

Wire volumes & collateral calls spike

The COVID-19 treasury aftermath



April 2020

Introduction

In the current environment, rife with economic uncertainty and unprecedented market volatility, it has never been more important for a manager to have a reliable and efficient middle office.

Managers are currently under greater pressure to handle increased trading volumes, collateral calls and cash movements, all whilst their entire operations team is working remotely.

Given managers are experiencing unforeseen operational challenges, The Citco Group Limited and its affiliates (“Citco”) have compiled data on treasury and collateral management to highlight the unique situation managers are currently facing.

It is important to note that failures in any part of a firm’s middle office can have serious implications; for example, being late for a collateral call could mean the difference between whether or not your fund is deemed a credit risk.



Our data insights

Citco's Middle Office Solutions team has been compiling data on both collateral calls and wire volumes and the below statistics, which compare Q4 2019 with Q1 2020, make for some interesting reading.

Data on payments volumes and collateral moves are constituted by all dispatched payments including Letter of Acceptances. Also, all data is drawn from clients using our proprietary systems, AExeo® Collateral and AExeo® Treasury.

FROM OCTOBER 2019 TO THE END OF MARCH 2020

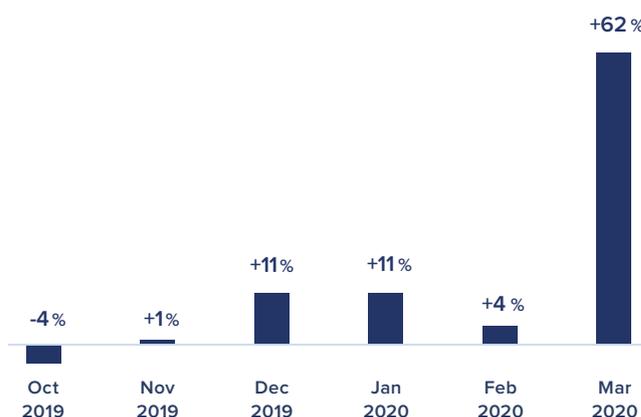


However, the above wire volume figure does not take into account multiple wires that could have been netted, which would increase volumes further.

If we look at the change from February to March of this year, the increase is more clearly pronounced:



COLLATERAL MOVES BY MONTH



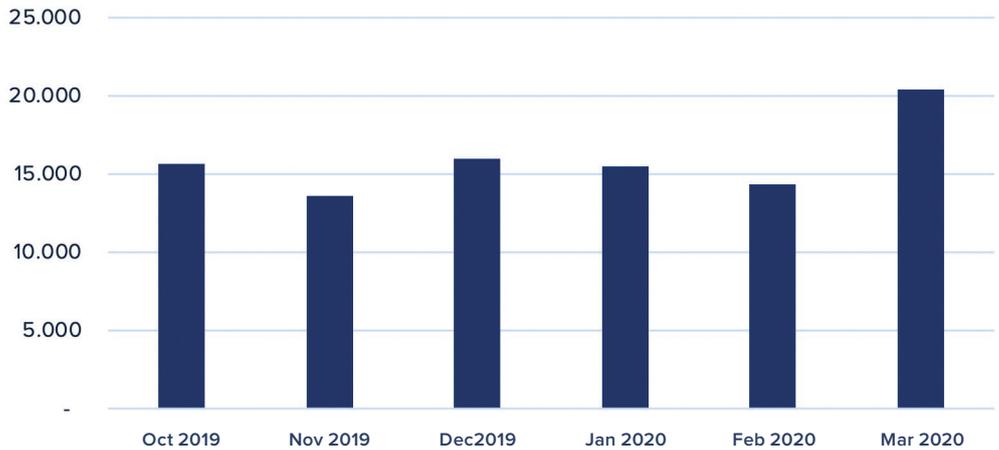
Month-on-month percentage changes to collateral moves

MONTHLY TREASURY VOLUMES

↑ Wire volumes increased by
 ↑ **43%**
 (represents dispatched payments and does not take into consideration netted payments)

March also saw monthly Treasury volumes reach

20,000
 for the first time



DAILY TREASURY VOLUMES, 2020

March 30th was the highest Treasury volume date of 2020 with

1,337
 dispatched payments



Our initial analysis is that the spikes are attributed to an increase in collateral payments in the OTC space. Such increases are indicative of the additional strain on operations teams. This in turn can cause payments on derivatives to be missed, thus allowing counterparties – such as a fund’s Bi-Lateral counterparties – to liquidate trades.

Despite ultimately having the resources to manage an increase in payments, fragmented teams and inefficient workflows can mean payments can be missed, thereby negatively affecting fund returns.

How we can support and improve your Treasury and Collateral Management

Through regular contact with clients and prospects, our team has been discussing the various issues that managers are facing in the middle office because of this challenging work environment.



1. Legacy treasury management requires the use of physical tokens and separate usernames and passwords for all of a firm's different banking portals. A manager's cash management can be severely hindered, with payments halting if any one of these expires while staff are working remotely. We designed our cloud-based *Æxeo*[®] Treasury platform with this in mind, and its functionality allows for streamlined, centralized access for approval of wires, removing the need for tokens, and providing you with clarity on whether funds have been paid and received.



2. In this time of heightened uncertainty, managers are unsurprisingly paying more attention to where they are exposed to counterparty risk; for example, are you on call and need to know if you have excess funds to pull from? With teams working remotely this can be difficult to quickly assess, however our *Æxeo*[®] Collateral platform was designed with this issue in mind. It can provide your team with this information instantly, along with daily management reporting for quick and timely decision-making. We also have a dedicated team for the timely and accurate management of counterparty exposure and daily calls, ready to manage a significant increase in margin movement so that your fund avoids being labelled as a credit risk.



3. Increased trading volumes create the potential for reconciliation issues in the form of an increase in breaks. Our scalability means our team can handle increased volumes and break resolution directly to the street. Our trade matching solution allows for the automation and streamlined matching of trading on T+0, resulting in a decrease in breaks on T+1. We can also help funds by providing daily-dedicated coverage to handle street-facing break resolution and timely settlement of OTC trades and related cash flows.



4. Our collateral management tool is directly integrated into Swift via our treasury platform. Once a collateral movement is agreed to, it flows to treasury for approval and then into Swift – all STP.



In the current climate, it is more important now than ever that operations teams appreciate we are part of a global financial system. In-house teams should be looking to outsource key middle office functions to specialists that have the technology, scalability and expertise to rapidly identify issues and streamline processes to better handle increased activity."

Ryan Fitzgerald, Head of Middle Office Solutions

Overview of Middle Office Solutions

Reduce costs, add scale and minimize operational risk by partnering with Citco and our proprietary technology.



Citco Middle Office Solutions combine our teams' subject matter expertise with leading proprietary technology to help reduce costs, add scale and ultimately minimize operational risks associated with missed control processes.

Middle Office Solutions is comprised of five areas:

- Treasury Management
- Collateral Management
- OTC Settlements
- Trade Matching
- Portfolio Finance

Our holistic offering aims to provide clients with:

- A scalable middle office
- Reduced cost structure
- Easy 'plug and play' offerings
- Best in class proprietary technology
- Headcount efficiency

CONTACT US TO DISCUSS HOW WE CAN FURTHER SUPPORT YOU:

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