



Promoting Clarity, Consistency and Automation in Transaction Processing

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Steve joined Clearstream in 2008 working in the Origination / Global Securities Financing Sales team as a sales/relationship manager for triparty collateral management clients. He held previous roles as Regional Sales Manager for SunGard Data Management solutions and as Vice President at Pershing Securities working in a Sales and Relationship role.

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Treasurers in all regions with surplus cash to invest are dealing with diverse regulatory and market challenges, with an extended period of ultra-low interest rates and a variety of recent and pending regulations, such as MiFID II and money market fund (MMF) reform in the United States. As we have established in previous articles (see TMI edition 235 and TMI's SWIFT Corporate Forum 2015-2016) these developments are prompting treasurers to explore a wider spectrum of investments, such as tri-party repos. However, despite - and in some cases because of - the challenging period that we are experiencing, there are also significant opportunities emerging for greater transparency and automation in transaction execution and processing.

The background to online dealing

The value of online dealing of FX transactions, typically through bank-independent portals, has become widely recognised in recent years, with a large proportion (over half according to recent studies) now using these platforms for transaction execution as an alternative to telephone dealing. There are a variety of benefits to this approach from both a decision-making and a straight-through processing (STP) perspective. For example, users have the ability to seek competitive quotes from any number of their authorised dealing counterparties on a transaction, or to request a quote from a single bank. The bank(s) bid for the deal online, and the user then selects the chosen quote, most commonly according to the best price, but other factors such as bank relationships and credit limit utilisation will also play a role. The transaction, together with the unsuccessful quotes, can then

be passed through automatically to the treasury management system (TMS) or enterprise resource planning (ERP) tool, without the need for manual input. The transaction is then subject to treasury's authorised approval and back office workflow processes, and updates risk, accounting and management reports.

The proposition for tri-party repos

As corporate treasurers have become more familiar with online dealing, and adoption has increased, the number of financial counterparties that deal through these platforms, and the range of instruments supported, have increased. For example, FX and interest derivatives, loans and deposits, and MMFs are now widely traded electronically, offering comparable advantages to online dealing of FX. This value proposition also extends to tri-party repos. They can be traded through platforms such as 360T, a recently acquired Deutsche Börse Group sister company of Clearstream.

One of the aims of this acquisition was to provide users with a seamless decision support and STP solution across all instrument classes, including tri-party repos (figure 1). Users of other platforms too, however, including Bloomberg, which facilitates tri-party repo trading on an over-the-counter (OTC) rather than a request for quote basis, are also able to achieve high levels of STP, and we work closely with providers.

Cohesive transaction execution and processing

The ability to trade tri-party repos in the same way as other investment, interest rate and FX transactions, and through the same platforms, is key for treasurers. In particular, they are able to implement standard processes for decision-making, demonstrate price discovery and best-price dealing, and achieve a high level of operational efficiency and control by integrating the platform with the TMS or ERP. From an investment perspective, this enables treasurers to choose investment types based on their policy and suitability from a credit quality, liquidity, and yield perspective, rather than having to take transactional or processing issues into account.

This is particularly timely given that many investors in the United States are reviewing

and seeking to expand their investment portfolios, as a result of MMF reforms that are currently under way. In addition, growing levels of surplus cash and/or ongoing low interest rates in all regions - as despite the recent rate rise in the United States, investment returns are still very low - are encouraging treasurers to review their investment portfolios. In some cases this includes lowering their credit quality thresholds of both direct investment and tri-party repo collateral. This is exacerbated by the effects of Basel III, resulting in overnight and short-term non-operating deposits becoming less attractive to banks. The ability to transact tri-party repos in the same way as other transaction types is therefore very attractive both for domestic instruments but also increasingly for cross-border tri-party repos. These instruments also offer high levels of security as haircuts on cross-currency collateral effectively mitigate risk.

A year ahead

2016 already seems to be passing quickly and in no time, the second Markets in Financial Instruments Directive (MiFID II) will be upon us, which is due to take effect from 3 January 2017. MiFID is the EU legislative framework for investment

intermediaries that provide financial instrument-related services to clients and the organised trading of financial instruments. MiFID II and a new Markets in Financial Instruments Regulation (MiFIR), present wide-ranging changes, including extending existing MiFID transaction reporting obligations to include a wider range of instruments. One of the outcomes for corporate investors is the need for improved pre- and post-trade transparency. Consequently, the ability offered by 360T to seek competitive quotes, and to maintain an audit trail of this information on the winning transaction is a vital capability.

At present, not all banks support online dealing of tri-party repos through 360T and other platforms, but the number is growing as investor awareness increases demand. At Clearstream, we are working closely with our 360T colleagues, and other platform providers, to promote greater choice, consistency and efficiency for clients as they transact tri-party repos as part of an integrated investment strategy. □



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Fig 1. The tri-party repo trading process on 360T with Clearstream's Global Liquidity Hub

