AUTOMATION NATION

Treasurers are under pressure to optimise working capital and ensure efficient cash management. Electronic FX trading platforms can help, says Lesley Meall

Automation has revolutionised the role of the treasurer – and what they can potentially achieve. From software that helps you to manage banking and commercial counterparty risk to tools that can automate billing and payment processing, and lower manual intervention. But there may still be occasions when you wish you had an extra pair of hands. "Before I can make an FX transaction, I have to phone at least three bankers," says one treasury assistant, who wishes to remain anonymous. "I often end up simultaneously holding two phones, with a banker at the other end of each one, so that I can be sure I am getting a competitive rate."

This may not be the most efficient approach to FX, but it is not unusual. When the fifth annual StreamBase *FX Trading and Technology Trends* report was recently conducted by software company Tibco, it found that while 80% of FX trading now takes place electronically, corporate treasury is one of the areas where voice trading remains common, particularly during stressed market conditions. Electronic trading platforms can deliver benefits to treasurers, however – whether they are using single-dealer platforms, a multi-dealer platform, combining the two, or using software tools to supplement or optimise some aspects of voice trading.

Each of these approaches has pros and cons, and the benefits that can be delivered are relative. So treasurers need to assess the potential of FX dealer platforms (and the associated software and services) in the context of their particular corporate treasury function and the environment in which it operates. For example, an organisation with a domestically centralised and internationally decentralised treasury function will have different needs and priorities to an organisation with a globally centralised treasury. While an organisation that has already centralised FX dealing will have different needs to one that aspires to this.

Obvious benefits

Yet the benefits of some approaches do appear to be easier to appreciate. The facilities offered by independent multi-bank platforms, such as 360T, Bloomberg FXGO, FXall (owned by Thomson Reuters) and Currenex can make FX much easier for corporate treasurers to automate, to administer and to optimise. A company with five, 10 or 15 banks, and numerous currencies to hedge, is likely to find FX quotes from multiple banks easier to source, compare, execute, document and audit using a single platform that can simultaneously get quotes from multiple banks, than if they attempt to do this using voice or multiple single-dealer systems from various banks.

Bloomberg FXGO, for example, enables corporate treasurers to electronically execute eligible spot, outright, swap, non-deliverable forward, deposit and option transactions with more than 300 global providers – which helps to explain why Volkswagen (VW) in South America selected FXGO as its sole currency trading platform. "It provides our organisation with increased efficiency and agility," says Bernd Schmidt-Liermann, head of regional treasury for VW in South America, where FXGO is being used to manage FX exposure across VW in Argentina, Brazil and other South American VW subsidiaries.

"Bloomberg's system simplifies our pricing process, increases internal and external communications and provides a single, integrated solution for financial information and currency trading," says Schmidt-Liermann. As well as providing transparent pricing and trading solutions, FXGO (and similar independent multi-dealer platforms) can integrate with risk management, order management, treasury applications and back office systems for accounting or enterprise resource planning (ERP). This creates a single platform, improving price discovery, and automating financial transactions and processes, which can all help to reduce operational risk.

The end of voice?

Despite these many potential benefits, it is worth noting that the use of a multi-bank platform does not necessarily mean the end of FX voice trading. Some banking counterparties can be so slow to lock in a deal on a multi-bank platform (particularly for longer-dated trades) that part of the trade gets done the old-fashioned way. When treasurers see an opportunity, they want to lock it in as quickly as possible, but it is not unheard of for a treasurer either to tell the bank in advance what they are planning and then execute this through the multi-bank platform, or to deal with the bank on the phone and then book it using the multi-bank platform.

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For many corporates, multi-bank systems are now so well integrated into their processes and associated software and services that it would take more than an occasional voice trade to persuade them to seriously consider the prospect of switching to multiple single-dealer systems. But over the past year or so, banks have been beefing up their FX electronic trading platforms for corporates, by adding new services and functionality, in a concerted attempt to convince more corporates to consider the move from voice to a single-dealer platform, or from transaction banking to transaction banking plus FX.

In 2013, for example, BNP Paribas launched Centric, a new electronic platform that will give corporate users access to its range of treasury banking products through a single portal. Centric offers a range of front-to-back transaction banking and flow product applications, including cash management, trade finance, FX hedging, and research products and services, which can be tailored to specific client types by allowing users to choose functionality using an 'app store' model. After being launched in Hong Kong and Singapore, Centric is being rolled out across Asia-Pacific and the Middle East, before eventually becoming available in the US and Europe.

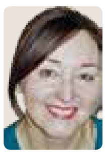
Last year also saw Citi relaunch its corporate FX electronic execution platform CitiFX Pulse. Citi introduced a new interface, which provides access to a new structured options facility and a new version of its exposure management module, enabling users to manage FX remotely, tracking cash flow and balance sheet exposures across subsidiaries. Banks are also taking steps to make the prospect of using multiple single-dealer systems, or using one or more of these to supplement a multi-dealer platform, more appealing. Witness the recent collaboration between Deutsche Bank and the specialist software provider FiREapps.

By partnering with FiREapps, Deutsche Bank has supplemented its FX electronic management suite with software to automate the aggregate FX exposure data and provide analytics. So treasurers can potentially make faster, more informed and cost-effective currency risk management decisions, increase earnings predictability, improve processes and lower costs.

"As a result of the partnership between FiREapps and Deutsche Bank, we were able to fast-track our efforts to increase our ability to understand and manage our FX exposures," reports Frank Sassano, international treasury director at Wyndham Worldwide, a global provider of hospitality products.

This is a step change for Deutsche Bank and FX clients such as Wyndham. Because FiREapps automatically aggregates, harmonises and validates (including correcting misbookings) current and historical balance sheet data from a company's ERP system, it can increase accuracy, cleaning and compiling exposure data, so that treasurers can more accurately assess their exact FX exposure. "This offering has provided us with best-in-class technology and expertise that otherwise would have been difficult for us to incorporate into our plans and budgets," says Sassano, adding: "Wyndham has measured benefits in terms of improved FX hedge scorecard metrics and through a more refined and analytical hedging approach."

There may also be other reasons for treasurers to consider some of the new and improved single-dealer platforms, such as the value they place on banks' pre-execution and post-trade expertise and services, regional banks that can offer better pricing and deeper liquidity on local currencies and instruments than their international competitors, and the particular appeal that an electronic one-stop-shop for multiple services can have for corporates with small hedging programmes. Even so, it may take more than all of this to make single-dealer trading platforms more appealing to corporate treasurers than multi-bank platforms – particularly if they are already up and running and performing well.



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