ABSOLUTE TREASURY

Flaws of Best Practices

Adhering to “Best Practices” allows managers to focus on more significant and relevant issues than incremental operational efficiency. Unfortunately, Best Practices hide the following:

Opportunity cost
Exposure to unnecessary risks
Innovation

What works for many – defining Best Practices – does not work for all, especially in dynamic and fluid environments where markets are evolving quickly. Each individual circumstance has its own characteristics with nuances that, when properly accounted for, can lead to significant gains relative to generically applied Best Practices.

> For example, one sophisticated financial institution hedged their currency exposures according to Best Practices from operational and accounting perspective – each currency independently and robotically on a quarterly basis. After the change to treating currencies as a portfolio instead of individually, the firm realized gains well in excess of tens of millions of dollars annually.

Complacency is the enemy of progress. Best Practices are updated and adopted too slowly, which is truer now as the speed of change is accelerating.

> For example, one of the world’s largest asset managers spent a decade developing their state-of-the-art execution platform with a focus on operational efficiency. Using traditional metrics, they were operating at among the lowest cost basis. The platform and performance measurement techniques, however, neglect the new interconnectedness of markets and technology advancements of market liquidity providers. Incorporating those factors would result in an expected halving of their costs, saving tens of millions per year.

Understanding nuances and keeping abreast of market innovations are keys to unlocking significant value while striving towards an important competitive advantage, operational excellence.

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