
Money Market Fund Portals: Evolution of Short-term Cash Management

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Europe's short-term cash management industry has been transformed by money market funds. These products tend to offer competitive returns with a triple-A rated counterparty and same day liquidity. The acceptance of these funds as best practice has resulted in treasurers looking for more effective ways in which to access these funds.

The offshore money market fund industry has continued to develop at a phenomenal pace, with the market fast approaching the US\$500bn mark. In the US, the market is over US\$2 trillion, with institutional funds representing 50% of that number.

Triple-A rated money market funds are now recognised by European institutional investors as 'best practice' for managing short term liquidity for the following reasons:

- Security - Funds have a triple-A rated counterparty.
- Liquidity - Funds offer same day liquidity.
- Yield - Funds generally outperform alternative short term investments.

The offshore funds themselves have become substantial with significant multi-billion dollar offerings from a large range of funds, allowing treasurers to place their entire short end liquidity over a range of funds.

With 60% of European treasurers utilising money market funds, the quest to maximise these funds has never been more important. One solution is money market fund portals.

What are Money Market Fund Portals?

In essence money market fund portals or 'fund supermarkets' offer a simplified way in which to transact with money market funds. However, it is important to establish that not all portals are the same. Currently there are three different types of portals available:

- Custodial bank (CB).
- Investment bank (INV. B).
- Introducing broker (IB).

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.

In most cases, independent fund portals use a clearing agent (the independent introducing broker) to allow consolidated payments and reporting. By utilizing 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 Select a Portal?

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.

Consolidated reporting

One of the primary drivers of the evolution of money market portals is the need for consolidated reporting. The advent of Sarbanes-Oxley legislation has put greater focus on reporting functionality offered by portals. A direct user of money market funds 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.

Consolidated payments

Direct users of money market funds must make payments to each fund every time they transact. The obvious disadvantages of this method are: transaction costs, reconciliation and increased operational risk. Portals that offer consolidated payments utilizing 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. Having the entire universe of funds available will also ensure that the client has the opportunity to maximize their returns.

Consolidated application process

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.

Fund selection

One of the guiding principles of the money market portal business is selection. The larger the selection of funds available, the greater the competition for your business. Typically, independent portals have the advantage, being that they have no allegiance to any particular fund. If truly independent, the portal should constantly seek the best return for the investor, regardless of the name of the fund company. In some cases, custodial and investment bank portals may focus on their own funds first and then offer a selection of other funds for surplus cash.

Technology one source

A significant number of money market funds offer online access for investors. However, a user of multiple funds has multiple log-ins and multiple passwords to gain access to the different systems. Portals can potentially offer one password to all money market fund positions, in one simple format. In addition, many portals offer one source technology - the functionality to download information into various formats such as Word and Excel.

Full disclosure

Many treasurers look to maintain strong relationships with their relationship banks. This is often achieved by investing into the banks' money market funds 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.

Money market fund portals offer benefits for users of money market funds and those about to start using them. They can reduce costs at the transaction, reconciliation and audit stages, as well as helping to reduce operational risk.

The following is a checklist of important items to investigate when making a portal selection:

- Is it independent?
- Does it offer look-through?
- Does it offer consolidated reporting?
- Does it offer consolidated payments?
- Does it have one application form?
- Does it offer straight through processing?
- Does it offer full disclosure of assets?

Market Development with Portals

Portals are client driven and adapt quickly to client demands. The two major developments with portals at the moment are straight-through processing with treasury workstations and enhanced money market funds.

Treasurers are looking at streamlining reporting and payments processes. One of the major developments in recent years has been the facility to utilise STP. Some portals have been quick to embrace this new technology, as they understand the considerable benefits for their clients. By offering an STP solution, a corporate treasury can input the trade into the portals trade system, which automatically interfaces with their own treasury management system (TMS) thus sending out electronic instructions for subscriptions and redemptions. End-of-day synchronicity with the end users TMS will add efficiencies.

Treasurers have quickly adopted money market funds as the instrument in which to manage their overnight to one-month liquidity. In addition, many are beginning to utilise enhanced market market funds to manage their one-month to one-year liquidity. Enhanced funds differ considerably from triple-A-rated same day funds, with the major differences being:

- Accumulating - the majority are not stable net asset value funds but accumulating NAV.
- Weighted average maturity - triple-A-rated same day funds have a maximum WAM of 60 days while enhanced funds can have WAM up to 365 days.
- Liquidity - enhanced funds tend to impose minimum durations on investors unlike same-day funds.
- Credit - Enhanced funds range from triple-A- to A-rated by the major agencies.

Due to these factors, portals have to undergo development to offer the required functionality. 2007 is when investors are likely to see functioning enhanced portals available.