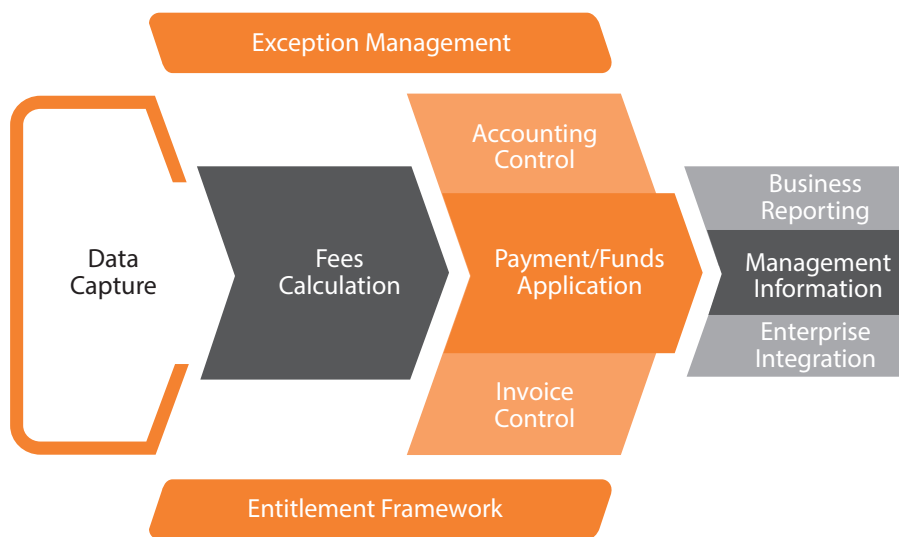


TLM[®] Fees and Expense Management

Cost management strategies and savings through accounting and invoice control



End-to-end automation of the complete expense lifecycle

Executive summary

The financial service community incurs a multi-billion spend on variable expenses and the impact on profitability is significant. The improved understanding, measurement and optimisation of how transaction fees are incurred offers an opportunity to realise considerable savings. Each firm's ability to recognise and achieve this savings potential is restricted by the completeness and accuracy of the information it uses to substantiate spend analysis.

SmartStream's TLM Fees and Expense Management solution has been developed to address the need to drive savings to the bottom line and to enhance profitability.

Supported by best-of-breed technology, TLM Fees and Expense Management allows firms to strategically manage their variable expenses. It does so by using an end-to-end automated process, capable of substantiating variable expenses accurately across high volumes of transactional information and apportioning fees exactly. The solution supports:

- ▶ Variable expense reduction
- ▶ Business and client profitability
- ▶ Dynamic service pricing
- ▶ Automated accounting
- ▶ Operational efficiency

The business challenge

The financial services industry is placing an increased focus upon controlling variable expenses. Brokerage, clearing, execution, custody, settlement, transaction taxes and regulatory fees represent a significant expense for capital markets businesses. Scrutiny of how fees are constituted is being driven by regulators, while businesses are constrained by stringent capital requirements, diminishing transaction volumes, declining margins and competition for market share. Maintaining or increasing profitability for these businesses requires a deeper analysis of how trades are transacted and costs are incurred. Utilisation of third party transaction services must now be considered not only in the context of best execution and quality but also alongside expense efficiency and cost control. These new factors have significantly influenced how client relationships are assessed by transaction service providers as client profitability supersedes revenue as the key metric of client value.

Realising the required level of cost substantiation and transparency is founded on effective governance throughout the expense lifecycle. The industry as a whole is limited by incomplete and manual processing which produces inconsistent and untimely information. Attaining data-driven decision-making to enact cost management strategies and realise savings across variable expenses is predicated upon an end-to-end and automated process. This process will independently verify fee calculations, facilitate accounting precision and substantiate invoicing using a proactively maintained repository of rate information.

TLM Fees & Expense Management

SmartStream's TLM Fees and Expense Management solution facilitates the understanding, measurement and optimisation of transaction fees. It does this through the production and adoption of industry standards to categorise and calculate fees, as well as through the use of best practice. This approach makes accessible to any institution clear and transparent transactional data which can be used to develop cost efficiencies across variable expense categories.

There is comprehensive coverage of all asset classes and fee types to support fees and expense services:

Asset classes

- ▶ Normalisation of asset class and product definitions.
- ▶ Identify the key cost drivers for each asset class including regional characteristics and business line specifics.
- ▶ Associate all variable fee types related to each asset class and cost driver.

Fee types

- ▶ Replicate fee structures for all major variable fee types.
- ▶ Apply and maintain individual provider variances from fee type standards.
- ▶ Incorporate all cost drivers into fee calculations as specified in individual fee schedules.
- ▶ Normalisation and management of entity information.
- ▶ Apply multiple fee types to each transactional record.
- ▶ Extensible technology framework to support minor fee categories including colocation, market data, port fees, subscriptions and other fees which can be found on vendor invoices.

Expense services

- ▶ Standard Operating Procedures (SOPs) defined across a common technology platform, logic set and operations team to support the complete expense lifecycle.
- ▶ Process of continuous improvement to keep pace with multilateral market changes and bilateral individual agreements.

TLM Fees and Expense Management is supported by best-of-breed technology, as well as industry defined processing and calculation logic. It also benefits from a global operations team that runs standardised processes, incorporating provider and client defined service parameters. This blend of resources produces a level of service which allows firms to strategically manage their variable expenses. It does so by using an end-to-end automated process to include:

- ▶ A centralised repository to capture, control and support the maintenance of all fee structures, transactions and reference data necessary to augment and process variable expenses.
- ▶ A robust and highly scalable calculation engine to independently compute any complexity of variable expenses including discounts, caps/floors and tiers, in order to create an enriched, fully attributed and priced transaction record.
- ▶ The ability to independently capture, generate and verify invoices at transaction, line item or summary level. Automatically relieve accruals and book adjustments to the general ledger.
- ▶ An expense line control sub-ledger system which manages accounting for high volume, high value expenses through automated accrual generation, expense allocation and general ledger postings.
- ▶ The verification and authorisation of payment processing from invoices marked 'good to pay'. Automate the generation of payment details and SWIFT instructions to manage direct debits and postings. Control the ageing of cases through the payment process.
- ▶ Business intelligence and reporting, facilitated through a global rate repository, holding historical expense data at the transactional and summary level. Standard reporting captures various cost and volume dimensions to support canned and ad hoc reports, facilitating expense analysis.

Key benefits

Variable expense reduction

Generate granular information necessary to populate vendor optimisation scenarios and to provide the expense transparency to influence behaviour. Trade flows can be directed to the best priced venues, pricing discounts can be fully realised and rebates for liquidity provision can be maximised. Brokerage agreements can also be enhanced through renegotiation of rates to extract the full benefit of volumes with assurance the agreements are accurately applied.

Assess business and client profitability

Tune business performance and achieve scalability through meaningful trade cost analysis. Validate and enrich erroneous and sparse information to make unstructured data usable. Assess revenue inflows in conjunction with fixed and variable costs at the trader, desk, business unit or client level to attain a true understanding of profitability and net contribution, activity impacts the bottom line.

Enable dynamic service pricing

Achieve competitive and sustainable rates against confirmed client activity for cost plus pricing. Offer these to customers or enter into complex pricing agreements that maximise financial benefits through volume tiers, enterprise discounts, incentive structures or rebates.

Automated accounting

Allow expense controllers to allocate fixed and variable costs to businesses that are internally calculated and automatically accrued against trading activity for each period based on actual service utilisation. Maintain a complete expense line sub-ledger to provide transparency, track adjustments, establish control and maintain auditable processes.

Operational efficiency

Apply best practices to fees processing and accounting control functions through centralised processing across all major asset classes, fee types and service providers. Achieve high productivity and improved controls while reducing the labour costs associated with customer billing, postings and adjustments, as well as invoice management, funds application and payments.

About SmartStream

SmartStream provides Transaction Lifecycle Management (TLM®) solutions and Managed Services to dramatically transform the middle and back-office operations of financial institutions. Over 1,500 clients, including more than 70 of the World's top 100 banks, 8 of the top 10 asset managers, and 8 of the top 10 custodians rely on SmartStream's solutions.

SmartStream delivers greater efficiency, automation and control to critical post trade operations including: Reference Data Operations, Trade Process Management, Confirmations and

Reconciliation Management, Corporate Actions Processing, Fees and Expense Management, Collateral Management, Cash & Liquidity Management and Compliance Solutions. Used independently or as a suite of solutions and services, clients gain a lower cost-per-transaction whilst reducing operational risk, aiding compliance and improving customer service levels.

For more information about SmartStream visit:
smartstream-stp.com