



Solving the treasurers' conundrum

By 360T | Jul 27, 2022

Automation can enable corporate treasurers to increase the efficiency and productivity of their foreign exchange (FX) trading without having to invest in additional staff or multiple different technology solutions.

A familiar request by many corporate treasurers today is how to handle larger, and often more complex, FX flows without increasing the headcount on their desk.

This is often simply a consequence of the continued growth of the broader business, as new subsidiaries are acquired or the firm pushes into new geographic locations, for example. In these cases, the number and scale of currencies they have to manage will increase.

And as the past few years have illustrated, unexpected events can (and have) changed market conditions rapidly, leading to increased volatility and causing some firms to reassess their approach to hedging FX exposures.

Obviously, volatility is not something corporate treasurers can control, so the best solution to this challenge is to focus on where they can make changes that are within their sphere of influence to address the challenges within their FX operations. This is why we increasingly see treasury desks trying to automate much more of their FX workflows.

A targeted approach

By automating existing time-consuming manual processes around the managing, staging and execution of FX trades, treasurers are able to free up time which can instead be devoted to the most value-add tasks on their desk, which require their specialist expertise and knowledge. It also enables them to enhance their productivity, addressing this central challenge of effectively handling more FX trading with a static number of staff.

Automation has other important benefits, too. One of these is, by removing the potential for errors that are inherent in any manual process, this technology can significantly reduce operational risk on the treasury desk. Additionally, automated systems provide a complete and comprehensive audit trail of all FX activity, something which is important to treasurers today to be able to access.

An important point to add here, is that this desire to remove manual processes is particularly acute when it comes to managing FX because it is largely viewed as an operational function that is essential to the functioning of the overall business rather than something that directly adds value to it.

However, "automation" is a broad term that can mean different things to different people. As such, it's worth looking at some specific areas where this technology can really help to improve the day-to-day FX operations of corporate treasurers.

Streamlining processes

One of the more fundamental challenges facing corporate treasurers today is simply collecting all the different FX requirements from their various sub-entities in one place in a consistent manner. For instance, often sub-entities submit the hedging transactions that need to be run in a variety of different formats – such as excel, over the phone or via email – and, as a result, they frequently get executed individually.

Moreover, incoming requests can often occur at different times of day, causing companies to do two opposite deals instead of simply netting those transactions. Thus, if a firm has two sub-entities that need to do a 1 million EUR/USD Spot FX trade they might go out to the market and conduct two separate trades. Alternatively, if they have two trades of the same currency pair for the same value date but in opposite directions, they will execute both instead of netting them out.

It doesn't need to be this way. Increasingly, we see treasurers optimising this process by implementing tools which collect, aggregate and net out all these different hedging requirements from across the business in an automated manner.

For example, these tools can be used to collect different trade requirements coming in across the day until a critical mass develops so that the trades can be netted off against one another.

The benefit of this for treasurers is two-fold. Firstly, it means that less FX transactions need to be booked, which decreases the amount of manual processing required and therefore also the operational risks associated with this activity. Secondly, it eliminates the costs that are inevitably incurred through additional trading and settlement activity.

It is worth pointing out that there is also an opportunity to introduce additional efficiencies at the approval level. Many firms still employ a manual pre-trade approval process and, in many cases, this can require multiple layers of approval, which can be both cumbersome and time consuming. By contrast, utilising technology which deploys a “4-eye” approval system can make this process much more efficient whilst simultaneously providing a clear and transparent record of exactly who approved each trade ahead of its execution.

Managing risk

Having this information collected in one place certainly makes life easier for treasurers, but they still need to decide how to manage all this risk, and once again firms are increasingly turning towards automation to assist them with this.

For example, if a treasurer doesn't want to carry any risk at all there are solutions that enable them to send their trades directly to a group of banks, execute at the best price and then automatically produce the internal tickets. However, it is equally possible to have internal deals booked against a rate source by producing only internal tickets and having head office absorbing the risk to their position which is then managed further.

As well as providing more options for managing risk, this technology can be deployed as a rules-based system allowing treasurers to streamline their trading activity, and even auto-execute trades should they wish. Crucially, this rules-based system can be highly bespoke, enabling treasurers to define different execution parameters for different types of transactions based on a wide array of factors such as notional amount, product, tenor, currency pair, the entity submitting the order, etc. Not only does this create significant workflow efficiencies but once again it also reduces operational risk by decreasing the opportunities for human error when executing trades.

Benchmarking trades

Effective automation relies on good data, and treasurers need to be able to benchmark auto-executed trades to quantifiably demonstrate the performance of this technology. The issue facing many firms today though is that there is a stark disparity in the quality and quantity of data available across different FX instrument types.

Whereas in the Spot FX market data is largely considered to be a “commoditised” product that is widely and readily available, the FX Forwards and Swaps markets are naturally opaque, which has historically made it much harder for firms to access accurate real-time market data regarding where these products are trading.

This all changed in 2018 when 360T, in partnership with DIGITEC, launched an award-winning Swaps Data Feed (SDF). The SDF is unique because it is directly integrated to the pricing engines of more than 20 top FX banks, offering full granularity across the curve up to two years in over 40 pairs and providing Swaps market data in an unlimited number of crosses in G10, LM and NDF currency pairs.

In addition to deploying the SDF as a tolerance check to ensure that auto-execution never occurs more than a pre-defined distance from the market midpoint, treasurers can use it to benchmark their execution performance. This creates a full audit trail to compare exactly where the market was when they traded.

Customised solutions

As ever when it comes to managing risk, there’s no “one-size-fits-all” solution and so it’s important that treasurers look for technology that empowers them to handle their risk in different ways.

We also see some firms leveraging automated trading tools for their intragroup activity, too. One such use case for this might be the head office of a firm in Europe setting up systems so that when the Singapore office comes in before European hours they are just auto-quoted from the markets and the risk is basically hedged directly with the transaction occurring in the local time zone.

A single technology solution linked to all of the challenges previously outlined is the problem that once corporate treasurers have booked their internal trades manually they then need to input these into their Treasury Management System (TMS).

This can be an incredibly labour- and time-intensive activity – the sheer number of trades that need to be entered into the TMS can mean treasury staff are forced to spend several hours of their valuable time booking internal deals whilst doing their netting runs. That’s why this is yet another area where we see firms implementing technology designed to automate the process.

Avoiding additional complexity

While many corporate treasurers are enthusiastic about the potential to enhance their FX operations through increased automation, they are generally less excited about the prospect of the perceived integration work needed to implement this technology within various elements of their existing workflow.

This is only exacerbated by the fact that although there are multiple different technology solutions available today which aim to help treasurers address the previously highlighted pain points, adding multiple layers of technology from different sources leads to more workflow complexity, installation and maintenance requirements, and – ultimately – higher costs.

Instead, a better approach is to identify a single technology solution which can effectively address all these pain points by automating various different elements of their FX workflows across the entire trade lifecycle.

And integrating this type of solution doesn't have to be a time-consuming or complex task, provided firms partner with providers who have extensive experience working with both bespoke and third-party provided TMS.

As a consequence, more treasury departments are turning towards FX automation to increase their productivity without putting pressure on their budgets or staffing levels.

For further information on FX Automation please contact: Greg O'Sullivan at

greg.osullivan@360t.com

© Haymarket Media Limited. All rights reserved.
