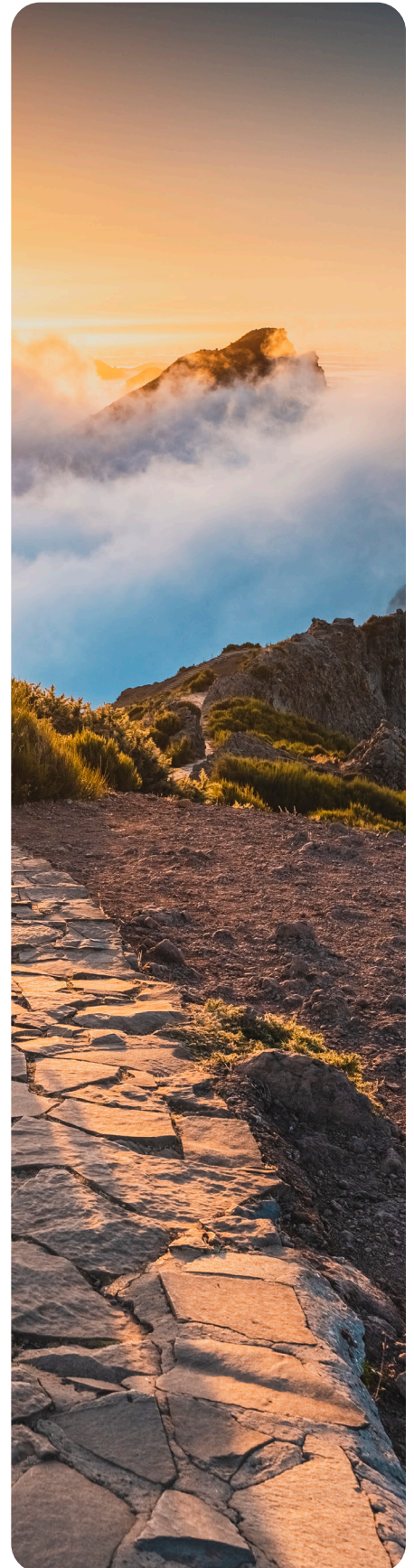
A critical dimension of next-generation collateral management will hinge on expanding the eligibility criteria for collateral during bilateral transactions, particularly as HQLA scarcity accelerates and margin demands increase.

The industry has historically defaulted to a narrow set of HQLA — cash, government bonds, and a limited range of agency securities. This conservatism, while understandable in the post-crisis period, leaves significant value unrealized.

Leading institutions are now negotiating broader bilateral collateral schedules that encompass **corporate bonds, equities, Exchange Traded Funds, Collateralized Loan Obligations, Asset Backed Securities, Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities, and municipal securities.**

**“This expansion reduces demand pressure on scarce HQLA, lowers the cost of posting margin, and allows firms to mobilize a far greater proportion of their portfolio as collateral across G10+ markets, in multiple currencies. Daily valuation and automated margin call workflows supporting the full operational lifecycle,”** said Ilardi.

He continued: “When expanding collateral eligibility criteria, however, the industry needs to focus on risk management, including ensuring there are robust daily valuations, concentration limits, haircut discipline, and counterparty specific eligibility schedules.”



### MAXIMIZING PORTFOLIO RETURNS: The Quiet Revenue Stream Most Firms Ignore

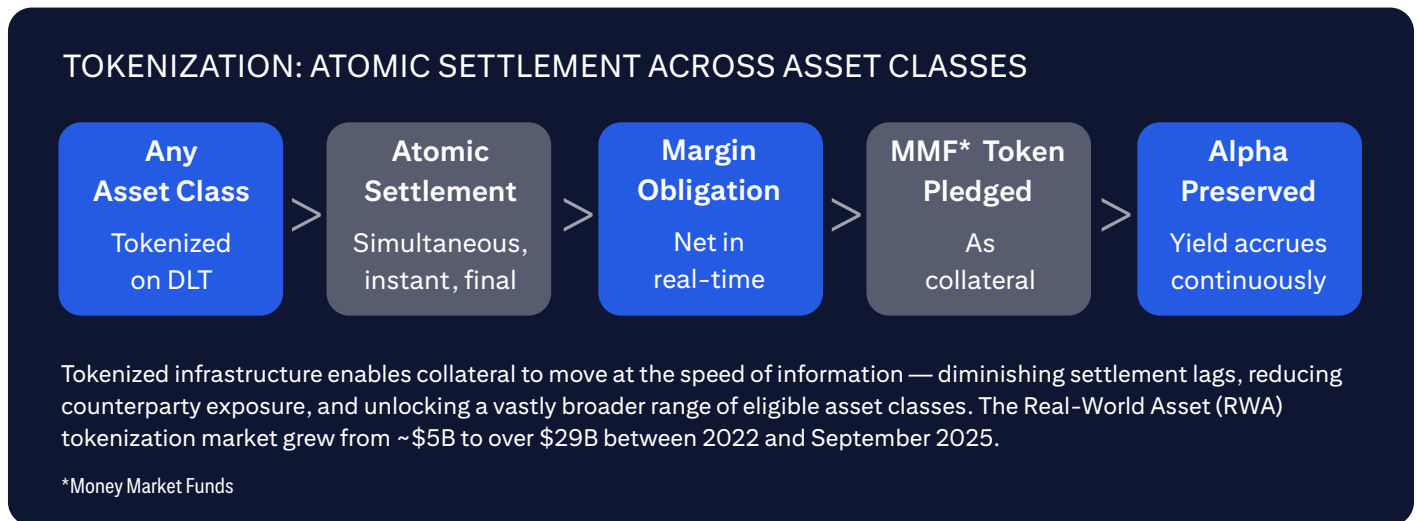
The integrated framework generates one more dividend that most firms never fully capture: the cash.

Every securities lending transaction where a borrower posts cash collateral creates an immediate reinvestment opportunity, and in a fully integrated treasury program, that opportunity is never wasted.

**Automated cash reinvestment**, principally the allocation of surplus cash into high-yield money market funds, transforms what was once a passive balance into an active revenue stream. The reinvestment return is generated from the spread between the reinvestment yield and the rebate rate paid to the borrower.

#### The Rules Are About to Change. Fundamentally.

If the integration of lending, collateral, and cash reinvestment represents the current frontier, tokenization represents the next. And it is arriving faster than most people anticipated.



Source: RWA.xyz

The tokenization of RWAs, representing financial instruments as digital tokens on distributed ledger infrastructure, has the potential to transform collateral management.

A tokenized asset can be pledged, transferred, and settled in minutes, dramatically expanding the range of assets that can serve as collateral. For example, tokenization enables **MMF shares to be pledged directly as collateral**. Today, when a firm posts cash margin, that cash stops earning. With tokenized MMF shares accepted as collateral, the cash equivalent continues to earn returns even while serving as margin.



### Instant Collateral Mobility

Atomic settlement eliminates the T+1/T+2 lag that forces firms to hold excess liquidity buffers and constrains collateral substitution speed.



### MMF Shares as Collateral

Tokenized money market fund shares pledged as margin continue to earn yield.



### Expanded Asset Universe

Atomic settlement makes a far broader range of asset classes practically viable as collateral.



### Eliminated Settlement Risk

Cryptographic finality means collateral transfers are irrevocable and simultaneous.

Now is the time for firms to establish integrated, algorithmically-driven treasury programs that connect agency lending, collateral transformation, and cash reinvestment into a single, continuously optimizing framework. This will help preserve liquidity, net additional fee income on previously idle assets, and generate yield from cash.

At Citi Investor Services, this is not a vision for the future — it is the platform we operate today.

Our integrated Securities Finance framework connects Agency Lending, Collateral Management, and cash reinvestment through a single optimization engine, purpose-built to help institutions capture every basis point of value their portfolio can generate. If you are ready to move from the basics to the next frontier, we would welcome the conversation.

*“Collateral management is no longer a cost center, but a risk mitigation mechanism that when deployed well, can contribute to alpha generation and protect firms during extreme market events. It is one of the most compelling opportunities in institutional finance today,”* said Ilardi.



© 2026 Citigroup Inc. Citi, Citi and Arc Design and other marks used herein are service marks of Citigroup Inc. or its affiliates, used and registered throughout the world.  
Member of the Federal Deposit Insurance Corporation.

Recipients should not rely solely on this material and are strongly advised to consult independent professional advisors for tax, legal, financial, and/or other matters.  
Past performance is not indicative of future results. Citi expressly disclaims any liability for any loss or damage arising from reliance on the information contained herein.  
Client experiences and results may vary.