

Misys Confirmation Matching Service

Tesco



Tesco adopts Misys Confirmation Matching Service to boost STP and reduce risk on corporate treasury transactions

Tesco

Tesco is one of the world's leading international retailers. Since the company first used the trading name of Tesco, in the mid 1920s, the group has expanded into different formats, markets and retailing sectors. Tesco has a long term strategy for growth, based on four key parts: growth in the core UK business; to expand by growing internationally; to be as strong in non-food as in food; and to follow customers into new retailing services.

In 2007, Tesco PLC moved to increase STP and boost risk management in its corporate treasury by upgrading its core treasury management system and implementing a number of best of breed solutions for general ledger, payments and settlements along with a host of other tasks. Included within this wider initiative, the organization also sought an innovative automatic confirmation matching process for its foreign exchange, fixed deposits, and money market funds trades with a view to rolling it out across all traded asset classes.

Objectives to streamline processes

“There were a number of drivers for change,” explains Adam Boukadida, Treasury Systems Manager at Tesco Plc. “Increasingly people were getting pulled into manual approvals, we wanted to increase trade numbers and there was a challenge to increase automation to lessen the risks in the system. We looked at all our systems and processes and decided we wanted to create an ‘in-house bank’ whereby we could be totally self-sufficient at cash management, treasury trading and confirmation matching. We are now working towards making this a goal a reality.”

The main aim of the project was to streamline processes to make the department more efficient. Such was the level of systems renewal and growing corporate activity, the team was aware that more approvals would be created along the lifecycle of a trade after the project was completed, but the Tesco team maintained an aim to mitigate this by improving automation through the implementation of best of breed systems.

“We basically want to manage by exception’ so fewer transactions need the attention of our people,” Boukadida highlights.

Reducing labour inputs for trade confirmation matching would also enable staff in the office to focus more on their key domains and spend less time on administrative tasks checking bank deal details are in compliance with Tesco’s own trade information.

Ultimately, the project needed to deliver not only a significant increase in straight-through-processing (STP), but also a technology base to scale up operations in the future. The project represented an evolution of the treasury department rather than a revolution and ultimately, systems change was seen as a means to streamline processes.

Summary

Tesco is the leading supermarket in Great Britain. Following an evaluation of its corporate treasury in 2007, the retailer took a strategic decision to change systems and streamline processes to maximise returns from financial trades. This involved utilising Misys Confirmation Matching Service to boost STP and improve ways of working.

Website

www.tescocorporate.com

Business situation

- + Increasing amounts of long form confirmations
- + Desire to electronically trade and confirm non-vanilla instruments including money market funds and FRAs.
- + Increasing number of manual approvals
- + Growing volumes of trades
- + Need to reduce operational risk

Project objectives

- + Leverage system change to streamline processes
- + Create an ‘in-house bank’ for trading financial instruments
- + Reduce labour inputs for trade confirmation matching
- + Significantly increase STP rates
- + Move towards a ‘paperless office’

Solutions & Services

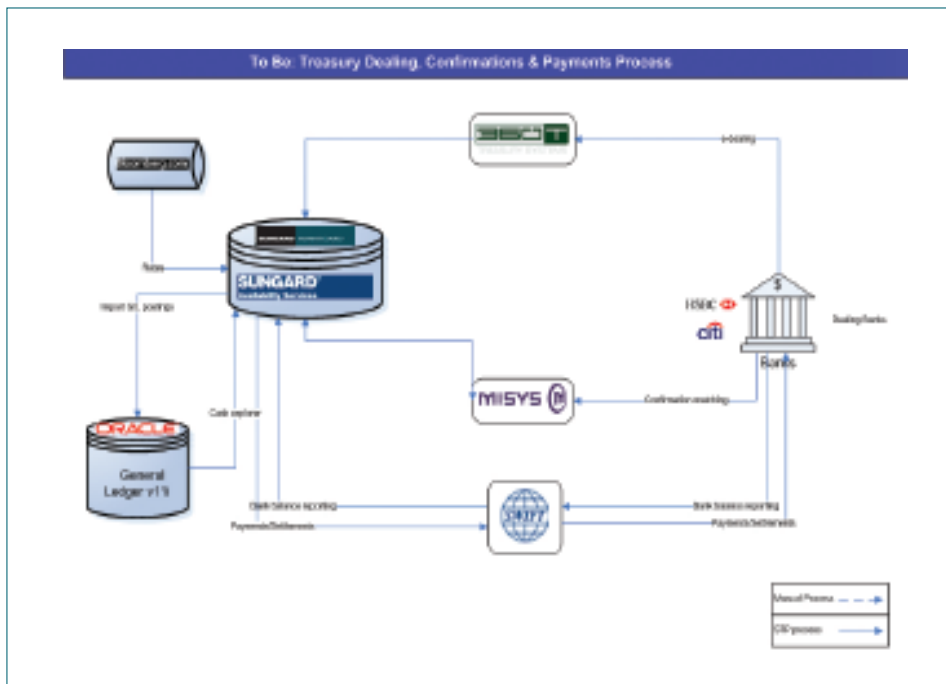
Misys Confirmation Matching Service.

Key benefits

- + Large efficiency and risk improvements
- + 80% increase in no. of trades electronically confirmed
- + Diversified asset class mix and usage
- + Scalability – no. of trades to double from 40 to 80 per day
- + STP rates from 50% to 100%
- + Enables management by exception
- + All deals automatically confirmed in less than 2 hours

“Re-engineering our entire treasury process within Tesco was a major undertaking, and we view confirmation matching as an integral part of the end to end process and key in managing operational risk.”

Adam Boukadida, Treasury Systems Manager at Tesco



Implementing best of breed solutions

After upgrading its core treasury management system, Tesco chose to integrate this with Misys Confirmation Matching Service (CMS), in order to speed up the confirmations between Tesco and its various bank counterparties.

Figure 1 shows the process created by Tesco to enable it to maximise returns from its corporate treasury activity.

Tesco sought to implement best breed systems and services for its processes around pre-trade, trade execution, confirmation matching, payments, and accounting. The challenge was to ensure that there was smooth integration between each of the processes and the diagram above illustrates how through a series of key interfaces, Tesco have completely closed the loop on the end to end process.

Once a trade has been electronically executed, details of the trade are automatically fed to the treasury management system. From here the treasury management system creates a file of trade confirmation data which Misys CMS is able to collect and deliver directly into its database via a secure file transfer mechanism. Misys CMS receives the bank counterparty's trade confirmation via the SWIFT network, and performs real-time matching of the corresponding trades. Misys then automatically generates a message evidencing that the trade is matched, and delivers this via secure file transfer back to the treasury management system. From here, the necessary payments and accounting entries are created, thus completing the cycle.

Misys CMS is the industry's leading post-trade services solution operated on a Software-as-a-Service platform. It offers confirmation matching, netting, custodial confirmations and continuous link settlement (CLS) enabling and standing

settlement instruction notification and databases. Across the industry, Misys CMS handles over \$125 billion in trade confirmations every day and in the past 12 months has completed over 6 million trade confirmations alone.

Quantifiable benefits

Tesco Plc went live with Misys CMS in December 2007 and, after a fast implementation of around 4 weeks, immediately began matching their foreign exchange and time deposit trades. The company has seen large efficiency gains and significant improvements in operational risk. Boukadida says, “the number of trades confirmed electronically has risen by 80% so we're very happy. We're now looking to push this as close to 100% as possible.”

In the first six months since implementation, Tesco has already matched over 2,000 trades through Misys CMS. By leveraging the scalability of the system, they plan to double the number of trades per day from 40 to 80. Tesco also started trading money funds electronically through the TEX platform from 360T and Institutional Cash Distributors (ICD), and is now automatically confirming these through Misys CMS to enable full end to end automation. By integrating their trading platforms, treasury management system, and Misys CMS, the organisation has realised significant benefits by increasing straight through processing (STP) rates from 50% to practically 100%.

“We've got a broader asset class mix now and there's real scalability in the system so when we add more instrument types in future, we'll be able to integrate them seamlessly into the system. With foreign exchange and time deposits live from day one, we are now live on Misys CMS for money market funds, and we hope to extend the use of Misys CMS for Forward Rate Agreements (FRAs) and Interest Rate Swaps in the very near future,” Boukadida explains.

"Misys CMS was able to demonstrate its broad asset class coverage, and full two-way integration with our treasury management system."

*Adam Boukadida,
Treasury Systems Manager at Tesco Plc*

Scalability is a key word here; Tesco will soon be processing all treasury transactions across the business through its London head office. Significantly, its Singapore operation is currently restricted to trading with a sole bank, and does not enjoy the integration and STP levels that head office has achieved. It is planned for Singapore to move to a multi-bank trading process, thus creating price tension, and higher profitability, with the trades being covered by head office through a back-to-back process. All such trades would also be included in the automatic electronic confirmation process through Misys CMS.

Finally, Boukadida highlights the strong improvement in settlement times with almost all deals automatically confirmed in less than two hours unless there is a rule break or 'exception'.

Boukadida says, "Re-engineering our entire treasury process within Tesco was a major undertaking, and we view confirmation matching as an integral part of the end to end process and key in managing operational risk. Our previous confirmation matching system offered limited instrument coverage and did not fully integrate with our treasury management system. Misys CMS was able to demonstrate its broad asset class coverage, and full two-way integration with our treasury management system."

Neil Macro, Head of Sales, Misys Global Managed Services, comments, "Tesco needed an immediate, scalable, integrated solution for its core vanilla products which we were able to provide. Key however, was the ability to offer a robust and automated means of matching non-vanilla products in the OTC derivatives space, which Misys CMS is able to facilitate. In an environment where risk reduction through post-trade confirmation and automation is paramount, Misys is proud offer it's multi-bank, cross-asset class, industry leading solution."

For more information on
Misys Confirmation Matching
Service, please visit:
www.misys.com

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