

ONLINE FX – STeP THIS WAY



FOLLOWING ON FROM THE RECENT ACT/BBA eFX SEMINAR, **JAKE SMITH** OF HSBC BANK PLC TAKES A LOOK AT A STEPPED APPROACH TO AUTOMATING FOREIGN EXCHANGE PROCESSING.

Much has been written about eFX and the associated benefits of straight-through processing (STP). While awareness of this trading channel has increased dramatically in the past two years, so has the confusion among readers surrounding what is actually meant by it. The simple answer is that STP means different things to different people. There is, however, general agreement in a high level definition: STP is the automation of certain elements within your trading cycle.

One of the biggest barriers to STP has been the disillusionment stemming from enterprise resource planning (ERP) installations. These big budget company-wide projects aimed to integrate divisional data into one database, allowing organisational-level analysis. They have had varying degrees of success, but have highlighted a number of issues involved in major IT projects. The reality is less daunting, as many organisations can achieve a reasonable level of STP with only minor changes to their trading pattern. Of course, full STP can be achieved, involving the end-to-end integration of systems and processes. This appears suitable for those organisations with the highest number of deals and it is generally agreed that the potential benefits are great for specific organisations.

Perhaps the starting point for any organisation looking to implement STP is to ask two questions:

- what do you want to achieve? and
- how much are you willing to invest?

Once you have the answers to these questions you are in a position to decide on the degree of STP required.

A STEPPED APPROACH. STP should not be viewed as a 'big bang' process. It should be seen as automating a number of smaller and separate processes. Therefore, a number of incremental steps can be taken for an organisation to achieve the level of STP it desires. Not only is this a relatively low-cost implementation, but any steps taken can form the basis of an extension of STP in the future. This is particularly relevant at the present time when budget restrictions prevail and IT resource is scarce.

Perhaps the most basic form of automation, or STP, can be achieved by accessing research online. Rather than receiving blanket emails or being inundated with paper-based mail, accessing your research online allows users to tailor the research they access. For example, markets@hsbc allows users to tailor the site to such a degree that clients can create their own personal page containing only specific research criteria.

By trading on either a bilateral system, or a multi-bank platform, price discovery is automated and real-time confirmation of trades provided. In addition, trading platforms such as these provide access to an auditable database of executed trades, allowing organisations to monitor their trades in an environment that cannot be changed, which is a strong benefit when considering corporate governance. Once you are comfortable with this process, you may choose to cease a separate process of storing trade records.

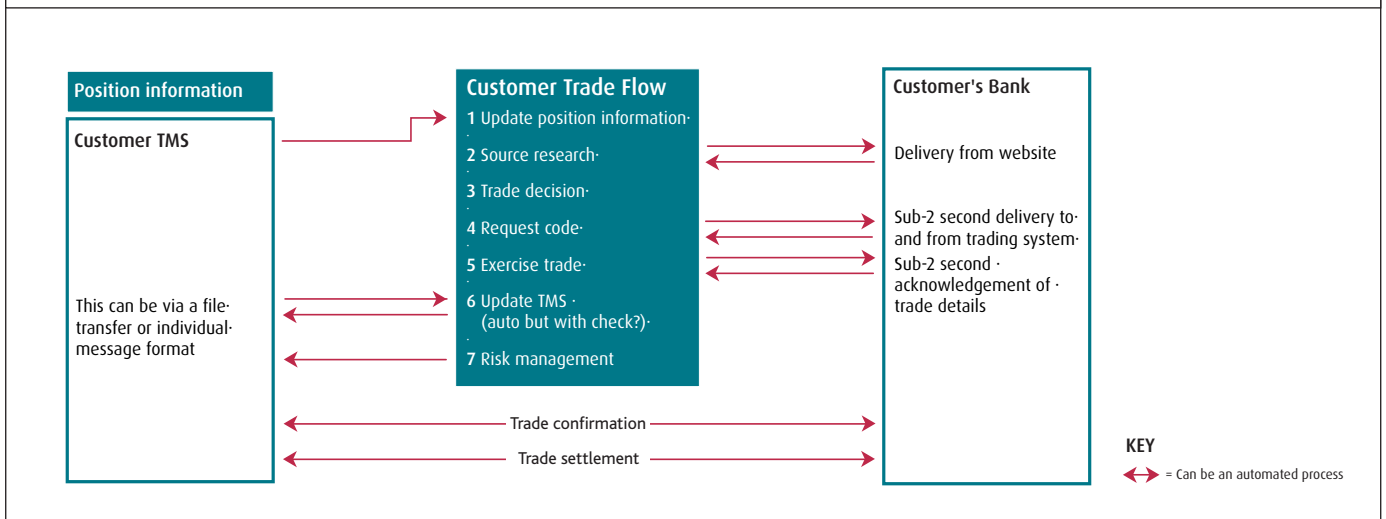
'STP MEANS DIFFERENT THINGS TO DIFFERENT PEOPLE. THERE IS, HOWEVER, GENERAL AGREEMENT IN A HIGH LEVEL DEFINITION: STP IS THE AUTOMATION OF CERTAIN ELEMENTS WITHIN YOUR TRADING CYCLE'

The uploading of data from either a treasury management system (TMS) or ERP onto an eFX trading platform allows further automation. The pre-allocation and post-allocation of trades is allowed on many platforms, where users can upload a number of separate, but related, deals, either before they trade or afterwards.

This automates a process that in the past has been largely manual on both the buy and sell side.

By downloading the database of trades into a common separated value (CSV) format, users can achieve a further level of STP. This allows the download of trades into internal systems, whether they are basic Excel spreadsheets or a TMS. Once in the CSV format the data

FIGURE 1
GOING WITH THE STP FLOW.



can be modified to allow integration with internal systems and reports. This can be a manual process or, with relatively little IT integration, automated. The decision of whether or not to automate must be based on the potential benefits and individual company requirements.

Corporate governance and risk control can also be 'STP'd'. By using eFX platforms, differing degrees of access can be provided to users, even different ones within the same organisation. Therefore, if one employee is only allowed to trade certain currencies or amounts, these can be permissioned in the account creation. Added to this, online trading provides an audit trail of all trades and also identifies the user's digital certificate. Therefore, records of trades are maintained in case of misunderstanding, much like telephone deals being recorded.

If automatic downloads of data are required from the trading platform's database into internal systems, another question to ask is: 'How often do you need automatic updates?' If the answer to this is every second, then a higher degree of automation will be required. This feature tends to lean towards the 'big bang' implementations, and is both expensive and difficult to achieve. If downloads are required every 30 minutes, then a less costly and less technical solution can be found. A number of providers facilitate the automatic download of data into TMS, for example FXall works closely with more than 20 TMS providers, including Richmond Software, SimCorp, Sungard, Trema and Wall Street Systems.

FULL STP AUTOMATION. *Figure 1* shows what is perhaps the ultimate aim for organisations which have a large number of trades. By installing a 'black box' that communicates between a TMS or ERP and an online FX platform, organisations can trade FX automatically. Within pre-defined limits, the TMS can select which currencies and amounts to deal, then source prices and deal, all without human intervention. The 'black box' takes data from internal sources and translates it into a language the trading platform understands. Provided the internal systems have been correctly configured, the treasurer's role changes from manually processing the deal, to exception management. This level of STP may seem futuristic but has already been achieved by at least one organisation trading with FXall.

THE BENEFITS SPEAK FOR THEMSELVES. This article has mainly focused on the varying degrees by which STP can be implemented. What cannot be over-emphasised are the benefits associated with automation, which apply to a greater or lesser degree depending on the level of STP achieved. Perhaps the most important factor is a reduction in manual intervention, leaving users more time to focus on core activities. The user's role has changed from executing and monitoring the whole dealing process, to managing exceptions. In addition, processing costs are reduced through the reduction in both processing time and errors, as re-keying data is either reduced or eliminated completely. Lastly, STP allows an increased level of internal control and a clear audit trail without the associated increase in cost.

Jake Smith is Associate Director, e-Commerce Treasury and Capital Markets, HSBC Bank plc.
jakesmith@hsbc.com
www.markets.hsbc.com

Short steps to big gains

The majority of articles written about straight-through processing (STP) have focused on end-to-end solutions, leaving the reader thinking there is no option but a 'big bang' solution, involving a range of consultants and significant investment. This is not necessarily the case, as an organisation must look at what it wants to achieve before beginning the process. By looking at your own workflow you can evaluate the relative merits of an e-solution, whether this involves research delivery, price discovery, dealing or confirmation. The advantage of taking small steps to STP is that real gains can be demonstrated in relatively short timescales and at a fraction of the cost of full implementation.