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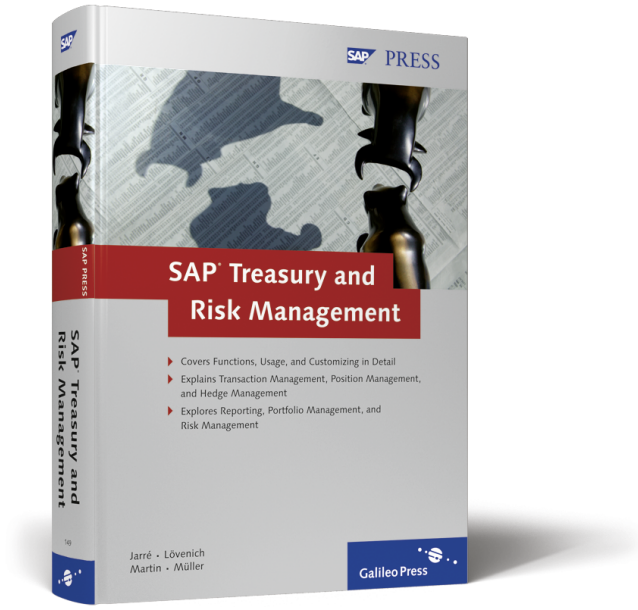
SAP® Treasury and Risk Management



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Transaction management deals with the operative flow of financial transactions: trade, back-office processing, and operative reporting. It forms the basis for the other business processes within a company.

3 Transaction Management

Financial transactions are agreements on financial rights and obligations. Their operative flow is managed within transaction management. Treasury and Risk Management adopts the traditional division of transaction management into trade, back-office processing, and operative reporting.

This chapter starts by introducing you to how different financial instruments are represented as financial transactions and how these transactions can be created and processed. It then examines trade that arises from the preparation and creation of transactions, as well as the exercising of rights. The section after that deals with back-office processing, which includes monitoring, controlling, and releasing transactions (e.g., settlement).

Section 3.4 deals with operative reporting and how you can check deadlines, monitor the progress of transactions, and gain an overview of existing transactions. This is followed by a brief introduction to the architecture of the transaction management using a sample implementation of the customer-specific tab. We then take a look at some special topics that go beyond the basics of transaction management.

This chapter does not include any menu paths for system Transactions. Depending on the financial instrument used, these system Transactions can be found in the menu under **Treasury and Risk Management • Transaction Manager • Money Market/Foreign Exchange/Derivatives/Securities/Debt Management** and then in the corresponding subfolder — depending on the section you are reading. Due to the large number of system Transactions used in transac-

tion management, omitting them from the text makes it much easier to read. We will only specify the path in a few exceptional cases.

3.1 Financial Transaction

Definition of financial transaction

A *financial transaction* is a contract between at least two business partners governing the exchange of ownership of a financial instrument or a right in the form of a financial instrument. The variety of different financial instruments is reflected by the variety of financial transactions. The structure of financial transactions in Treasury and Risk Management is made up of the description of the actions for a financial transaction and the description of the general components of a financial transaction.

Creating and editing actions

The actions for a financial transaction are divided into creating actions and processing actions. When *creating*, you refer to a financial instrument via the context of the company code, transaction type, product type, partner, and possibly some other specific data. When *processing*, however, you use the unique ID based on the company code and the financial transaction number to select an existing financial transaction.

These two basic procedures are reflected by the system Transactions in transaction management. Most of these system Transactions are two-screen transactions. In the *entry screen* for transaction creation or processing, you must either specify the context (when creating a financial transaction) or select an existing financial transaction in order to process it. The second, *data screen,* is used for entering the financial transaction data.

Data screen layout

Because there is a great deal of financial transaction data, the data screen is structured using *tabs*. Most of these tabs contain characteristics and key figures required for every financial transaction that are independent of the characteristics of the financial instrument. These tabs are identical for all financial transactions. However, it is the structure data that distinguishes the different financial instruments. For this reason, every financial instrument has its own individual tabs. The structure data is set out in basically the same way and is based on flows, conditions, underlying data and/or master data. It is

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the financial instrument itself that determines upon which data a financial instrument is based and how the data is set out.

Field selection

You can individually configure which fields are used for data entry in the corresponding tabs. You can use the *field modification* settings in Customizing to define whether a field is hidden, displayed, ready for input, or mandatory.

Activities

A financial transaction has different status values as it passes through different trade or back office processing functions. Activities are used to reflect and represent these clearly. The financial cash flow is assigned to an activity in the form of flows and conditions, making it clearer and easier to follow.

3.1.1 Usage conventions

The system Transactions within transaction management, especially those involving the creation and processing of financial transactions, follow certain conventions of use. As soon as you have learned these, you will find it relatively easy to use new system Transactions without any further instruction being necessary.

These conventions include the use of icons on buttons for quick recognition of their function, specification of precise dates using inclusive and month-end indicators, as well as input help using shortcuts for dates and amounts. This section describes these conventions in greater detail.

Using Icons

As is standard in SAP systems, buttons in transaction management also use icons. The icons are generally self-explanatory, rendering the use of additional text on the buttons unnecessary. Moving the cursor over a button will display a tool tip text with a short description of the function.

Figure 3.1 displays the most commonly used icons in transaction management.

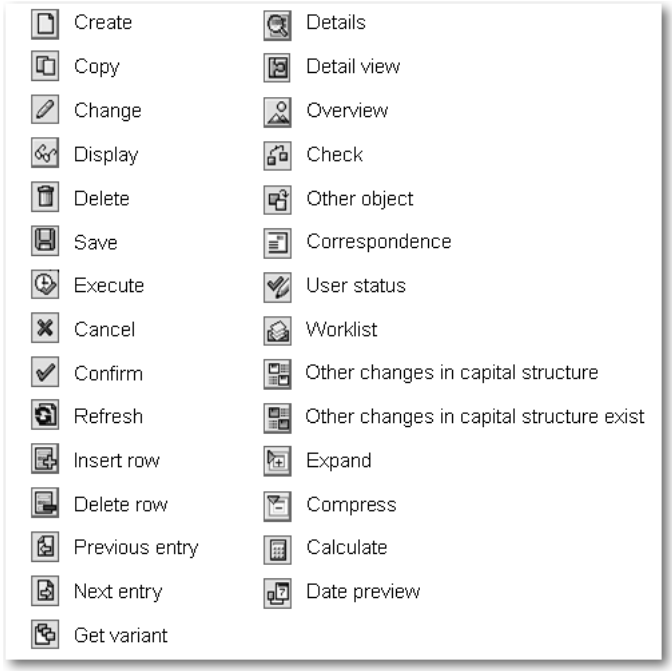

Figure 3.1 Commonly Used Icons in Transaction Management

Date

Inclusive and month-end indicators

Both the flows and the conditions include a great deal of data information. In order to make these clear when the system is making calculations, a date field often has an inclusive indicator that specifies whether the date entered is also included in the period it delimits. In some cases, there may also be a month-end indicator. This indicates whether the date falls on the last day of the month.

Example of period calculation

The most important example of the use of inclusive and month-end indicators is period calculation. If April 30, 2007, is set as a period end with a monthly frequency and the inclusive indicator is selected, the following period ends will be May 30, 2007, inclusive, June 30, 2007, inclusive, etc. If the month-end indicator is also selected with a monthly frequency, then the period ends would be May 31, 2007, inclusive and month-end, June 30, 2007, inclusive and month-end, etc.

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Period Calculation in February [+]

For interest calculation methods based on 30 days and a period end of February 28, 2007, inclusive, interest is applied to February with 28 days. Where period end is February 28, 2007, exclusive and month-end, interest is applied to 29 days. Where the period end is February 28, 2007, inclusive and month-end, interest is applied to 30 days.

Input Help

Preassignment

When creating financial transactions, many fields are already assigned values that make sense in the relevant context. For example, the start of term is already set as the current date. If, in your particular case, different preassigned values would make more sense, you can use BAdIs to change them in some cases. In other cases, you can only change preassigned values by modifying the standard SAP coding. Preassignments can also be imported from Customizing (e.g., payment details from the standing instructions for a business partner).

Date

In the user settings you can configure the date format (e.g., MM/DD/YYYY). In transaction management, a date can be entered as an absolute value. Abbreviated notations are also recognized (e.g., 021307 as 02/13/2007). A date can also refer to another date. For example, the end of term is relative to the start of term. This reference to date fields is not visible on the screen, but it is stored within the system. You can use various *shortcuts* to specify the direction of a relative date entry (see Table 3.1).

Shortcut	Meaning
+	Following day
++	Following month
+++	Following year
-	Previous day
--	Previous month
---	Previous year

Table 3.1 Shortcuts for Date Entries

Shortcuts can be used alone or they can be combined (see Table 3.2).

Example	Meaning
0	Same day
+2	In two days
--4	Four months ago
+++1++3	In one year and three months

Table 3.2 Examples of Shortcuts for Date Entries

Amount

For amounts, you can define which abbreviations you want to use for thousands and millions in Customizing, under **Treasury and Risk Management • Transaction Manager • General Settings • Organization • Define User Data**. In the standard system these settings are preassigned with the abbreviations listed in Table 3.3.

Abbreviation	Meaning
T	Thousand
M	Million

Table 3.3 Abbreviations for Amounts

Here too, it is possible to combine shortcuts (see Table 3.4).

Example	Meaning
2T	2,000
5.2M	5,200,000
3M20T	3,020,000

Table 3.4 Example of Shortcuts for Amounts

The shortcut is calculated after you press **Enter** or execute an action. You can check whether it corresponds to the required entry.

Example: foreign exchange

Even though System Transaction FTR_CREATE for creating financial transactions is not explained until the next section, we are using its data screen here to provide an example of shortcut usage. We are performing a forward exchange transaction on 02/13/2007 involving the exchange of 100,000 EUR into USD on 03/13/2007 at a rate of 1.3. The value date is a relative date entry and we use a standard abbreviation for the amount (see Figure 3.2).

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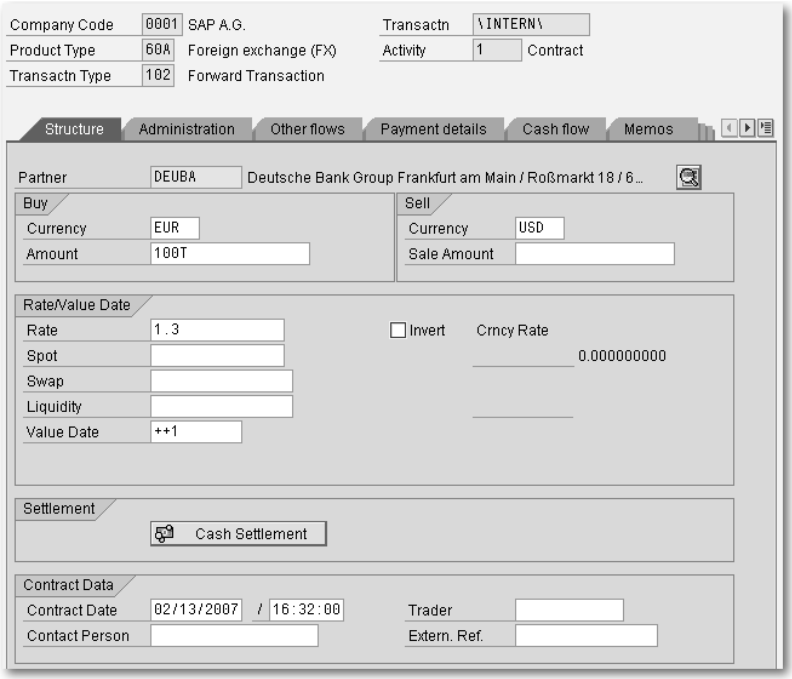

Figure 3.2 Data Screen for Foreign Exchange Transaction

3.1.2 Transaction Management, Entry Screen

The entry screen of transaction management for creating and processing financial transactions can be accessed via many different system Transactions and functions. The user will proceed differently depending on the activity they are currently pursuing. The following section describes the most important system Transactions.

Creating a Financial Transaction

FTR_CREATE

The main way of accessing the screen for *creating a financial transaction* is via the **Create Financial Transaction** (FTR_CREATE) System Transaction, from which you can create a financial transaction for every financial instrument defined in transaction management (see Figure 3.3). Also, every financial instrument has its own system Transactions for creating a financial transaction. These are no longer listed in the menu, however.

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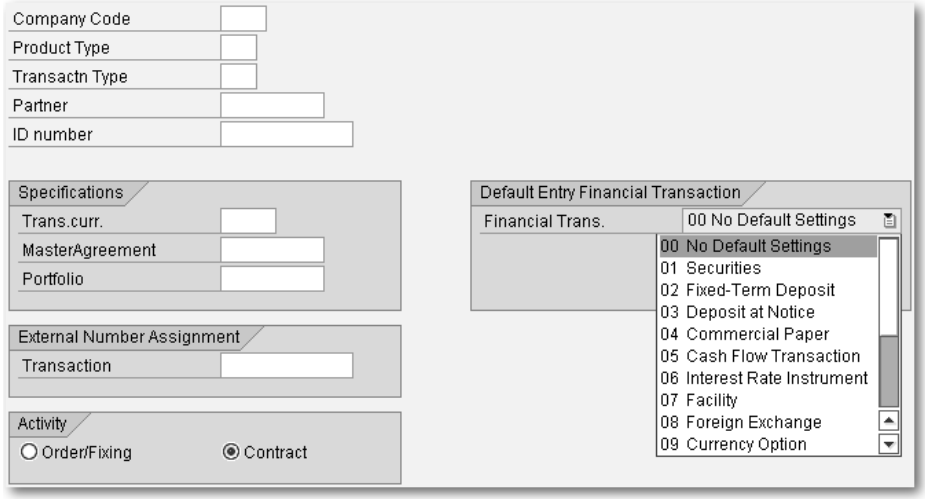

Figure 3.3 Creating a Financial Transaction via Transaction FTR_CREATE

System Transaction FTR_CREATE allows you to enter the values you want directly via the keyboard. However, the fields are also provided with input help. You can use the list box on the right to restrict the values at the level of financial instruments so that only fields relevant to the current financial instrument are available for input and you only view input help relevant to that specific financial instrument.

Processing a Financial Transaction

FTR_EDIT

The main way of accessing the screen for *processing a financial transaction* is via the **Process Financial Transaction** (FTR_EDIT) system Transaction. When using this system Transaction, you not only enter the financial transaction you want to process, you also select the action you want to perform. The list box allows you to restrict the displayed actions to those relevant for the current financial instrument (see Figure 3.4).

As is the case with financial transaction creation via FTR_CREATE, every financial instrument has a separate system Transaction for each action. In these cases, the entry screen is identical with the **Company code** and **Transaction number** fields. You can also use these system Transactions, although they are not listed in the menu.

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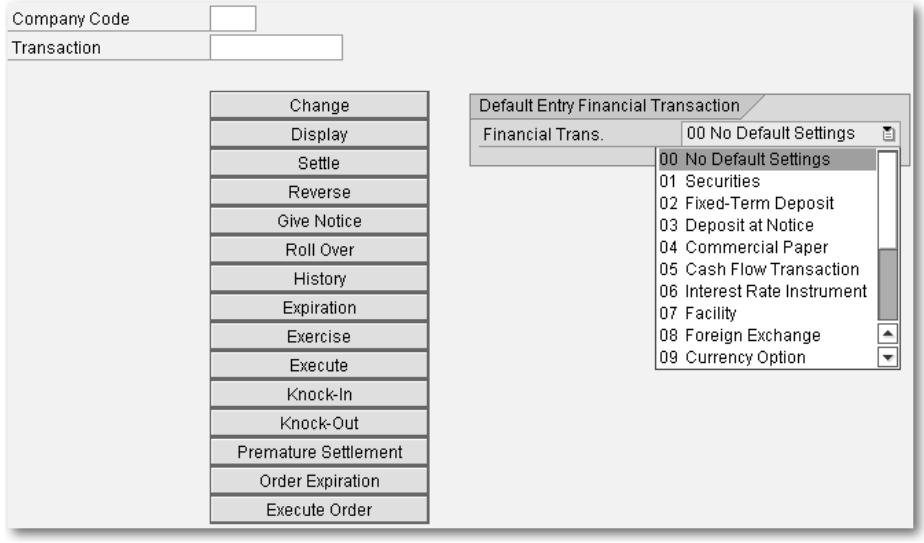

Figure 3.4 Processing a Financial Transaction via System Transaction FTR_EDIT

Collective Processing

As an alternative to central or financial instrument-specific entry transactions, you can also access financial transaction processing screen via the *collective processing function*. Collective processing displays an overview list of financial transactions and gives you the option to navigate directly from the list to financial transaction processing.

The following collective processing functions are available for the different financial instruments:

- Money market (TM00)
- Foreign exchange (TX06)
- OTC options (TI91)
- Interest rate derivatives (TI92)
- Futures and tradeable options (TI00)
- Repos (TF00)
- Securities lending (TSL00)
- Securities (TS00)

Central Collective Processing

FTR_00 There is also central **Collective processing Transaction Manager** (FTR_00), which provides an overview of the financial transactions across all financial instruments. You can also use this system Transaction for operative reporting (e.g., using variants and their comprehensive selection options — see Figure 3.5).

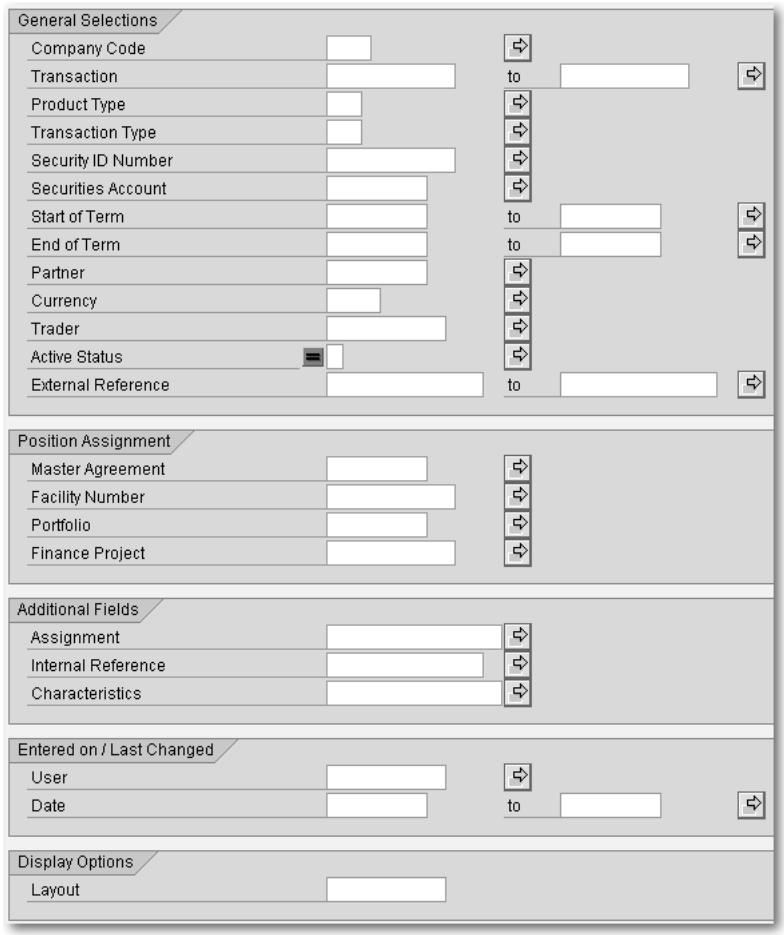

Figure 3.5 Selection Screen for Central Collective Processing FTR_00

In this case, bear in mind that the characteristics of the financial instruments are so different that they cannot be represented in a standardized way. Therefore, the result screen contains a field specifying the most important characteristics of a financial instrument as body text (see Figure 3.6).

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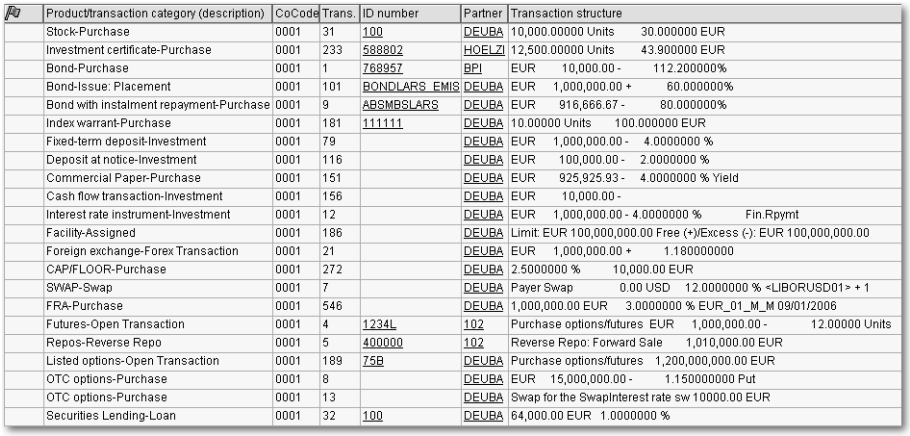

Product/transaction category (description)	CoCode	Trans.	ID number	Partner	Transaction structure
Stock-Purchase	0001	31	100	DEUBA	10,000.00000 Units 30.000000 EUR
Investment certificate-Purchase	0001	233	588802	HOELZI	12,500.00000 Units 43.900000 EUR
Bond-Purchase	0001	1	768957	BPI	EUR 10,000.00 - 112.200000%
Bond-Issue: Placement	0001	101	BONDLARS_EMIS	DEUBA	EUR 1,000,000.00 + 60.000000%
Bond with instalment repayment-Purchase	0001	9	ABSMBSLARS	DEUBA	EUR 916,666.67 - 80.000000%
Index warrant-Purchase	0001	181	111111	DEUBA	10.00000 Units 100.000000 EUR
Fixed-term deposit-Investment	0001	79		DEUBA	EUR 1,000,000.00 - 4.0000000 %
Deposit at notice-Investment	0001	116		DEUBA	EUR 100,000.00 - 2.0000000 %
Commercial Paper-Purchase	0001	151		DEUBA	EUR 925,925.93 - 4.0000000 % Yield
Cash flow transaction-Investment	0001	156		DEUBA	EUR 10,000.00 -
Interest rate instrument-Investment	0001	12		DEUBA	EUR 1,000,000.00 - 4.0000000 % Fin.Rpymt
Facility-Assigned	0001	186		DEUBA	Limit: EUR 100,000,000.00 Free (+)/Excess (-): EUR 100,000,000.00
Foreign exchange-Forex Transaction	0001	21		DEUBA	EUR 1,000,000.00 + 1.1800000000
CAP/FLOOR-Purchase	0001	272		DEUBA	2.5000000 % 10,000.00 EUR
SWAP-Swap	0001	7		DEUBA	Payer Swap 0.00 USD 12.0000000 % <LIBORUSD01> + 1
FRA-Purchase	0001	546		DEUBA	1,000,000.00 EUR 3.0000000 % EUR_01_M_M 09/01/2006
Futures-Open Transaction	0001	4	1234L	102	Purchase options/futures EUR 1,000,000.00 - 12.00000 Units
Repos-Reverse Repo	0001	5	400000	102	Reverse Repo: Forward Sale 1,010,000.00 EUR
Listed options-Open Transaction	0001	189	75B	DEUBA	Purchase options/futures 1,200,000,000.00 EUR
OTC options-Purchase	0001	8		DEUBA	EUR 15,000,000.00 - 1.150000000 Put
OTC options-Purchase	0001	13		DEUBA	Swap for the SwapInterest rate sw 10000.00 EUR
Securities Lending-Loan	0001	32	100	DEUBA	64,000.00 EUR 1.0000000 %

Figure 3.6 Result Screen for Central Collective Processing FTR_00

Fast Entry

Some financial instruments also offer a *Fast entry* option. This combines the data from the entry screen and the data screen on a single screen. Both the input-ready data and the functionality are restricted so that you can create simple "standard financial transactions" using fast entry.

The following fast entry transactions are available:

- Fixed term deposit — fast entry (TM0F)
- Deposit at notice — fast entry (TM1F)
- Commercial paper — fast entry (TM3F)

Fast Processing

You can process the financial instruments, fixed term deposit and deposit at notice using the **Money market: fast processing** (TM20) System Transaction for *fast processing*. Several fixed-term deposits and deposits at notice are displayed on the same screen, and you can change the amount, interest rate, end of term, interest rate handling with rollover, and interest capitalization.

3.1.3 Data Screen

Data screen layout

Once you have accessed the financial transaction creation or processing entry screen, you reach the *Data screen*. The screen has the same

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layout for all financial instruments. The financial transaction header is displayed at the top of the screen. Depending on the financial instrument, this includes information on the company code, the financial transaction number, the activity, the product type, the transaction type, and the security identification number (see Figure 3.7).

The area below the header contains the tabs. In principle, all financial transactions have the same tabs, but the system only displays the tabs that are needed for the financial instrument. For example, the **Interest rate adjustment** tab is only displayed for financial instruments with variable interest rate calculation and is hidden for other financial instruments.

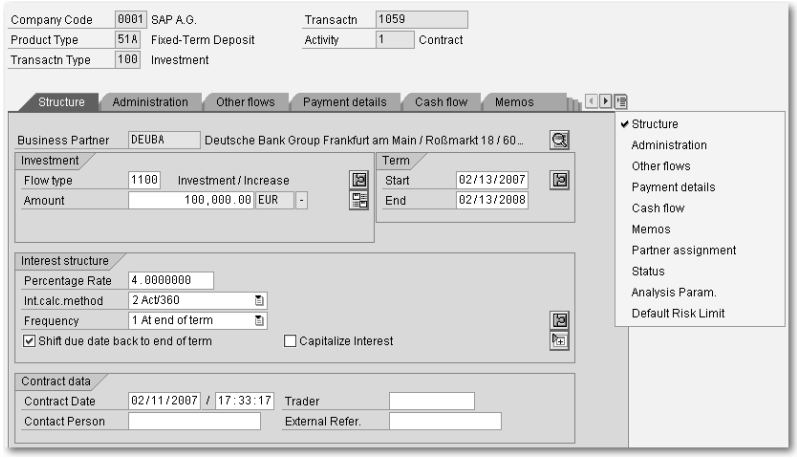

Figure 3.7 Data Screen for the Fixed Term Deposit Financial Instrument

Field selection

You can also change the settings in Customizing under **Treasury and Risk Management • Transaction Manager • General Settings • Transaction Management • Define Field Selection** to hide unwanted tabs (except the **Structure** tab).

Structure Tab

In this tab, you can enter the **structure features** to differentiate financial instruments from one another. We will describe these in greater detail in Sections 3.1.4 to 3.1.7. The system also displays the business partner at the top of the financial transaction and provides the option to go to **business partner administration**. At the bottom,

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you can enter **contract data** such as the contract date and time, contact person, trader, and an external reference.

Because the **Structure** tab sometimes isn't sufficient to enter all the features for a financial instrument, you can also use up to three additional tabs for this purpose.

When this option is used (as displayed in Table 3.5), the additional tabs can also be named "Structure."

Financial instrument	Tab	Tab	Tab
Securities	Trade	Structure	
Facility	Fees	Profiles	Rules
Listed transaction	Trade	Structure	
OTC option	Underlying		
Securities lending	Security		

Table 3.5 Additional Tabs for Structure Features

Hedge Management Tab

The **Hedge Management** tab is displayed if the financial transaction is part of a hedging relationship. The data for the hedging relationship is displayed via an *SAP List Viewer* (*ALV*). Double-clicking on a line will display the hedging relationship. For further information on hedge management, see Chapter 7, *Hedge Management*.

Customer-Specific Tab

There are two tabs in which you can use BAdI technology to include your own screens and display, enter, and save data for a financial transaction. For more information, see Section 3.5.3.

Administration Tab

The **Administration** tab provides data for managing financial transactions. Under **Position assignment**, you use the general valuation class to classify the financial transactions by assets (e.g., short-term assets). You can use the **Additional fields** to mark a financial transaction or specify connections with other financial transactions. You can use **Authorization** to define authorization groups so that only spe-

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cific individuals are allowed to process this financial transaction. Under **Rating**, you specify data on the business partner and the evaluating credit rating institute.

Other flows Tab

You can use the **Other flows** tab to represent flows other than nominal, interest, or repayment. These could be fees or taxes, for instance. In this case, you must have maintained corresponding flow types in Customizing using the **Other flow/condition** flow category.

After entering the flow type, the direction, the payment amount, the currency, as well as the payment date, it is possible to navigate to a detail screen by double-clicking and then storing calculation bases. For more information on other flows, see Section 3.1.4.

Payment details Tab

The **Payment details** tab contains details on payment transactions with the corresponding business partner. This data is not entered separately for every flow, but applies generally for the entire financial transaction. An ID with the direction and the currency, as well as a possible restriction to the validity and flow type, is used to assign the payment details to the flows. If several different payment details are possible for a flow, the payment detail with the most precise ID is selected.

[Ex] For example, say you have specified two different payment details, the first with direction "+" and currency "EUR" and the second with the same direction and currency but also with flow type "1900". With the appropriate direction and currency, only the first payment detail is possible for an interest flow with flow type "1200" and it is assigned to the flow. For another flow with flow type 1900 and the appropriate direction and currency, both payment details are possible, but the second, more specific payment detail is assigned.

You double-click on a line to navigate to the detail screen. This is where you can enter more specific details on the posting, as well as the payment request. When doing this, you can use a repetitive code that stands for the data that remains unchanged in a payment transfer and thereby reduces the administrative workload for recurring payments with the same payment details.

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Payment details must be created for all the payment-relevant currencies and directions of a financial transaction. You are supported in this task as the payment details in the business partner's standing instructions are displayed as preassigned values when you create a new financial transaction.

Cash flow Tab

The **Cash flow** tab provides an overview of all flows for a financial transaction. It is displayed via an ALV.

Filters

You can use filters to hide unwanted flows. A filter is set by default, displaying only structure flows. You can, however, delete or change this filter in order to also show accrual/deferral flows, valuation flows, and transfer posting flows.

Variants

You can use variants to specify which features and key figures are visible for flows. Some variants are delivered in the standard SAP system. You can use these as templates for your own variants or you can create completely new variants.

Flow detail

Double-clicking on a flow will take you to the flow detail screen, which displays further information.

You can use the **Flows** button or the **Edit flow** context menu to change a flow manually. It is also possible to flag posted flows for reversal in the same manner. Both functions are subject to the status of the transaction or the flow. If the transaction or flow status do not permit the functions, you will not be able to select them.

Outgoing and Incoming Tabs

For swap transactions such as swap for OTC interest derivatives, you can divide the cash flow into the outgoing cash flow and the incoming cash flow. This is covered by the tabs **Outgoing** and **Incoming**. The **Cash flow** tab is not affected by this and is also displayed.

Interest rate adjustment Tab

All OTC interest rate derivatives have interest applied variably and the interest can also be applied variably to the interest rate instrument. An overview of interest rate adjustments performed and pend-

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ing for these transactions is displayed on the **Interest rate adjustment** tab. For further details on interest rate adjustment, see Section 3.3.1.

Just as for cash flow, the data is displayed in an ALV for which you can also create your own variants. Double-clicking on the icon in the **Interest fixing** column will display the detailed data for this line in the area below the ALV.

Memos Tab

You can use the **Memos** tab to store additional information on a financial transaction in plain text format. To do this, you must have maintained the corresponding memo types in Customizing under **Treasury and Risk Management • Transaction Manager • General Settings • Transaction Management • Define Memo Book.**

The memos represent a central function provided by SAP Basis. Therefore, you may well have already learned how to use this function in other areas.

Partner Assignment Tab

The **Partner assignment** tab provides a partner overview with all relevant data on the corresponding partner for the financial transaction. You can navigate directly to business partner administration, make additional partner assignments, or create partners for the financial transaction.

Status Tab

Correspondence — Depending on the business partner, you can use Customizing to define whether external correspondence is to be carried out in the form of a confirmation and, if necessary, a counterconfirmation. The system displays the correspondence status and thus implicitly the Customizing setting.

Activity — The system displays the current activity category for the financial transaction, as well as its status.

Financial transaction — The system displays the processing category, status, active activity, release status, creator, and last changed by information for the finan-

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cial transaction. It also provides you with the option to navigate to status management.

Status management

Transaction management is linked to general status management (see Section 3.3.6). This is where you are provided with information on the status. You can also find out which business activities are possible for the financial transaction.

Tabs for the Financial Object

The tabs for the financial object are only used for OTC transactions. For standardized financial transactions, the corresponding data is created in the background for external positions.

For active financial object integration, a separate tab is displayed for each of the financial object components, **Analysis parameters** and **Default risk limit**. You can use these to maintain the corresponding data of the financial object corresponding to the financial transaction. For further information, see Section 9.2.5.

3.1.4 Flows

Classification

A *flow* is the transfer of an amount between different accounts on a specific date. This transfer can be made between business partners as well as internally. All flows together represent the cash flow and are displayed on the **Cash flow** tab.

By default, a filter is set for the **Cash flow** tab, displaying only structure flows. Without this filter, it is possible to view all flows. These flows are roughly classified into four categories:

- Structure flows
- Transfer posting flows
- Valuation flows
- Accrual/deferral flows

As of SAP ERP 6.0, transfer posting flows and valuation flows are no longer used in the transaction management, but in position management instead. Due to legacy data transfer, these flows could still exist for some financial transactions in the transaction management. Until Release Enterprise 1.10, when exercising options, the option premium could be set in the financial transaction being performed, due

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to the Customizing settings. Also until Release Enterprise 1.10, valuation was performed in transaction management and valuation flows were also created there.

Accrual/deferral flows are derived from accruals/deferrals. These flows result from performing a financial transaction. By contrast, structure flows represent a description of the financial transaction. The following sections describe the different forms of structure flows in greater detail.

Maintaining the flow type

For the category of structure flows, you must maintain the flow types in Customizing and assign them to the transaction type. For example, you can define flow types for money market under **Treasury and Risk Management • Transaction Manager • Money Market • Transaction Management • Flow Types • Define Flow Types**. For main flows, the **Principal increase** or **Principal decrease** flow category is required, for other flows you need flow category **Other flow/condition**. You must then assign the flow category to the transaction type under **Treasury and Risk Management • Transaction Manager • Money Market • Transaction Management • Flow Types • Assign Flow Types to Transaction Type**.

[+] **Assigning a Condition-Based Flow Type to a Transaction Type**

It is not necessary to assign flow types to the transaction type for flows created from conditions. This is already done implicitly via the condition type.

Main Flows

The main flows contain the amount-based structure of a transaction. Therefore, they are also called changes in capital structure or nominal changes. There are flows for both increasing and decreasing the amount-based structure of a financial transaction.

If a financial instrument has main flows, you will see them on the **Structure** tab. The tab displays the first main flow (chronologically). You can enter or change the amount, the currency, and (to a certain extent) the flow type.

Example: fixed-term deposit

An example of this is the creation of a fixed-term deposit of 100,000 EUR on 02/13/2007 for one year at 4%. The data is entered on the **Structure** tab in the **Investment** section (see Figure 3.8).

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Figure 3.8 Main Flow on the Structure Tab

You can use the **Other changes in capital structure** button to navigate to the overview screen for main flows. This is where you can enter more main flows. A color-coded button display on the **Structure** tab indicates whether other main flows already exist in the transaction.

On the overview screen, you can select a flow type stored in Customizing. After entering the payment amount, the currency and the payment date, you can also define a different calculation date for some financial instruments.

Main Flow for Fixed-Term Deposits **[+]**

For the fixed-term deposit financial instrument, the main flow entered on the **Structure** tab is not displayed on the overview screen and can only be viewed using the **Detail** button in Figure 3.8.

Example: fixed-term deposit

We will demonstrate this by continuing our example from above. For the fixed-term deposit, the capital amount increases by 25,000 EUR to 125,000 EUR on 08/13/2007. The data is displayed in Figure 3.9.

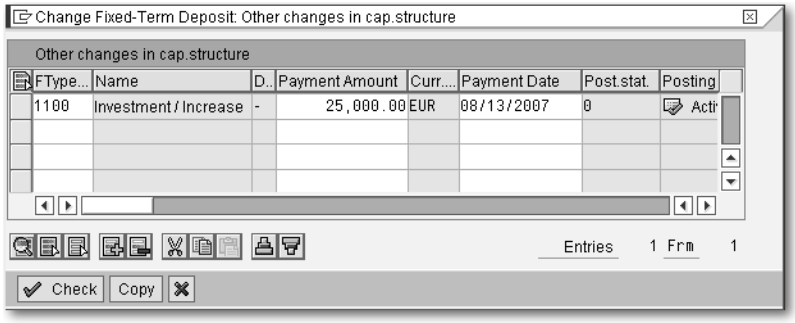

Figure 3.9 Overview Screen of Main Flows

Detail screen

From the overview screen, you can double-click or use the **Detail** button to navigate to the detail screen. This displays more information on the main flow (see Figure 3.10).

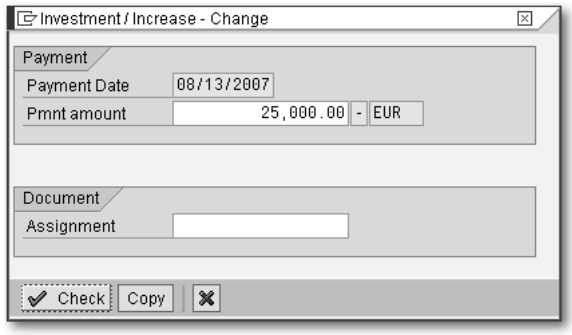

Figure 3.10 Detail Screen for Main Flow

If the payment currency is not the local currency, an additional area is displayed. In this area, you can specify a fixed rate or fixed amount, or you can specify the use of a current rate from the rate table.

Other Flows

You can use other flows to represent flows other than nominal, interest, or repayment, such as fees or taxes.

There is a separate tab for other flows, which includes an overview screen of existing other flows. This is where you can enter the side, the direction, the flow type, the amount, the currency, and the payment date.

Example: fixed-term deposit

For our fixed-term deposit, an acquisition fee of 300 EUR needs to be paid at the start of term of 08/13/2007 (see Figure 3.11).

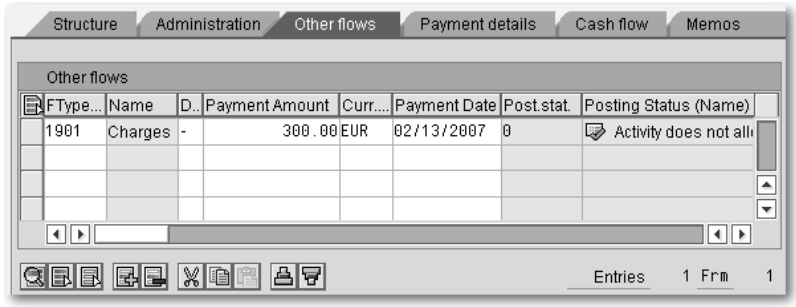

Figure 3.11 Other Flows Tab

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Detail screen

From the **Other flows** tab, you can double-click or use the **Detail** button to navigate to the detail screen. This is where you can enter further calculation details.

Example: fixed-term deposit

For the purposes of this example, the acquisition fee is relevant for interest accrual for the entire period from 02/13/2007 to 02/13/2008 (see Figure 3.12).

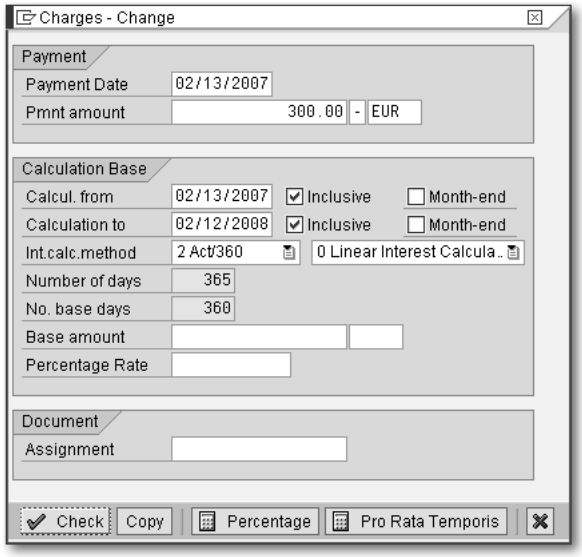

Figure 3.12 Detail Screen for Other Flow

Derived Flows

Derived flows are flows that are calculated from flows. This could, for example, be the trader's commission on a stock sale or the stock exchange tax.

Maintaining the derivation

Derived flows also belong to the **Other flow/condition** flow category. To create these flows, you must create rules in Customizing under **Treasury and Risk Management • Transaction Manager • Money Market • Transaction Management • Flow Types • Derived Flows • Define Derivation Procedures and Rules**. These rules determine the flow type from which they are derived and the structure that they have. You must also make additional settings in business partner administration for the business partners in the **Counterparty** role in the corresponding company code. Assign the derivation procedure to the product type on the **SI: Derived Flows** tab.

[+] **Display of Derived Flows**

Even though derived flows belong to other flows, they are not displayed on the **Other flows** tab. Instead, they can only be seen in the cash flow. They can also be changed there.

3.1.5 Conditions

Condition category

Conditions are unique calculation rules for flows. They are used for regularly recurring flows with an amount-based structure that depends on the amount of the capital. A condition category is a categorization of conditions. The condition categories include interest, repayment, and, for some financial instruments, premiums.

You cannot define two parallel conditions for a condition category. This is why every condition has a valid-from date. A condition is valid until there is a new condition with the same condition category and a more up-to-date valid-from date (i.e., a *Subsequent condition)*. This makes it possible, for example, to express a changed interest rate with a subsequent condition.

The valid-from date also has an inclusive indicator. This is not, however, visible on a screen, but is determined from the inclusive indicator of the start of term or of the previous interest period. In this way, it is possible for you to specify the valid-from date as 02/13/2007, but because this is assumed to be exclusive, the interest period actually doesn't start until 02/14/2007.

Calculation

Conditions are also used in other areas (e.g., loans). Therefore, flow calculation in terms of conditions is applied generally in financial mathematics (FIMA).

If a financial instrument has conditions, you will see them on the **Structure** tab. For some condition categories, this tab provides information on the first condition (chronologically). The condition categories for which this applies and the information provided are different depending on the financial instrument in question.

Condition overview

You can use the **Condition** button in the menu bar or follow the menu to navigate to an overview screen of all conditions for the financial transaction (see Figure 3.13).

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CTyp	Condition Type Name	Eff. from	Amount-based structure	Date structure
1200	Nominal interest	02/13/2007	EUR_03_J_M	Once Only
1120	Final repayment		100 %	Final Repayment
1210	Interest rate adjustment			Relative to Start of Period

Figure 3.13 Overview Screen for the Conditions

Condition details

You can double-click or use the **Detail** button to go to the detail screen. Alternatively, the **Structure** tab provides a **Detail** button next to the information on the first condition of a condition category that allows you to navigate directly to the detail screen. The detail screen allows you to navigate to possible subsequent or previous conditions, or to create subsequent conditions.

Maintaining the condition type

You must define condition types and then assign them to the transaction type in Customizing (e.g., for the money market) under **Treasury and Risk Management • Transaction Manager • Money Market • Transaction Management • Condition Types • Define Condition Types**. When defining the condition type, you specify which flow type is to be created. You no longer need to assign this flow type to the transaction type. This is done implicitly via the condition type.

Interest Condition

On the detail screen for the interest condition, you can select the required condition type from all the condition types assigned to the financial instrument for nominal interest rates and interest capitalization.

Interest structure

In the interest structure area, you must specify the interest calculation method, the type of interest calculation, as well as the form of interest clearing. There are also three different types of interest structure, although all three types are not necessarily available for every financial instrument.

The first type of interest structure is a *Fixed amount*. The amount has to be entered here. Because the first and last periods can be shortened, you must specify whether the fixed amount is to be included in full, proportionally, or not at all in these periods.

The second interest structure type, *Fixed interest,* requires a percentage that specifies the fixed level of interest. Specifying a payment rate can be used to specify how much of the calculated interest is actually paid.

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The third type of interest structure is *Variable interest*. Here, you specify a reference interest rate with a possible spread. If this is not sufficient, you can even create an entire formula for calculating the amount of interest. Some predefined formulas are provided for this. If necessary, you can change these in the formula editor to create your own formulas.[1] You can also enter a different payment rate for variable interest.

[+] Conditional Formulas

With SAP Note 945683, it is also possible to use conditional formulas (IF <logical expression> THEN <arithmetical formula> ELSE <arithmetical formula>).

Interest period and due dates

You need two recurring date sequences for an interest condition. One for the interest period end and one for the due date. The update method determines how these date sequences are calculated.

The **regular** update rule method makes it possible to specify both date sequences independent of one another, each by specifying the first date as well as a shared frequency.

For the **Adjusted** and **Unadjusted** update rule methods, both date sequences are specified in relation to one another. For **Adjusted**, a frequency is specified for one date sequence, while the other date sequence is relative according to the working day date shift. This is identical for **Unadjusted**, except that the relative entry is made before the working day date shift. The **Standard** radio button is used to define that the interest period end is calculated relative to the due date. Conversely, the **Special** radio button causes the due date to be calculated relative to the interest period end.

The other update methods are self-explanatory either due to their names or the explanations already provided for methods.

[+] Date Preview

You can use the **Date preview** button on the detail screen to see what date information will be calculated by the settings made for date sequences.

1 See also SAP Note 594637.

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Example: interest rate instrument

For the purposes of an example, let's use the creation of an interest rate instrument of 100,000 EUR, starting on 02/13/2007 for a year. Variable interest will apply as 1.5 times the reference interest rate of EUR_03_J_M minus 1 %. Interest is due every three months and the interest period end is supposed to be one day before the due date (see Figure 3.14).

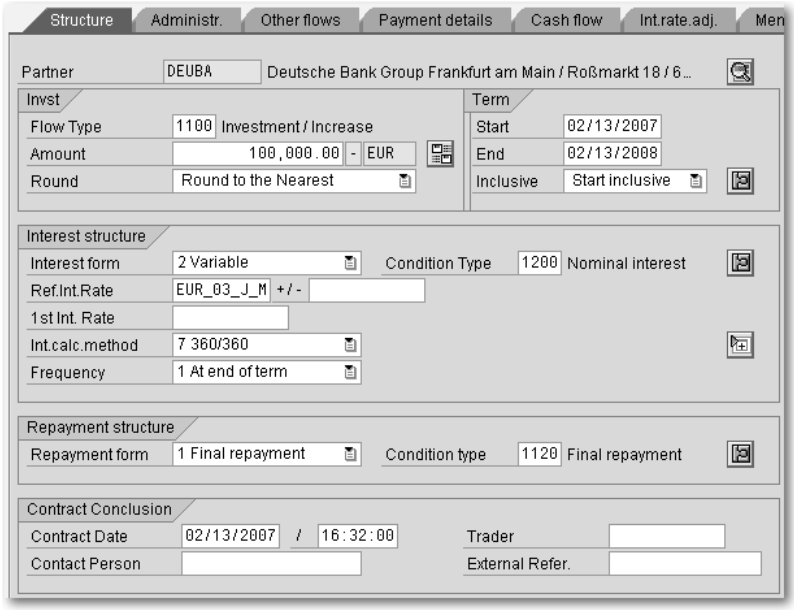

Figure 3.14 Data Screen for the Interest Rate Instrument

You can use the **Detail** button in the **Interest structure** area to navigate to the detail screen for the interest condition, where you can make the additional entries (see Figure 3.15).

The interest structure described can only be performed using a formula. You can use the **Formula** button to select existing formulas. The standard version includes the formulas V1*V2+V3 and V1*V2+V3*V4. After choosing the required formula, you must navigate to the screen for entering the formula values (see Figure 3.16).

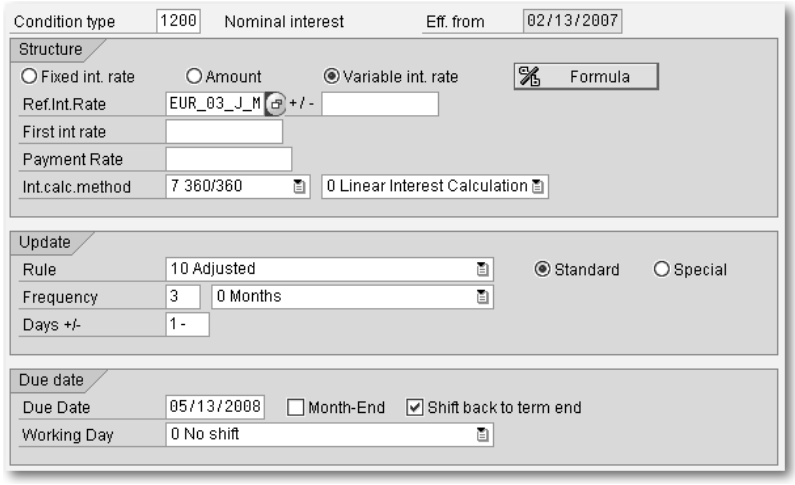

Figure 3.15 Detail Screen for Interest Condition

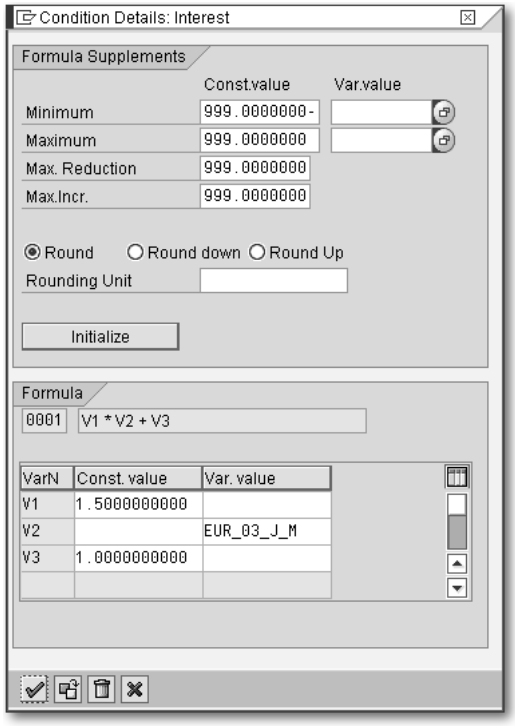

Figure 3.16 Detail Screen for Formula

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Interest Rate Adjustment Condition

An interest rate adjustment condition specifies when the interest rate is defined for a reference interest rate (via **Interest rate fixing**) and when this interest rate becomes valid for the financial transaction (via **Interest rate adjustment)**.

Of course, interest rate adjustment conditions are only needed for transactions with variable interest rates. These include interest rate instruments with variable interest rates as interest structures, as well as all OTC interest derivatives.

Interest rate adjustment and interest rate fixing

The interest rate adjustment condition comprises two date sequences — one for interest rate adjustment and one for interest rate fixing. Absolute specifications of the **Regular** update rule, as well as relative specification of a reference date are both possible.

Example: interest rate instrument

In our sample interest rate instrument, we want the interest rate adjustment for the reference interest rate EUR_03_J_M to take place at the start of the period, but we want interest rate fixing to happen two days before (see Figure 3.17).

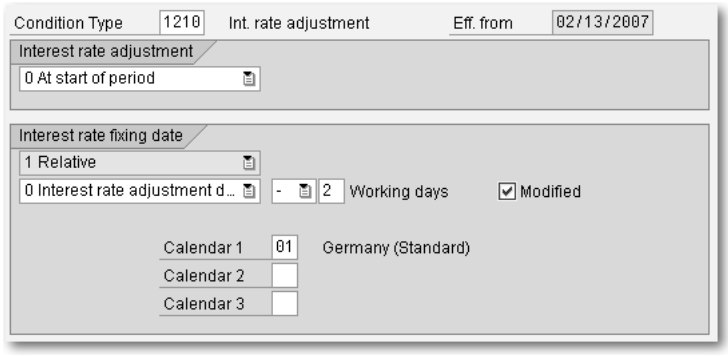

Figure 3.17 Detail Screen for Interest Rate Adjustment

Capitalized Interest Payment Condition

Interest capitalization

For interest capitalization the interest is added to the capital that is reduced again during repayment. The capitalized interest is paid back by the last repayment at the latest.

In the area of OTC interest derivatives, it is often the case that the capital isn't exchanged at all, but merely serves as a basis for calculation. In this case, the repayments are not relevant for payment

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either. Nevertheless, to enable interest capitalization, the *Capitalized Interest Payment* condition category was implemented especially for OTC interest derivatives. If you use this condition category, the capitalized interest is still assigned to the capital and is not relevant for posting. However, it is not reduced with repayment, but via the new condition category, which has a posting-relevant flow. This means that it is also possible to pay back capitalized interest during the validity period.

Example: EONIA swap

For the purposes of this example, we want to create an EONIA swap which represents a special case of a compound swap. The validity period runs from 02/13/2007 to 03/13/2007. On the incoming side, there is a fixed interest rate of 4 % for 100,000 EUR, which is paid at the end of the period. On the outgoing side, the same amount has variable interest via interest reference EONIA, which is also paid at the end of the period, but which is subject to a daily interest rate adjustment. On weekends, the interest rate for Friday is used. The detail screen for the outgoing interest is shown in Figure 3.18.

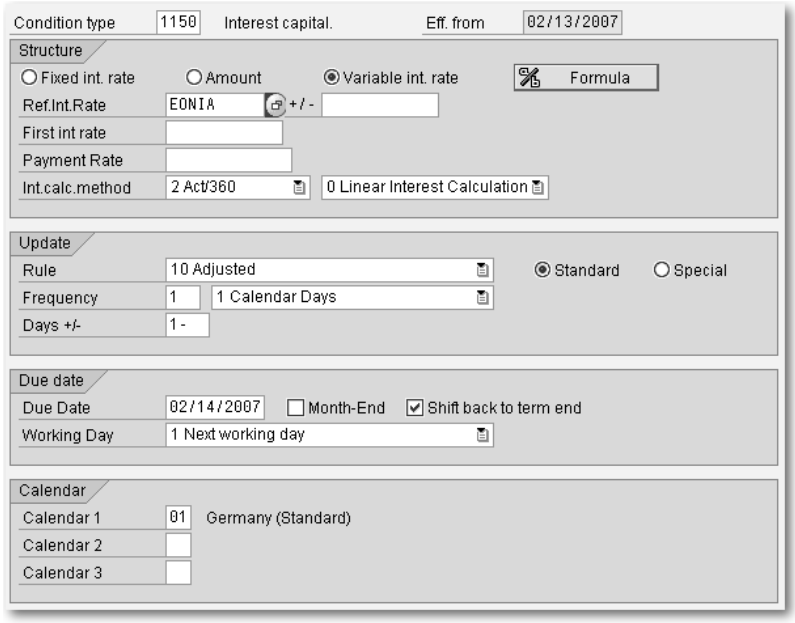

Figure 3.18 Detail Screen for Interest Condition

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After entering a condition type for which interest capitalization is configured in Customizing, another button is provided in the **Structure** tab, allowing you to navigate to the detail screen for the capitalized interest payment. The interest for EONIA swap is calculated from an average value rounded to four digit places (see Figure 3.19).

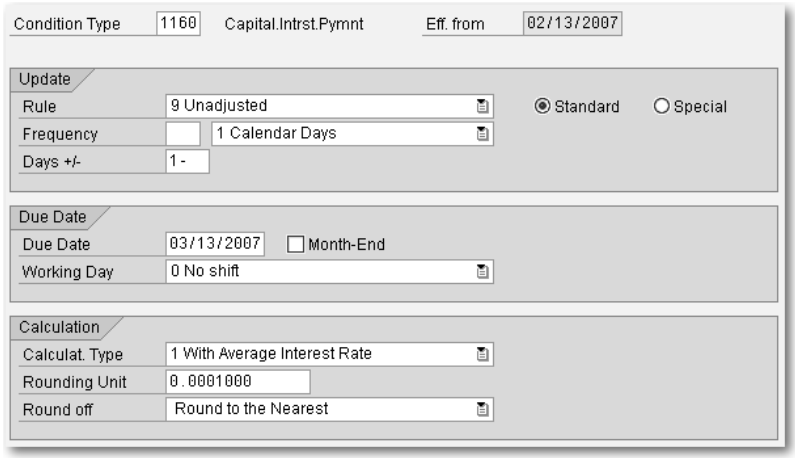

Figure 3.19 Detail Screen for the Capitalized Interest Payment Condition

Premium Condition

For the cap and floor financial instruments, the premium is represented as a condition. For these financial instruments, there is either a one-time premium payment or a recurring premium for every hedging period.

Example: cap

We can use the creation of a cap as an example. The period runtime is from 02/13/2007 to 02/13/2008 with a nominal of 100,000 EUR. The interest reference EUR_03_J_M is hedged with a three-month period with an upper limit of 4 %. A premium of 200 EUR is paid at every period start. The detail screen for the premium is shown in Figure 3.20.

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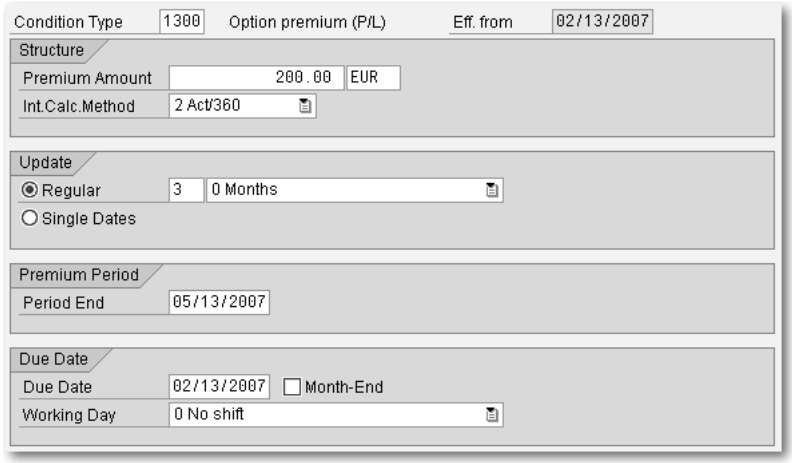

Figure 3.20 Detail Screen for Premium

Repayment Condition

Repayment categories

Repayments are used to reduce the capital for a financial transaction. Most financial instruments use the *final repayment* upon which the entire capital is repaid at the end of term. The interest rate instrument also uses *Installment repayments*, where a fixed amount is repaid at regular intervals. Interest rate instruments also use *Annuity repayments*, in which a repayment is made at regular intervals of an amount that always comes to the same total when added to the interest amount.

On the detail screen for the final repayment, you can only change the flow type and, for some financial instruments, the payment date. For installment repayments and annuity repayments, the entire capital is paid back at the end of term. If the capital has been repaid in full before the end of term, the amount of the last installment is adjusted to the remaining capital.

Example: interest rate instrument

For the purposes of this example, let's use the creation of an interest rate instrument of 100,000 EUR on 02/13/2007 for a year. Fixed interest of 4 % is applied and it must be paid at the end of term. Also, the capital is repaid monthly at 5,000 EUR (see Figure 3.21).

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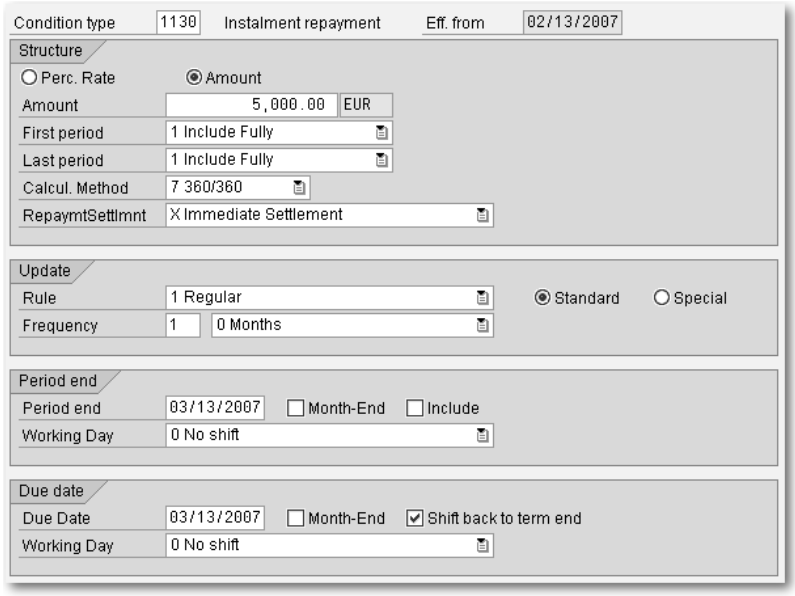

Figure 3.21 Detail Screen for Repayment

3.1.6 Underlying

The structure for the OTC option financial instrument consists of information on the exercise, the premium, and the underlying. The exercise types **European** and **American** are both supported. In the Customizing section for the product type of the option, you must specify the product type and transaction type for the underlying. If **Cash settlement** is configured for the settlement, a payment for the value of the underlying is made when the option is exercised. If, however, **Physical exercise** is configured for the settlement, the underlying becomes a financial transaction when the option is exercised. Therefore, the underlying is represented on its own **Underlying** tab, which is very similar to the **Structure** tab for the corresponding financial instrument.

Example: currency option

An example of an underlying is the completion of a currency option on 02/13/2007 with European exercise deadline of one month and a premium of 1,000 EUR on 02/14/2007 (see Figure 3.22).

It is based on a forward exchange transaction for the exchange of 100,000 EUR into USD on 05/10/2007 at a rate of 1.3 (see Figure 3.23). This tab is similar to the **Structure** tab for a foreign exchange

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transaction displayed in Figure 3.2. Because the header of the data screen contains the option data, however, the general data for the underlying is displayed in a separate **Underlying** area. It is also not possible to perform cash settlement for the foreign exchange transaction, because it only exists as an underlying.

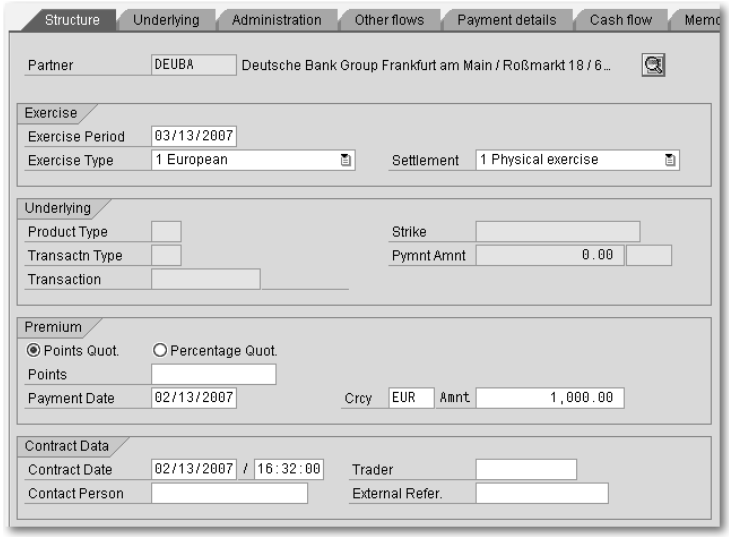

Figure 3.22 Data Screen for Currency Option

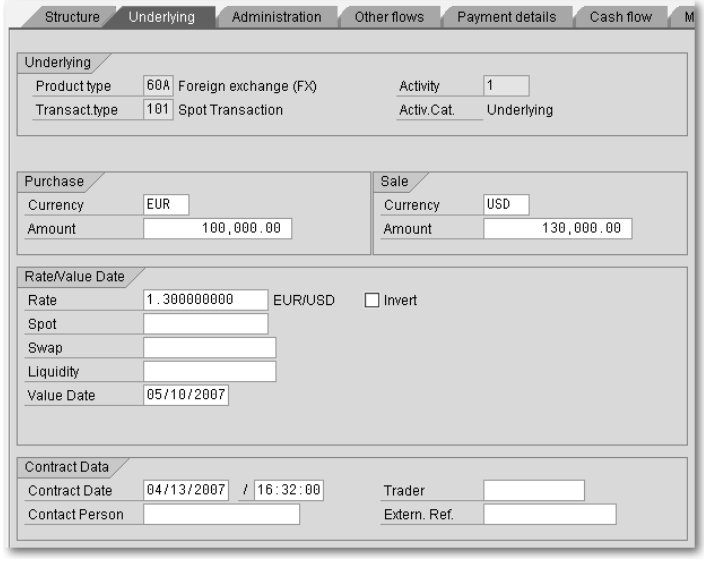

Figure 3.23 Underlying Tab

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3.1.7 Listed Financial Instruments

Listed financial instruments include securities, repos, futures, and listed options. The structure features for these financial instruments are stored in their class master data (see Chapter 2, *Master Data*). A class is uniquely identified via its securities identification number (*SID)*, which must be specified when creating the financial transaction in the entry screen. For this reason, when entering data in the **Structure** tab on the transaction creation data screen, you only need to enter the price or rate, the quantity, the date, and the position affected, specifying the securities account or futures account. Further data on the financial transaction can be entered on the **Trading data** tab.

Example: stock purchase

An example of this is the purchase of 100 share of SAP stock with securities identification number 716460 at a rate of 40.00 EUR on 02/13/2007. They will be assigned to the securities account DEPOT4711 (see Figure 3.24).

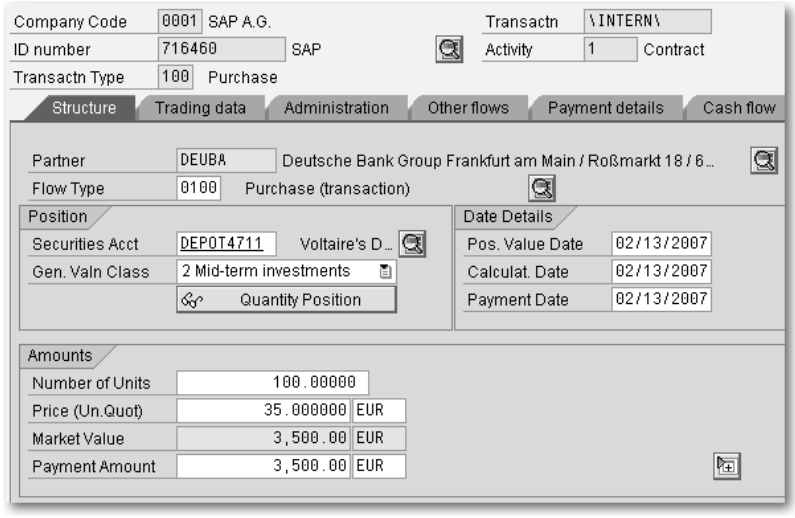

Figure 3.24 Data Screen for the Securities Transaction

3.1.8 Field Selection

The fields on the data screen for transaction creation and transaction processing are preassigned. Because the data screen is used in different situations, however, it is important to be able to influence its appearance based on its application. For example, after posting a

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flow, the fields of the corresponding condition are set to **Display** and can no longer be changed.

Maintaining the field selection

Equally, the user can influence the display attributes for a field via Customizing, under **Treasury and Risk Management • Transaction Manager • General Settings • Transaction Management • Define Field Selection**, by setting a tab, a field group, or an individual field to **Hide**, **Required entry**, **Optional entry,** or **Display**.

If conflicts arise between the application and the settings made by the user, the preassigned application settings will override the user settings.

Example: field selection for OTC interest swap

If, for example, you are working with an OTC interest swap with product type **62A** and company code **0001**, and you want to define that only fixed interest on the outgoing side can be swapped for variable interest on the incoming side, then you can proceed as follows.

In Customizing **Treasury and Risk Management • Transaction Manager • General Settings • Transaction Management • Define Field Selection** you double click on **Field selection definition**. Click the **New entries** button to create a new field selection and assign the name **SWAP_PAYER** and product category **620**. After double-clicking on the line, you set field groups **862** and **865** to **Required entry**, and field groups **863**, **864,** and **866** to **Hide**. Then save your entries.

You are returned to the initial point in Customizing, **Define field selection**. Double-click on **Assignment to product types and company codes** and press the **New entries** button to make a new entry with product type "62A", company code "0001", and field selection "SWAP_PAYER".

You can use the same method to set all fields for the **Settlement** activity to **Hide,** for example.

[+] Finding an Active Field Selection

To see whether a field selection is active in the data screen during transaction creation, enter "FMOD" into the **OKCODE** field and press **Enter**. A message is displayed in the status line, specifying whether, and, if so, which field selection bar is active for the financial transaction.

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3.1.9 Activities

A financial transaction has different status values as it passes through different trading or back office processing functions. Activities are used to reflect and represent these clearly. A new activity is created as soon as a new status is reached. At any given point in time there is only one active activity, and during an activity transition the new activity is activated and the previous activity is deactivated. One exception to this rule is interest rate adjustment (see Section 3.3.1).

Table 3.6 displays the possible activity types.

Activity types

Activity type	Financial instrument
Contract	All
Contract settlement	All
Order	Securities, foreign exchange, OTC interest derivatives, listed transactions, options
Fixing	Foreign exchange
Termination	Deposits at notice, OTC interest derivatives, options, securities lending
Termination settlement	Deposits at notice, OTC interest derivatives, options, securities lending
Rollover	Fixed-term deposits, securities lending, foreign exchange
Rollover settlement	Fixed-term deposits, securities lending, foreign exchange
Knock-in	Options
Knock-in settlement	Options
Knock-out	Options
Knock-out settlement	Options
Exercise	Options
Exercise settlement	Options
Expiration	Securities, OTC interest derivatives, listed transactions, options
Expiration settlement	Options
Interest rate adjustment	OTC interest derivatives, interest rate instruments

Table 3.6 Activity Types for Financial Instruments

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Activity type	Financial instrument
Underlying	Securities, foreign exchange, options, OTC interest derivatives
Offer	Fixed-term deposits, foreign exchange
Simulation	Fixed-term deposits, foreign exchange
Due date	Repo

Table 3.6 Activity Types for Financial Instruments (cont.)

Processing category

In Customizing, you must specify a *processing category* when defining the transaction type. This defines the possible activities and their sequence. If the possible processing categories for a financial instrument are stored in the system, then the sequence of order, contract, and termination is possible, for example. Because of the large number of possible activities, options also have a lot of different processing categories. You can use the processing categories to specify the specific processes that you use.

[+] History

You can display the current activity for every single financial transaction, as well as all previous activities, using trading function **History**.

3.2 Trading

In transaction management, trading begins with the preparation of financial transactions that can be followed by a trading decision. A trading decision leads to a trading function, leading to the creation of transactions or the exercising of rights.

To prepare financial transactions for the fixed-term deposit and foreign exchange financial instruments, you can solicit offers and perform simulations. You also have a range of tools that you can use on all financial instruments to help you to make the right trading decision.

With a trading decision, you can reach an agreement with your business partner on a new financial transaction or a change to an existing transaction. To implement the trading decision, you must perform a trading function. You can do this using the transaction creation and processing processes described in Section 3.1.2.

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