

AT THE TOUCH OF A BUTTON OR JUST **CLICK**

AUTOMATION IS TRANSFORMING FX TRADING JUST AS MiFID II IS TRANSFORMING THE FINANCIAL MARKETS, WRITES **SARAH PITTROFF**

Automation is one of the most talked-about topics in treasury today – for good reason. By automating their more mundane tasks, treasurers can free up their time to focus on activities that add more value to the business, such as reducing working capital and building strong relationships with banks.

Today, large corporates are investing heavily to make sure their processes are fully automated and to integrate their systems into their workflow. For FX trading, they want an automated, end-to-end process that covers the uploading and execution of a hedge, export of the results to other internal systems and confirmation matching with their banks. They also want their back-up systems to be automated and, if they have subsidiaries, they want them to have access to the platform as well.

In the past, a treasurer may have spent 10–15 minutes per trade on executing a normal forward contract or interest rate swap. Now such a trade can take no time at all if it happens automatically. These days, modern treasuries fully automate their workflows, integrating execution management systems with their internal systems, such as SAP. FX exposures are electronically uploaded onto

an execution platform, and orders are aggregated and split before they are executed. Even better, provided the FX platform used by the treasurer is integrated with a treasury management system (TMS), all the required information on the trade can then be exported into the TMS and reported directly to regulators via the TMS and matched through a confirmation-matching tool.

Another important benefit of automation is that it reduces the pressure on treasurers to prove that they have gone with the best available execution price when carrying out their FX trade. Not all treasury policies require treasurers to go with the best available execution price; some allow treasurers to exercise their own discretion and distribute their trades among the different banks they do business with. Nevertheless, there has been a growing trend over the past couple of years for treasurers to prove that they have taken the best available execution price.

Impact of MiFID II

Best execution will get a further boost by the revised Markets



in Financial Instruments Directive (MiFID II), which took effect last month. MiFID II

is an ambitious package of financial reforms that is intended to provide better protection to investors and to boost transparency around the trading of assets, including FX. Under the reforms, certain non-financial corporates that previously traded in financial instruments in the EU, or through an EU exchange, will have to trade on multilateral trading facilities (self-regulated financial trading venues) going forwards.

Fortunately, the majority of corporates are exempt from this requirement because their derivatives executions are directly related to the commercial activity or treasury financing of non-financial entities or their groups. So, theoretically, they have a choice as to whether they trade via a multilateral trading facility (with all the reporting implications that go with that) or via traditional OTC facilities.

In practice, however, not all FX trading platforms offer their clients the opportunity to choose between multilateral and OTC trading facilities. One way for a

treasurer to get round that issue is to change the organisation's FX platform provider. This is a straightforward process that can usually be achieved within a couple of weeks.

Of course, like any regulatory change, MiFID II brings with it a fair amount of uncertainty and it is likely that we will learn a lot more about the new rules as the year unfolds. In general, the vendors of FX trading solutions have worked hard to be compliant with MiFID II, but, along with other market participants, we are still not entirely sure of what the regulators are expecting. Nevertheless, we believe that we prepared for the new regulation as well as we could have done, and we hope that it succeeds in its aim of making the financial markets more transparent, more robust and more efficient going forward. ♥

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