

Comparing and Contrasting Online Money Market Trading Portals

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Picking the right money market trading portal can help leverage existing resources and add value for corporates. What factors should you take into account when selecting a portal?

Most treasury departments are aware of money market portals. Many incorrectly assume that all portals are the same. Some portals that appear to be robust at first glance are not as robust when you learn what is happening behind the scenes. It is helpful to outline some of the differences and commonalities in order to determine the right portal for your institution. There are two primary classifications of portals: single vendor and multi vendor.

Single Vendor Portals

Single vendor portals offer one bank's proprietary fund products and are typically offered by the asset management division of large banks. These portals tend to only offer money funds and some of them offer both domestic and offshore products.

Some of these portals make available limited offerings of commercial paper and some also have a foreign exchange component that is typically a hyperlink to a separate foreign exchange portal.

The typical user of these portals tends to be a middle market company who is truly tied to their primary bank, usually has a limited amount of cash and has a very small treasury department. Client's primary contact tends to be their banker but someone from the asset management side of the bank is usually available and eager to help.

Multi Vendor Portals

Multi vendor portals offer money fund products from multiple asset managers. These portals are offered by many types of providers including the cash management division of a bank, asset managers, bank capital market desks and a few independent providers.

Multi vendor portals offered by the cash management division of a bank tend to offer investments in money funds as just one of the many cash management functions available. In this case, the client is typically required to have their D.D.A. with that bank. Client's primary contact for a cash management portal tends to have a treasury services background.

The portals offered by asset managers tend to lead with their proprietary products but enable clients to access third-party funds at their request. Client's primary contact typically has an asset management background.

Portals from capital markets desks tend to offer a wide variety of securities and the money funds are simply one of the securities offered on the portal. Client's primary contact for a capital markets portal tends to be a trader on the desk.

Independent portal providers tend to focus on asset management products, are not tied to any one bank and are typically transparent across all banks. Client's primary contact for an independent portal tends to have an asset management background with a few having technology backgrounds. Portals can offer multiple ways for the client to interface with their asset manager. This affects how the portal interfaces with the fund providers.

Direct Interface

The direct method is one way for portals to deal with fund providers. In this example, the account is maintained by the fund company and the portal is often simply an electronic conduit for entering trade instructions and receiving transaction history.

The client must complete an application with each fund directly and receives statements from each fund. If the client makes changes to their account they typically must provide these instructions to each of their fund providers directly.

Trading cut-offs are typically closer to, or nearly the same as, actual fund deadlines. The client sends separate wires to each of the funds and receives separate wires from each manager for redemptions and dividends that are paid out. These portals may interface well with the client's treasury workstation.

Omnibus Interface

The majority of portals appear to have an omnibus relationship with the fund providers available on the portal. In such a relationship, all of the accounts are maintained by the portal. The client only completes one application, and provides one notice to make account changes, across all funds. Clients receive one consolidated statement across all funds.

Portal trading cut-offs are typically one hour or less before the fund's trading cut-off. In addition to online trading some hybrid portals allow telephone trading, on a best-efforts basis, until the fund's stated deadline. Portal clients only send one wire to their portal provider to transact across multiple funds. The portal then sends one omnibus trade to each asset manager representing the underlying transactions of all of the portal's clients.

The funds are not always provided information identifying the underlying portal clients but most provide this information in an Excel file upon request or on a monthly basis. Be sure to ask your portal provider about how their method of transparency works.

Some omnibus portals can enable the client to upload their portal trading data into their treasury workstation and have the ability provide straight-through processing (STP).

Hybrid Interface

A third interface between the client and their fund provider is a hybrid method of the omnibus and direct models. This method primarily acts as an omnibus portal but offers some of the capabilities of direct portals. For example, the portal maintains the records of all underlying client accounts.

Hybrid portals have the ability to provide shareholder positions to the funds on a daily basis in a file that can be imported into the bank's internal reporting systems.

Hybrid portals can shorten the difference between the fund's trading deadline and the portal trading deadline to half an hour or less. Some hybrid portals allow telephone trading, on a best-efforts basis, until the fund's stated deadline.

Some hybrid portals enable the client to upload their portal trading data into their treasury workstation manually and can provide STP.

Common Services

Portals should offer a high level of security with password protection, which all of them are likely to have today. Some portals offer multiple levels of security with security image and pass phrase or security answers. Don't assume every portal offers the same level of security. Make sure to ask the portal provider to talk about their security procedures.

Most portals offer varying levels of control with the ability to enable the global treasurer access to information across all underlying accounts while having the ability to limit regional treasurers to view the account for their region only. View-only access for auditors and accounting departments should be a minimum capability of all portals. Remember to ask your portal provider if they can provide a SAS 70 during an audit period.

Today, portals typically enable clients to view current portfolio characteristics such as yield, size of fund and ratings on a daily basis. Not all portals provide this information as seamlessly and clearly as others so it is important to investigate the complete offering before you buy. It is becoming common for portals to show a comparable 360-day yield so clients can see if it may make more sense for them to buy direct securities such as commercial paper.

Portals should also have updated fund material available such as prospectuses, statements of additional information and annual reports. Having this information at your fingertips really comes in handy during audit time. Be sure your portal provider has a direct feed of this data from the asset manager to ensure the most recent material is available. Be sure to read each fund's prospectus and research the specific fund you are considering before you invest even though it may be easy to just point, click and trade without doing the necessary due diligence.

Reporting and statements seem to be something you could safely assume was consistent across all portals but that is not necessarily the case. Some portals just list simple transaction history and provide trade confirmations. The most robust portals offer clients the ability to customise their reporting based on time frames that include information on accumulated dividends. You should ensure your portal has the ability to sort the data by each fund provider, not just group all transactions together. If you are a multinational institution, having the ability to adjust your reports and statements to reflect your local currency is a huge time saver.

Treasury departments are lean. As treasury professionals wear several hats and have limited time to spend on any one aspect of their daily duties they should really investigate the differences between each portal to determine how their decision today can impact them in the future. For example, finding the time to complete an account application is something treasury professionals have to factor into their decision.

- Omnibus portals enable the clients to complete just one application across funds. This also results in a consolidated statement.
- Direct portals require the completion of a separate application for each fund company.
- Capital market's portals or treasury service's portals usually require the client to have a credit review or an existing bank account with that bank so more paperwork may be involved.
- Hybrid portals enable clients that switch from a direct relationship to a portal relationship to keep the same account numbers.

Today, some portals offer access to other products and services that can really add value and save your organisation time and money. Be sure to find out if there are additional charges for any of these functions as many of the fees can be hidden in related cash management, custody fees or required compensating balances.

White papers enable the client to stay up on recent industry trends and events and provide the portal client with the ability to access this information when they want to see it; not only when their bank or asset manager decides to send it to them.

Analytics has emerged as a real hot-topic among many institutions due to today's more stringent environment of control and reporting. Some portals couple their offering with analytics that incorporate all of the clients investments, including but not limited to their money funds holdings and investments in direct securities such as commercial paper and bank repurchase agreements along with segregated accounts outsourced to asset managers. Not all analytics are created equal, so make sure to find out if your analytics focus more on accounting or risk.

Adding Other Trading Abilities

Other trading abilities may be essential to your organisation. As operations and money movement continues to grow globally, markets and their products need to be accessible. As always, clients are always looking for ways to maximise their return whenever practicable.

More portals today are moving to offer offshore money funds. Just because these funds are available doesn't mean they are right for your firm. Make sure you check with your tax and legal advisors before you make an investment.

Enhanced cash products seem to be more of a hot topic today. They can be an effective tool when used appropriately for organisations that can afford to take on the added risk in credit and duration. These products are not money funds and should not be traded as such. Investors that remember what happened with adjustable rate mortgage (ARM) funds in the 1990s especially know that it is important to understand the risk associated with every reward.

Direct securities can be another way for clients to find value in the markets if they have sufficient resources to research, trade and account for their holdings. Some smaller institutions think they are outperforming money funds but after wiring charges and other opportunity costs, they may be spinning their wheels unnecessarily and taking on undue risk. In a rising rate environment especially, a sophisticated investor may be able to find some real opportunities.

Bank deposit products may provide clients with operational efficiencies and provide some excess return. Take the time to ask about associated fees and potential risks of limited liquidity, underlying credit quality or diversification.

Foreign exchange capabilities linked with portals seems to be an emerging concept but does not seem to be too high in demand at this point. Stay tuned for developments in this arena.