Treasury trading on electronic portals: How they can help and how to make sure they do

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Treasury Management Operations
What do you need from a portal?

• State of the art technology
• Transparency
• Risk management and control
• Automation STP and STR
• Scalability
• Product continuous development
• User friendliness
• Comprehensive customer support
• Effective governance
• Independence
State of the Art Technology

• **Issues**
  – Is the technology best in class and continuously improved?
  – Is it integrated – fund/bank automation and investor STP?

• **Why does it matter to Honeywell?**
  – Our requirements are continuously developing and portals need to invest to keep up
  – So do our own treasury systems and integration requirements will continue to evolve
  – Manual processing means delays, trade errors and failures and increased risk and cost so complete automation and integration to deliver full STP is critical

• **Questions to ask**
  – How has the portal been improved in the last 2 years and what is the annual budget for change requests and new developments?
  – Does anything get faxed or phoned through at any stage in the trading process or is the whole process fully automated
  – Which treasury systems has the portal already integrated with and what data has been exchanged?
  – Does the portal make use of SWIFT messaging to ensure effective real time trading?
Transparency

• Issues
  – Is there transparency of pricing and does no cost really mean no cost?
  – Is there transparency of trading permissions and counterparty exposures?

• Why does it matter to Honeywell?
  – We want to ensure that there is no limitation of our negotiating power with the funds in terms of management fees and rebates
  – In our relatively complex treasury operations structure we need to ensure complete transparency of trader and counterparty limits and exposures at all times

• Questions we asked
  – Would I get a better deal trading directly with any funds or through another portal?
  – Are trader and counterparty limits explicitly identified on the portal and alerts provided in the event of any breaches?
  – Are there effective breach escalation procedures built into the portal?
Risk Management and Control

• **Issues**
  – Real time monitoring and policing of treasury policies including trader and counterparty eligibility and exposure limits both pre and post trade
  – Importance of access to up to date credit ratings
  – Need for comprehensive audit trails

• **Why does it matter to Honeywell?**
  – Economic conditions have required an increasing focus on compliance with all treasury policies at all stages in the investment process
  – Volatility of credit ratings means continuous monitoring of credit ratings in real time to ensure only eligible counterparties are used
  – Requirement for a comprehensive audit trail of all actions and warnings issued to all parties to trades for internal audit and control purposes

• **Questions we asked**
  – How are treasury policies captured and enforced on the portal?
  – Where is credit rating information sourced and how is it kept current
  – What events and related information are captured on the audit trail?
Automation STP and STR

• **Issues**
  – Operational efficiencies and secure trading can only be delivered with automation on both fund and investor sides providing straight through processing and reconciliation
  – SWIFT integration for trade execution and settlement
  – Accurate and up to date balance and accurate interest reporting

• **Why does it matter to Honeywell?**
  – Need to minimise the risk of trade delays, errors and failures
  – Need to improve efficiency through integration with SunGard Quantum TMS
  – SWIFT messaging delivers simple, secure and automated settlement of all trades
  – Up to date and accurate account balance and accrued interest saves time and resources by avoiding the need for extensive reconciliation

• **Questions we asked**
  – Which treasury systems has the portal integrated with and what data has been exported?
  – What SWIFT messages can the portal send and receive and does this include MT101s for auto-settlement?
  – How is balance and interest information provided to the portal and with what frequency?
Scalability

• Issues
  – What is the coverage of the portal in terms of counterparties, products, currencies and countries of operation
  – Different treasury organisational structures need to be supported from centralised to distributed treasury operations

• Why does it matter to Honeywell?
  – Have 64 fund accounts in 42 funds across 14 fund managers in 5 currencies traded by 8 Honeywell entities
  – Need complete coverage of all funds – and other instruments such as term deposits
  – Need to set up teams with customised permissions and access to the portal

• Questions to ask
  – What is the current coverage of the portal in terms of counterparties, products, currencies and countries of operation?
  – When and how will this be extended?
  – How can different treasury organisational structures be supported?
User Friendliness

• Issues
  – To improve operational efficiency a portal must be intuitive and hence quick and easy to use
  – Different users have different preferences so the portal must be configurable by each user to suit their own individual needs

• Why does it matter to Honeywell?
  – We didn’t want a portal that would require extensive staff training
  – We have many different users in 8 different teams with different market, view, trading and reporting requirements and needed to meet all their needs quickly and easily

• Questions to ask
  – Does the portal require users to participate in a training course before they can place a trade?
  – Do they need a user manual to access the portal functionality?
  – Is the trade flow process simple and does it reflect normal ways of working within a corporate treasury?
Comprehensive Customer Service

• **Issues**
  – Need for effective client services support to ensure the effective operation of the platform – that means 24/7 global market support
  – Ability to offer auto-settlement without the need for 3rd party clearing agents
  – Need to offer consolidated reporting across all aspects of market discovery and trading
  – Portal services, including investor back office integration, should be provided at zero cost

• **Why does it matter to Honeywell?**
  – As a global organisation we need support to be available 24/7 in Europe, Asia/Pacific and the US
  – We didn’t want to lose the ability for our bank funds to be settled directly by the bank but did want to be able to do the same for non-bank funds
  – Our relatively complex organisational structure gives rise to a real need for consolidated reporting from many previously disparate sources
  – Integration with our SunGard Quantum TMS was essential but we did not have a budget for significant development work

• **Questions we asked**
  – What market control and market support arrangements do you have in place and does this provide 24/7 global coverage?
  – Are you able to offer direct auto-settlement via MT101 SWIFT messages or any other means?
  – What standard and customised reporting capabilities are provided, including portfolio analytics using high quality data
  – Are TMS integration and other services provided at no cost and are any service charges levied?
Effective Governance

• Issues
  – Omnibus and nominee account trading require delegation of trading authority
  – So does absence of automation even for direct trading

• Why does it matter to Honeywell?
  – We only want Honeywell employees to be authorised signatories on our accounts and only our own signatories as authorised traders
  – We wanted full legal as well as beneficial ownership of shares, which is only possible with direct trading
  – We didn’t want any Honeywell monies to pass through a 3rd party clearer as this raise issues in terms of counterparty risk

• Questions we asked
  – Does the portal mandate letter include delegated trading authority for portal employees or any other 3rd party?
  – Is anyone within your organisation an authorised signatory?
  – Does settlement require funds to be passed through a 3rd party?
Independence

• Issues
  – As technology providers should portals also be offering investment advice
  – Do portal staff have the expertise and necessary approvals to do this anyway?
  – Portals may receive different fees from funds and banks

• Why does it matter to Honeywell?
  – We believe that portals should be providing secure and efficient market discovery, trading and reporting and not selecting investments, which is our responsibility
  – We are concerned that differential fees may lead to potential conflicts of interest for portal providers

• Questions we asked
  – Do you offer investment advice and are you authorised to do so?
  – Do you publish your fee structure for all participating funds and banks?
  – How do you ensure no conflicts of interest?