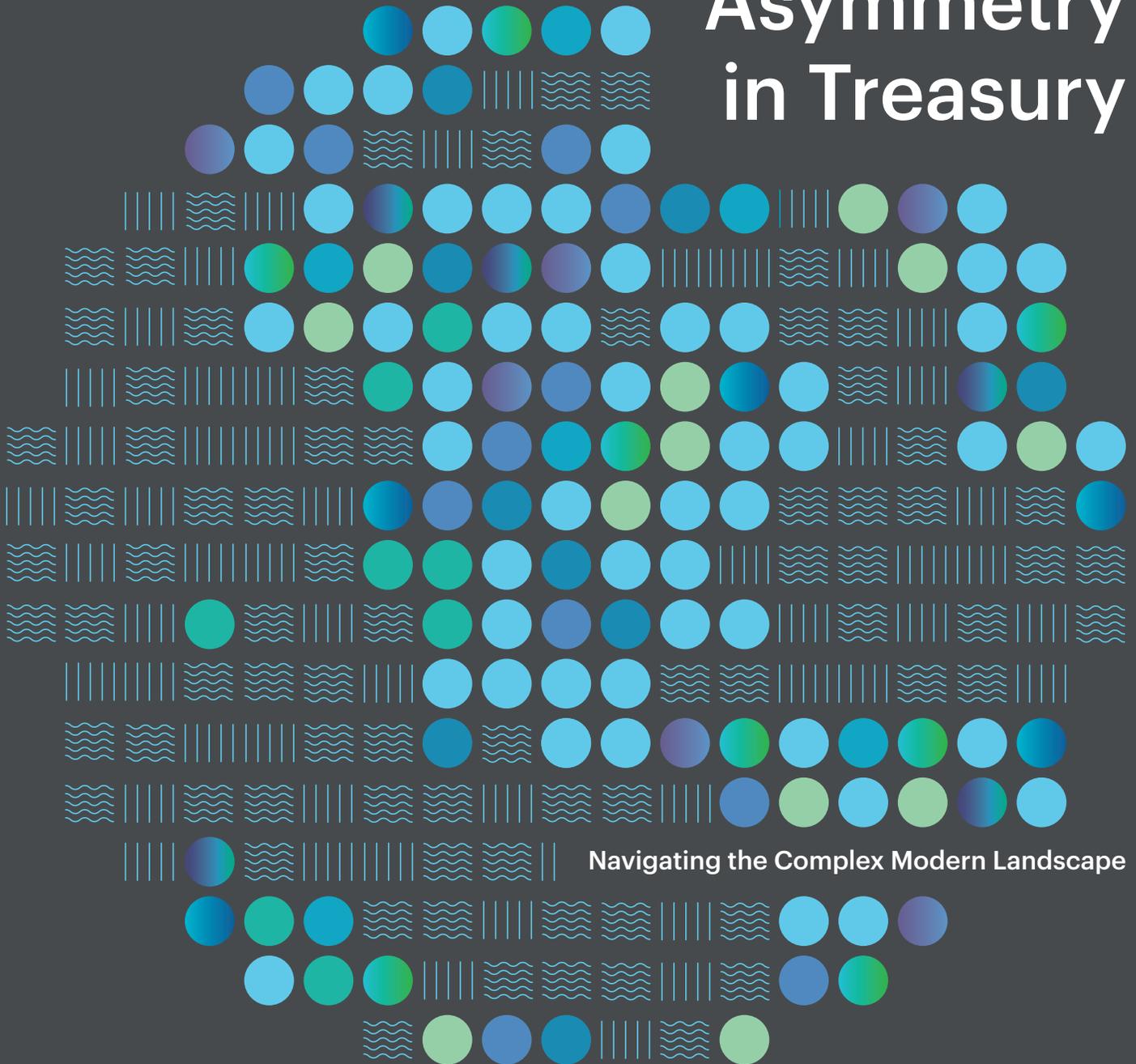


# Eliminating Information Asymmetry in Treasury



# Introduction

This paper provides an in-depth look into some of the more complex challenges that have emerged for Treasurers in recent years:

## Collateral Management

optimizing capital allocation and managing the day to day

## Financing Activities

tracking all variables, identifying inefficiencies, and deploying workflows for optimization

## Counterparty Risk

the impact of a firm's risk appetite on its Treasury strategy

The study assesses some of the specific demands for data and workflow integration capabilities, exploring how Treasurers can improve their technology tools to:



**Create a “house view” that holistically represents all information**, in aggregate, relevant to Treasurers and to the various dimensions of their role



**Reduce the information asymmetry** between Treasurers and their teams, and between funds and their counterparties

The goal of this analysis is to help Treasurers and other portfolio finance professionals gain insight into:



How to more **effectively manage** the requirements of their roles



How technology can enable them to **act more proactively and increase their value** to the firm

# Changing Environments: Firm & Market

## History

While historically Treasury responsibilities were integrated with a firm's Chief Financial Officer and/or Operations department, they now make up increasingly independent roles. Treasurers previously performed mostly reactionary tasks. **Today they are expected to act proactively, both on trade date and T+1, despite the fact that they are working off of legacy technology and relying on data from disparate systems or spreadsheets.** Moreover, the job is no longer solely internal. Treasurers face constant inquiries from investors, due diligence firms, and service providers of various stripes – to name just a few – all while needing to supply information to trading desks, management, operations, and counterparties in rapidly changing markets.

As investment management firms have become increasingly sophisticated and complex, the treasury function has evolved within them. \_\_



### The Treasury Function Then...

Treasury responsibilities integrated across departments, such as finance and operations

Treasury functions to perform mainly reactionary tasks

Treasury operates internally, fielding requests from internal departments

Treasury responsibilities managed across spreadsheets and disparate systems

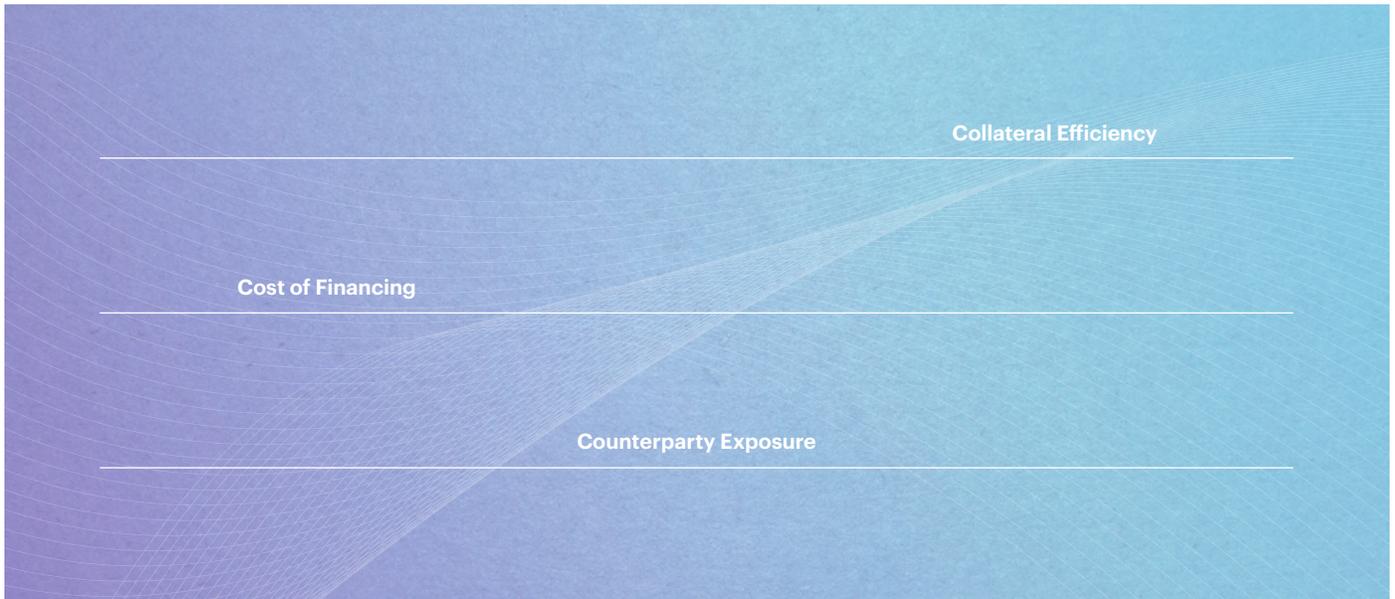
### The Treasury Function Now...

Treasury responsibilities constitute increasingly independent roles

Treasurers expected to act proactively, both on trade date (T) and T+1

Treasurers face constant inquiries from investors, due diligence firms, and service providers. They also need to supply information to trading desks, management, operations, and counterparties in rapidly changing markets

Many Treasurers still rely on these spreadsheets and legacy technology systems despite more advanced solutions



^ ABOVE

Most Treasurers face various mandates that include optimizing collateral performance and abating finance costs, while mitigating counterparty exposure.

## Firms' Changing Strategies

The fund's overall Treasury strategy is subject to the current market climate, the fund's current performance, and its appetite for risk. Most Treasurers face various mandates: to focus on optimizing collateral allocation, to target better financing strategies, to monitor counterparty risk. Others do not follow a strict mandate at all, shifting between priorities as conditions change.

Further adding to the role's demands, Treasurers are increasingly relied upon to ensure stable funding for multi-asset class portfolios, predict capital requirements, and minimize performance drag from inefficient financing or undesired overcollateralization. **The Treasurer's role is now very multifaceted, and in order to juggle multiple priorities at once, they need a consolidated picture of all pertinent data.**

Unfortunately, because they often rely on manual workarounds with limited commercially available software, **Treasurers have an isolated view of information that prevents them from gaining a holistic understanding of their book** and are almost always reliant on stale, incomplete, or inaccurate data.

## Business as Usual

Managing a modern Treasury function can be enormously complex. Treasury strategies need to dynamically incorporate risk and market feedback that will drive changes to the relative importance of collateral efficiency, cost of financing, counterparty exposure limits, stability of funding, and return on assets (ROA) targets.

On a daily basis, Treasurers are concerned with meeting their collateral requirements as well as having a line of sight into ongoing financing activities. In a low-risk environment, a Treasurer may want to consider things like heavy rate renegotiations, more aggressive position transfers, or overcollateralization as a strategy to generate outperformance. Conversely, in volatile market conditions, **a firm's reduced risk appetite may cause the Treasurer to focus more on counterparty risk management, even if that means a potentially higher cost of funding** from tapping alternative funding sources or utilizing segregated margin.



### **Fluctuating Fund Mandates: Need a “House View” Comprised of Independently Calculated Information**

Like their front-office counterparts, Treasurers need reliable, up-to-date information to succeed at their jobs. **Developing better, more actionable data will help Treasurers to enhance their contributions to the firm’s bottom line.** In addition to daily workflows, Treasurers need tools that can accumulate information about ROA and counterparty risk over time, to better manage relationships and perform point-in-time analysis.

**Only as firms place an increased emphasis on creating an independently calculated “house view” of their data can Treasurers begin to recognize the total potential of their function. \_\_**

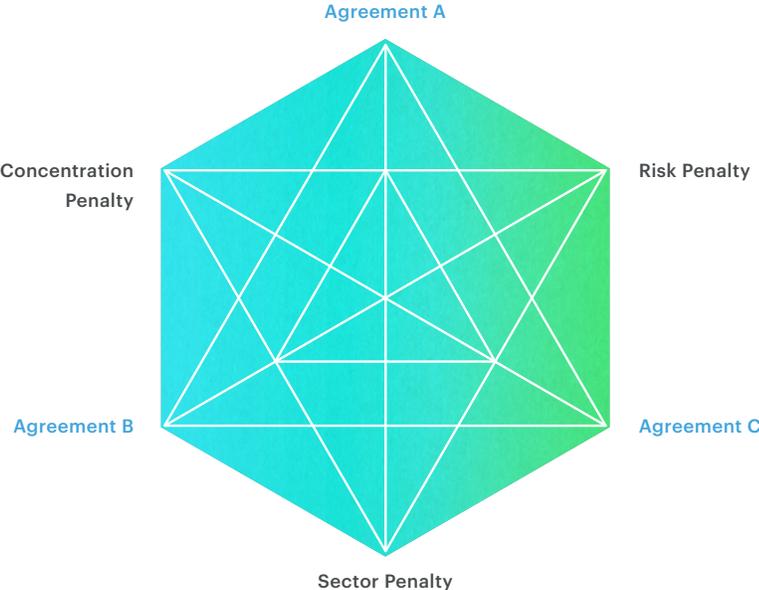
By doing so, Treasurers enhance their day-to-day efficiencies in responding to various stakeholders and to changes in the firm’s investment strategy. **Having this birds-eye view removes the information asymmetry between funds and their counterparties**, and also across the various teams within the fund.

# Collateral & Capital Management

## Today's Challenges and Operating Environment

As investment management firms grow in size and complexity, the increased volume of counterparty agreements further complicates the post-trade lifecycle. The use of spreadsheets or one-size-fits-all point solutions does not function at scale as the primary tools for collateral management. Each new agreement requires additional inputs in order to accurately identify sector- or risk-based penalties, which introduces additional complexities to the daily workflow. These can only be solved with a robust technology solution.

**Forward-looking Treasurers require tools that fully and precisely model the underlying conditions of their counterparty agreements,** incorporating up-to-date third-party reference data and holdings information.



**Creating a house view that uses independent calculations to verify margin, collateral, and multi-currency balances across all counterparties gives Treasurers the ability to dispute and issue margin calls, validate interest payments, manage overcollateralization, and view suboptimal financing. —**

The resulting capital balance can then be deployed to other business activities or trading strategies.



Margin



Collateral



Multi-Currency

## The Importance of Independently Calculated Margins:

### Using a House View to Eliminate Information Asymmetry

By having sophisticated technology tools in place, Treasurers can balance the information asymmetry that exists between themselves and their counterparties. **A “house view” of Treasury data, made up of independently calculated margin and financing values, can empower Treasurers to improve day-to-day capital usage.**

Typically, when faced with a margin call Treasurers have no line of sight into the accuracy of the amount requested. Due to the volume and complexity of the individual agreements, many are left with no way to verify that the broker is correct. Additionally, the number of data inputs required in order to model the broker’s calculation can be cumbersome when trying to manage in spreadsheets.

“A house view of treasury data can empower treasurers to improve day-to-day capital usage.”

**When trading new asset classes, or allocating capital to new strategies or portfolio managers, it is important for Treasurers to have the tools and capabilities to proactively determine when and where additional collateral will be posted.** A first step is to implement the independently calculated house view; this enables Treasurers to make optimal collateral decisions with an understanding of their downstream effects.

In addition to taking control of the daily workflows and being able to respond to new trading activity or market conditions, Treasurers who deploy a house view with complete margin replication can use this information to optimize balances before trade allocation. **By incorporating the margin calculators into the allocation methodology, a Treasurer can reduce the amount of operational work, such as position or cash transfers, that are often used post-trade settlement.**

# Financing

∨ BELOW

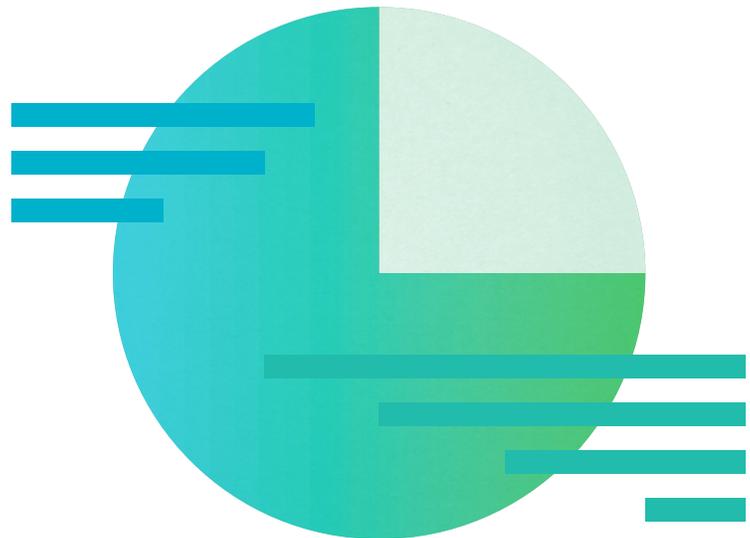
Implementing a technology solution to parse and normalize disparate sources of data allows Treasurers data-driven insights that better support financing strategies.

## Today's Challenges and Operating Environment

The increased complexities and changing information dynamic at investment firms also greatly impact the management of financing activities. Though many firms use manual workflows in spreadsheets in an effort to monitor asset-based financing, optimal financing strategy depends on the quality and breadth of the information available.

Without programmatic access to capture fluctuating rates, ongoing changes to the portfolio, and the complexity of the calculations, **it is a challenge for most Treasurers to identify opportunities for optimization** in these areas. This includes securities lending activities, such as re-rating for borrows, returning excess borrow shares, and identifying opportunities for lending securities. It also encompasses other financing strategies, including identifying better asset-based financing across counterparties and carefully monitoring unsecured cash balances.

In addition, over the long term, Treasurers need tools that can identify outliers or otherwise inefficient terms across agreements as a means to further enhance financing through ongoing relationship discussions and agreement renegotiations.



## Using Technology to Upgrade Decision Making: Aggregating Information into a “House View”

Solutions that seek to model the calculations without taking into consideration the quality of the data inputs will yield unreliable results. **A Treasurer’s tools should utilize validated reference data and security classifications in addition to credible daily rates to provide the most accurate and granular “house view.”** All of these components must be considered in order to have a trustworthy output from the calculations.

Oftentimes, because information on financing comes from various groups within a counterparty, the information will not be organized in a manner that can easily drive decision-making. Implementing a technology solution to parse and normalize these disparate sources of data allows Treasurers to perform an apples-to-apples comparison of information across counterparties. This house view of aggregated, independently validated information permits the Treasurer to access data-driven insights that better support financing strategies.



“Asset-based and securities borrowing financing can fundamentally be at odds with collateral and exposure management.”

## Impact Analysis:

### Balancing Collateral & Financing by Monitoring Downstream Effects

#### The Treasurer's Balancing Act

To add a further layer of complexity, asset-based and securities borrowing financing can fundamentally be at odds with collateral and exposure management. Regardless of whether a Treasury team consists of one person or spans several departments, all parties must work off of the same, comprehensive “house view” in order to understand the full impact of their decisions.

For instance, when optimizing to minimize the absolute value of collateral posted, firms may make concessions in any or all areas of financing, resulting in inefficient asset-based financing charges and potentially unsecured balances. On the other hand, concentrating solely on generating alpha via transferring positions and cash to optimize financing may result in undesired counterparty risk and increased collateral requirements.

#### The Value of Integrated Tools: Simulate Cross-Functional Impacts of a Decision

**Treasurers should be able to use the same replication and simulation tools in order to act on a mandate or organizational shift, and should have a line of sight into the flow-through impact of their respective decisions.** Simply modeling for either collateral or financing does not provide a complete picture and may result in undesirable downstream impacts. Teams must have the tools to model potential future changes to the business, which can include anything from trading a new asset class to adapting to a broader market shift.

#### Introducing Risk Appetite as a Variable

When it comes to counterparty risk management, the Treasurer's responsibility is to oversee exposure across counterparties. In order to do so, Treasurers must have a holistic view that shows how their counterparty agreements and underlying penalties impact collateral requirements across all counterparties. Within that view, they can see at a granular level which funds, strategies, or portfolio managers are driving changes in collateral or financing requirements. **Robust technology solutions take counterparty risk management one step further, allowing Treasurers to simulate the impact of a position transfer or the renegotiation of an agreement condition before taking action.**

## “Eyeballing” is Neither Sufficient nor Accurate

Tracking the relationships between collateral, financing, and counterparty risk management is a highly complex endeavor that cannot simply be “eyeballed,” and accuracy is imperative for a truly optimized Treasury strategy. Independent, carefully integrated systems are a necessity in order for funds to build the case when handling disputes, highlighting discrepancies, and ultimately renegotiating terms in their agreements. **An independent calculation enables the Treasurer to “trust but verify,” helping to balance out the information asymmetry that often exists between funds and their counterparties.**

With a house view, Treasurers are able to address the counterparty risk element of their responsibilities. This information provides them the operational tools to spread their positions across multiple institutions, utilize segregated margin, or, in more extreme cases, purchase credit default swap (CDS) protection against their counterparties.

## Goal Result

### Better Positioned to Manage your Counterparty Relationships

Having a complete view of a fund’s ROA levels the playing field in conversations between funds and their counterparties by removing the information asymmetry that has traditionally existed between the two. A complete house view must include implicit and explicit commission tracking, financing across all types of agreements, soft dollar tracking, and monitoring of other prime brokerage, trading, or custody services. Typically, the counterparty monitors the fund’s ROA and compares it to that of peer institutions in order to initiate rate renegotiations. Once a fund gains a better grasp on how much revenue it generates for a given counterparty, this information can be used in negotiations for lower rates or discounts on other services. Not only do funds enter each discussion from a more empowered position, but they also improve their overall ability to negotiate across all of their counterparties.

## Conclusion

Treasury at investment management firms has undergone a significant transformation. Broadly, the role has moved from largely reactive responsibilities across different departments to a more proactive purpose managed by a true Treasurer. **Individuals in this role are now expected to provide input across a wide range of spectra, and with today’s ever-increasing abundance of information, their decisions and recommendations have never needed to be more accurate.** Most significantly, Treasurers can meaningfully contribute to their fund’s bottom line, but only if they are properly equipped with the necessary tools.

**With the right technology, Treasurers can develop a comprehensive house view of their data and use that information to act more proactively in responding to stakeholders, their counterparties, and future market changes. \_\_**

**Regardless of the operating environment or the strategy being mandated by their firm, the key to success is to improve decision-making by reducing information asymmetry between firms and their counterparties.** With a house view, a Treasurer’s operations can be enhanced in two ways. The first, managing and maintaining data on collateral, exposure, and financing in the same place, enables the Treasurer to make better day-to-day capital usage decisions as a result of the improved understanding of information. The second, further optimizing through simulations of changes to agreement terms, **enables Treasurers to better understand their financial relationship with their counterparties and therefore make better decisions regarding the overall Treasury strategy.** With the right technology, Treasurers can develop a comprehensive “house view” of their data and use that information to act more proactively in responding to stakeholders, their counterparties, and future market changes. ✕

# About Arcesium

Arcesium provides comprehensive and fully integrated technology products and solutions designed to solve the most complex post-trade challenges of asset managers. From our offices in New York City and Hyderabad, India, our experienced professionals help give clients a head start on their daily processes, completing typical deliverables before markets open in all major geographies.

Arcesium's Treasury Suite is the most advanced toolkit available for Treasurers and Portfolio Finance professionals to make optimal funding and collateral allocation decisions. We create an imperative "house view" of complex margin and financing agreements to effectively manage exposure and funding sources, supervise counterparties, and evaluate yield enhancement opportunities.

**To find out more about how your business can build a house view with Arcesium, visit us at [arcesium.com/treasurysuite](https://arcesium.com/treasurysuite) and request a demo. [\\_\\_](#)**



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