



THE SWITCH TO AUTOMATING GLOBAL TREASURY OPERATIONS THREE YEARS AGO HAS FAR EXCEEDED THE EXPECTATIONS OF ORACLE, AS GERI WESTPHAL POINTS OUT.

# THE ORACLE ON FOREX TRADING



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ORACLE

Oracle Corporation is the world's largest enterprise software company, with annual revenues of \$10bn and operations in some 60 countries. The company develops, manufactures, markets and distributes computer software that helps customers manage and grow their businesses. Its applications software can be accessed with standard web browsers and can be used to automate business processes and to provide business intelligence for marketing, sales, order management, procurement, supply chain, manufacturing, service, human resources and projects. They offer a fully integrated suite of applications built upon unified information architecture.

In 2000, Oracle centralised its treasury function by setting up Delphi Asset Management Corporation, a wholly owned subsidiary of Oracle, based in Reno, Nevada, US. The Delphi treasury team is made up of eight people who perform treasury related services, including daily cash management, investment management, foreign exchange and bank relationship management for Oracle and its family of 60 plus subsidiaries. *Figure 1* shows results from its treasury transformation.

Three years ago, we decided to automate our treasury operations as part of a corporate-wide initiative to globalise IT systems. We believed that through automation we could become more flexible, more efficient and more profitable.

One of the areas where we saw immediate cost savings was within foreign exchange (FX). In 2000, we were invited by Bank of America to become a member of the client advisory board for FXall, and to participate in defining the tools and functionality necessary for an online portal in the FX industry to be successful. This functionality included the ability to trade with more than one bank, an efficient price discovery tool and straight-through processing (STP). We decided that FXall met our requirements and in 2001 we executed the first live trade on the portal. Today, we execute 98% of our FX activity automatically through the platform.

It is no surprise that a recent survey from Greenwich Associates showed that large corporations and financial institutions transact an average of \$26.6bn annually through online FX trading, and this figure continues to rise. Among some of the largest corporations and institutions, the average is \$54.5bn.

**REAPING THE BENEFITS.** In my view, the biggest reason why online trading has taken off in such a big way is the level of integration and automation that the portal model has achieved. Companies needed access to liquidity from all their banks and they needed automation in order to achieve faster, more efficient pricing. Initially there was a fear that online trading would lead to an environment where personal relationships between banks and customers would suffer. In fact, I believe the opposite has occurred. Both banks and customers have freed up time to provide more strategic value-added services. And, in an increasingly competitive market, those services are rapidly becoming more important to corporate treasurers.

# 'THE REAL REVOLUTION IN FX HAS BEEN IN STP – THE ABILITY TO STRAIGHT-THROUGH PROCESS TRADES SEAMLESSLY THROUGHOUT THE ENTIRE TRANSACTION'

**FIGURE 1**  
**TREASURY TRANSFORMATION**

Task	Position at 6 Jan 1999	Position at 6 Jan 2003
<b>Standardise</b>		
	<ul style="list-style-type: none"> <li><input type="checkbox"/> No standard bank model</li> <li><input type="checkbox"/> Average eight accounts per subsidiary</li> <li><input type="checkbox"/> 180 global bank relationships</li> <li><input type="checkbox"/> No global treasury management system (TMS)</li> <li><input type="checkbox"/> Multiple policies</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> One global bank model</li> <li><input type="checkbox"/> Average four accounts per subsidiary</li> <li><input type="checkbox"/> 100 global bank relationships</li> <li><input type="checkbox"/> One global TMS</li> <li><input type="checkbox"/> One worldwide investment policy</li> </ul>
<b>Automate and improve efficiency</b>		
	<ul style="list-style-type: none"> <li><input type="checkbox"/> No global TMS</li> <li><input type="checkbox"/> Manual foreign exchange (FX)</li> <li><input type="checkbox"/> Manual bank reconciliations</li> <li><input type="checkbox"/> Manual tracking of inter-company activity</li> <li><input type="checkbox"/> Multiple policies</li> <li><input type="checkbox"/> ICMS for investments – no STP</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> One global TMS</li> <li><input type="checkbox"/> Straight-through processing (STP) for FX</li> <li><input type="checkbox"/> STP for daily bank statements</li> <li><input type="checkbox"/> STP for inter-company loans</li> <li><input type="checkbox"/> STP for Investments</li> </ul>
<b>Improve visibility and portfolio management</b>		
	<ul style="list-style-type: none"> <li><input type="checkbox"/> In-country finance headcount for bank reconciliations</li> <li><input type="checkbox"/> Manual journal entries for all treasury activity</li> <li><input type="checkbox"/> Excess cash managed in-country</li> <li><input type="checkbox"/> Global treasury headcount = 10</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> In-country headcount reduced &amp; bank recs regionalised to shared service centre</li> <li><input type="checkbox"/> Full automation and suite integration</li> <li><input type="checkbox"/> Excess cash managed centrally allowing for improved efficiency and increased yield</li> <li><input type="checkbox"/> Global treasury assumed management of 95% of worldwide cash with no headcount increase. Headcount remains at 10</li> </ul>
<b>Increase control</b>		
	<ul style="list-style-type: none"> <li><input type="checkbox"/> No corporate authority on local accts</li> <li><input type="checkbox"/> Local execution of investments</li> <li><input type="checkbox"/> Investments held at individual banks</li> <li><input type="checkbox"/> After-the-fact policy verification</li> <li><input type="checkbox"/> Lack of visibility at corporate level</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Centralised signing authority</li> <li><input type="checkbox"/> Investments centralised – no local authority</li> <li><input type="checkbox"/> Global custody agent</li> <li><input type="checkbox"/> Real-time policy compliance</li> <li><input type="checkbox"/> Global visibility of cash and treasury activity leading to better reporting, tighter controls and increased investment returns</li> </ul>

The benefits of online trading are fully realised when the majority of banks used by a company such as Oracle for online trading raise the level of their service across the board. This means providing regularly updated research and forecasts online; automated prices being returned quickly, even on large deal sizes; and fast and tight swap pricing in tenors of up to one year. The banks that have already made these investments are now reaping the benefits.

The price discovery process for electronic FX dealing is straightforward. Our trading is centralised with subsidiaries submitting trade requirements to the central office for execution. We have the ability to determine how we want to order the bank quotes being listed, and the best prices are highlighted on screen. On average, we ask three banks for prices when there are competitive trades. We calculate our cost saving on the price differential between the best price quote and the second best price quote. We estimate that executing our FX trading online process has produced substantial cost savings by about \$200,000 per year.

Price, however, is just one component in the variable. The real revolution in FX has been in STP – the ability to straight-through process trades seamlessly throughout the entire transaction.

There is a series of steps to be taken after the trade has been dealt, including matching transaction details, confirming the deal and arranging settlement. Automation of error-prone manual procedures greatly improves risk management. At Oracle, we have chosen Settlement Center to automate confirmation of deals, netting and provision of standard settlement instructions. Settlement Center had the added benefit of already being integrated to FXall's trading platform.

**ALL SYSTEMS ARE GO.** The advancement of this technology led us to adopt the concept early and we have now achieved STP across the full FX life cycle – from subsidiary exposure submission to trade execution, and from trade confirmation and settlement to accounting. Each month we enter into 50-plus financial hedges spanning more than 30 currency pairs. We upload our FX exposures directly from the Oracle E-Business Suite into FXall for trade execution. After execution, the trade details are downloaded back into the Oracle treasury application, part of the Oracle E-Business Suite, then using the suite integration, it is sent directly for month-end posting. Once again, time is saved and the potential for error is reduced. Without the willingness to consider new methods, we might be still operating in the 'old world' of telephone orders.

Another important benefit that accrues from automation is the ability to create reports of all activities undertaken on the system. Recent events in the financial markets have highlighted the need for corporations to be able to generate comprehensive audit trails. By using FXall, we have a FX trading process that allows us to ensure our compliance procedures are in line with current best practice.

To sum up, at Oracle we now have STP for all our global bank account statements, all inter-company loan activity, all FX and soon we will complete STP for all investment activity. The result is a radically different way of trading FX – one that takes full advantage of the latest and most reliable technology. We are now seeing many other global corporations follow suit. The benefits of automation are just too compelling to ignore.

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