

## MMF Portals - Becoming a Reality in the European Market

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*Corporate cash management has seen vast improvements in global efficiency over the past 15 years, with the growth of the MMF industry in Europe a prime example. This article highlights how MMF portals are playing a role in this growth.*

The rapid growth of the money market fund (MMF) space in Europe over the last five years is a direct result of efficiencies in the marketplace. Increased transparency over cash pools worldwide produced the growth and increased popularity of MMFs with European investors since their inception in the 1990s. MMFs in the US hit an all time high of US\$2.5 trillion in assets in May 2007, while Europe resides at around US\$400bn. The difference is that the US market for money market funds has been fairly stable for years now, while in continental Europe we have seen growth of 300-400% a year for the last three years. The driving factors behind this growth in the European market are:

**Consolidation of the banking market** - Bank mergers are constantly reducing the number of available counterparties forcing corporate treasurers to seek alternative short term liquidity tools over tradition inter bank deposits.

**Investment diversification** - As fund assets grow within the MMF industry, the corporate treasurer can now put a meaningful trade into one of the funds. There are now many funds that hold assets of multiple billions - this means that the scale has become viable to invest a significant amount into each fund. Treasurers can and do invest many billions into MMFs.

**Rating** - With the tightening of credit spreads there is little yield enhancement gained by looking for investments only a few notches down the credit curve, while AAA-rated MMFs offer security and liquidity.

**Reporting efficiencies** - The advent of Sarbanes-Oxley legislation has put greater focus on reporting functionality offered by funds. A direct user of MMFs will receive multiple statements from each of the funds used, which have to be reconciled individually. These reports are often issued in different formats and on different days. Most MMF portals offer consolidated reporting as it provides one statement with all transactions, regardless of the amount of funds used. This report dramatically reduces reconciliation time and allows internal/external audit immediate access to all transaction history in one simple location.

### Developments in the European MMF Market

While MMFs are already utilised by many large European corporate investors for surplus cash management, we expect to see the market in Europe grow significantly in the next five years. Structural and regulatory changes coming into place over the next year could very well push growth to the size of the US market sooner rather than later. At the same time, corporates have realised the importance of utilising excess liquidity and technology, while the treasury management workstation has given a centralised structure with access to cash throughout the enterprise from one location. The need to streamline operations and the need for global transparency allowing a company to integrate processes worldwide will push technology to service this growing arena. In the money fund industry, one such solution is an internet based platform (portal) for the management of cash and utilisation of the growing popularity of the MMF.

**Basel II** - Current legislation is giving legitimacy to the growth of the MMF as a key alternative to the bank deposit. The implementation of the Capital Requirements Directive (CRD) under the Basel II initiative in January 2007 has allowed for an equal playing field between triple-A rated MMFs and interbank deposits within the same credit quality category. Financial institutions may now invest into a regulated space in MMFs and implement them in their current liquidity management process.

**MiFID** - While CRD serves as a first step to recognising the importance of the institutional MMF, the next set of legislation comes from this recognition by the European Commission with the publication of its Markets in Financial Instruments Directive (MiFID). MiFID clearly states the security of the MMF industry, by allowing banks to invest client money into triple-A rated funds, earning a higher return than the traditional bank deposit.

**SEPA** - Next on the agenda for 2008 we will see the implementation of the single euro payments area (SEPA) creating standardisation of electronic payments across borders to where the difference between national and international payments will no longer exist within the eurozone. This initiative will bring lower pricing and greater transparency for payments to corporate treasuries.

### Portals

MMF portals are a standard tool for US corporates who utilise multiple MMFs and this tool is now being accepted throughout the offshore market. Why is this happening now?

#### What is a portal?

While the portal is firmly in place in the US, the need for a similar solution in Europe is obvious. The aim of a portal is to create similar operational efficiency in MMF management as in other areas of corporate treasury. As the growth in assets and the acceptance of use by MMF friendly legislation changes the industry, European cash managers now have the need for the same solution already in place in the US and other areas of treasury. In essence, MMF portals or 'fund supermarkets' offer a simplified way in which to transact with MMFs. However, it is important to establish that not all portals are the same. Currently there are three different types of portals available:

Custodial bank is a service that custody houses offer for clients. They have a limited number of funds, often including their own funds, and sweep cash into a designated list of funds specified by the client. Typically there is a fee associated with this type of automated access.

Investment bank is similar to the custodial sweep, but this service is offered by an investment bank. These platforms do not necessarily require that you have a custodial relationship. It is designed as a convenient point to access multiple funds. In most cases, the investment bank will also offer its own fund family.

Introducing broker, in most cases, independent fund portals use a clearing agent (the independent introducing broker) to allow consolidated payments and reporting. By utilising one clearing agent, these portals can potentially offer one application to access multiple providers. In addition, the fund selection tends to be robust due to the fully disclosed nature of this model.

### **How to choose a portal**

While the portal industry heats up in the US and eventually in Europe, it may seem as though they are all one in the same. However, in the US, major banks have rolled out their own versions of portals. In addition to this, there are independent portal providers who are not affiliated with the banks. So how do you choose which portal to use?

First it is important to identify your requirements. For example, which of the following is most important to you?

- Consolidated reporting.
- Consolidated payments.
- Consolidated application process.
- Selection of funds available.
- Technology one source.
- Full disclosure.

**One application form** - By using a portal which has a clearing agent or custodial relationship, an investor has to complete only one application form regardless of the number of funds utilised. If new funds are added to the portal no further documentation is required by the client to add that new fund. This functionality reduces documentation and management time that is normally required to add or change funds.

**One payment** - Direct users of MMFs must make payments to each fund every time they transact. Portals that offer consolidated payments utilising a custodial bank or a clearing agent can provide the client one set of standard settlement instructions and require one consolidated payment regardless of the amount of transactions on a given day.

**One report** - One of the primary drivers of the evolution of MMF portals is the need for consolidated reporting. The advent of Sarbanes-Oxley has placed greater focus on reporting functionality offered by portals. A direct user of MMFs will receive multiple statements from each of the funds used, which have to be reconciled individually. These reports are often issued in different formats and on different days. Most portals offer consolidated reporting as it provides one statement with all transactions, regardless of the amount of funds used. This report dramatically reduces reconciliation time and allows internal/external audit immediate access to all transaction history in one simple location.

**Fully disclosed** - Many treasurers want to maintain strong ties with their relationship banks. This is often achieved by investing into the banks' MMFs or via short term deposits. Portals that offer full disclosure allow the investor to maintain these relationships, as the bank can see who the investment is from. Some portals do not offer this facility as they operate by creating an omnibus clearing account. This is a critical difference between the various portal models.

### **Market Developments for Portals**

*Comprehensive trading platform offering straight-through processing* - 360T and ICD have formed a strategic partnership to offer joint services in a single-window solution to their customer bases.

*Confirmation matching* - Currently, investors are unable to use payment matching systems but there are market developments underway to address this issue. Once resolved it would allow investors to enter the trade on one system and also have their trade confirmation system confirm that trade therefore removing manual intervention and human error.

*Enhanced funds* - Potentially the biggest evolution for portals, by offering a selection of different enhanced funds would offer a complete short term liquidity tool.

### **Conclusion**

The current growth of the money fund industry coincides with the need for a global strategy for transparency and efficiency in corporate treasury. Alternatives to bank deposits are gaining in popularity as liquidity management takes a new shape with not only regional cash pools, but company wide, worldwide operations are taking their investment criteria to higher levels than we have seen historically. Technology and regulation of MMF investments is making it easier to strategically plan for liquidity within a corporate structure. MMF portals offering worldwide operational efficiency and transparency are the primary tool to utilise this industry. With MMF assets on the rise in Europe and popularity and understanding of the products available, portals can make using these products an efficient way to utilise what is the fastest growing liquidity management tool in the industry.