CHAPTER ONE

1 Role of Treasury in a Global Corporation

AS BUSINESSES GROW AND BECOME more complex and competitive, and markets become closer and more interrelated, the dimensions that need the attention of a transnational corporation's board and management increase dramatically.

While the core business and operations themselves require direct attention, the money that needs to flow through the veins and arteries of the organisation as well as its various dimensions require detailed expertise and focus, a team that understands the working of money and markets, from both a tactical and a strategic standpoint.

That is where the Treasury team puts up its hand to support the chief executive officer (CEO), chief financial officer (CFO), the board, and the business units in ensuring that the business side of the company works unhindered, by setting a broad monetary platform for businesses to grow and outperform.

INTRODUCING TREASURY LEADERSHIP

We first introduce the concept of Treasury Leadership, wherein Treasury positively influences the performance of the firm and drives the organisation toward industry and segment leadership. Treasury Leadership creates an environment that fosters excellence of capital building, execution, and support across all aspects of Treasury and works with the business to produce outperformance.

Treasury Leadership is hence translated into being a path-breaking and cutting-edge Treasury comprised of:

- Best practices in Treasury management
- Most efficient turnaround times
- Highest degree of control
- Most motivated and skilled employees with a great work–life balance
- Zero defects or errors on processing
- Optimum cash and liquidity
- Highest visibility of firm-wide cash flows
- Ability of the business to set newer standards for industry performance
- Firm's outperformance over competition through well-managed Treasury processes, funding, and risk management
- Most stable and environment-proof risk management
- Great partnership with other group functions to increase firm value
- Treasury seen as an attractive function to work in

The three components of Treasury Leadership (depicted in Figure 1.1) are:

1. **Treasury Design**. Creating the right processes, structures, and approaches at the right place with the right infrastructure and the right people
2. **Treasury Culture**. Enabling an atmosphere of knowledge and positive teamwork to ensure highest work and motivational standards

FIGURE 1.1 Components of Treasury Leadership

3. **Treasury Fitness**. Assessing the functioning of the Treasury, similar to a fitness test for the human body, to identify potential pain points and to prevent any significant potential breakdown

We cover the concept of Treasury Design and Treasury Culture in Part One and introduce Treasury Fitness in the online content.

The world of Treasury deals with the flow of money—the flow of money through the balance sheet, from sources of capital to its financial uses. The idea that Treasury will be the storehouse of money or capital for the firm is extended here: Treasury flows work in tandem with the business of the firm, through the supply chain. Suppliers provide raw materials that are held as inventory, converted to finished products through the manufacturing and production process, and finally sold and delivered to the customer. The flow of money is in the opposite direction to the flow of goods or services, and forms the basis of the financial supply chain flows, or commercial flows, of the organisation. Money due to the supplier becomes an accounts payable, which finally gets paid out. Money owed to the firm by the customer becomes an accounts receivable, until it gets realised and money is paid into the firm's account. Many of these terms will be further elucidated in later chapters.

The funding and movement of money associated with these commercial flows is done through Treasury. Figure 1.2 shows the essence of Treasury flows and their linkages with those of the financial supply chain.

The entire process requires capital in order to run. Until the customer pays the firm, the inventory, operations and supplies need to be funded. Proceeds from sales received across locations need to collected and deposited, so that payments can be

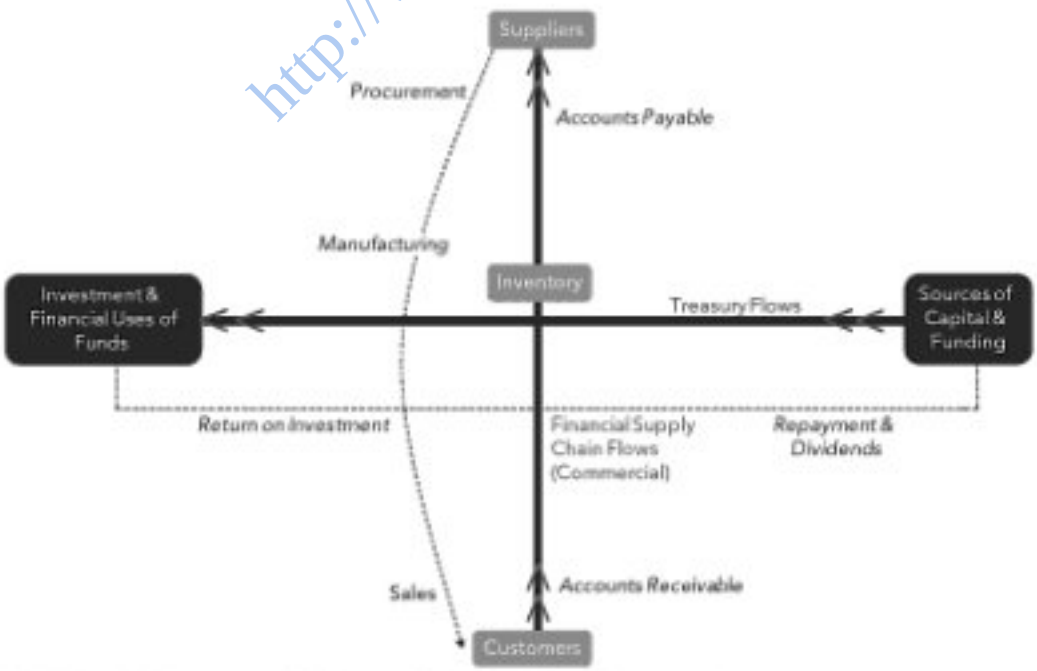

FIGURE 1.2 Treasury and Financial Supply Chain Flows: A Context

made from those or other locations for purposes of running the business. Accounts need to be maintained in these locations, perhaps in different currencies, and these accounts need to be managed. Trade transactions need to be funded, and documents must be prepared and used. The entire aspect needs to be planned and executed, and this forms the basis of one of treasury's key roles, which is to handle transactions as part of cash management, managing the cash and funds of the organisation.

It is preferable to use the firm's own money to make these payments, and hence the monies need to be moved efficiently from one location to another, making them available where they are needed. Where it is not possible to use the firm's own cash, alternative arrangements need to be made—for example, borrowing from a local bank. Even if access to these funds becomes difficult, the firm still has to keep running—ensuring that there is money available when required ensures liquidity for the firm. Excess cash needs to be invested securely to generate return for the firm until such time that the cash is needed. Long-term projects require capital—this needs to be arranged at the least possible cost and putting least pressure on the firm's cash flows. The organisation needs to be creditworthy, and the financials of the firm have to be aligned to ensure that the performance is consistent with or better than expectations in order to sustain and improve the creditworthiness of the firm and hence its ability to generate liquidity and lower its cost of funding. This calls for managing the balance sheet efficiently, and with the right structure. This entire set of activities, the second of treasury's key roles, covers managing the balance sheet and the firm's liquidity (which is another aspect of cash management).

As the firm moves across borders, sells or buys from another country, or exposes itself to other counterparties and undertakes financial transactions, it exposes itself to risk or uncertainty that the business and financial objectives will not be met because of a change in some factors—perhaps market movements, defaults of trade partners or banks, or internal errors. The management of these risks forms the third of treasury's primary roles.

How do the Treasurer and his or her team at Treasury achieve these goals? What do they have to do to make sure that their job is done and the support provided to the firm and to business and other functions is robust? How do they fit into the global context of the organisation?

We answer some of these questions in the book.

ORGANISATION STRUCTURE AND RESPONSIBILITIES

Prior to describing the treasurer's fit in the organisation, it would be useful to refresh our understanding of a common multinational organisation and its structure. Figure 1.3 provides a snapshot of the roles in typical in-country operations and the linkages with cash and goods/services flows. This is also explained in detail in the section on the financial supply chain in Chapter 14.

In the country or subsidiary operations, the procurement team would place the order and obtain the goods from the supplier. Credit terms, primarily credit period

FIGURE 1.3 Roles and Organisational Flows

extended by the supplier at the agreed price, or a discounted price if the payment is made earlier, are agreed. On the balance sheet, if the payment is to be made later, a payable is booked. The raw material and components are then warehoused, and the production process creates the final product that is sold by the sales and front-end team to the customer, based on certain credit terms. If the payment is not being made immediately by the customer, a receivable is booked in the accounts. The payment is made to the supplier on or before the due date, removing the payable from the books. The collections team is responsible for obtaining the payment, which, when received in cash into the account, liquidates the receivable on the balance sheet. The cash received from the customers is used to pay the suppliers, pay off any loans taken, or procure fresh supplies.

Figure 1.4 presents a simple Treasury and control structure in a firm.

The Treasurer, along with the financial controller, typically reports to the chief financial officer or finance director. The controller looks after the accounts payable and receivable, managing collections and disbursements and focusing on the accounting and balance sheet aspects of the cash management. The responsibility of managing the days sales outstanding (DSO) and days payables outstanding (DPO) usually rests with the controller. The country and subsidiary operations continue to manage the procurement, sales, and collections processes at their end. The Treasurer then becomes responsible for the liquidity aspects of cash management, working with banks and other parties to provide funding, managing the balance sheet and financials, and managing risk. Increasingly, the Treasurer in many firms is playing a consultative role in the management of the accounts payable (AP) and accounts receivable (AR), monitoring the DSO and DPO (since they form a core part of the firm's financial ratios and assessment), and providing inputs to various entities on the credit and financial impact of their decision making. The last section of this chapter provides a window to a day in the life of a Treasurer, while Chapter 3 sheds more light on each of treasury's key themes and how they all fit in together.

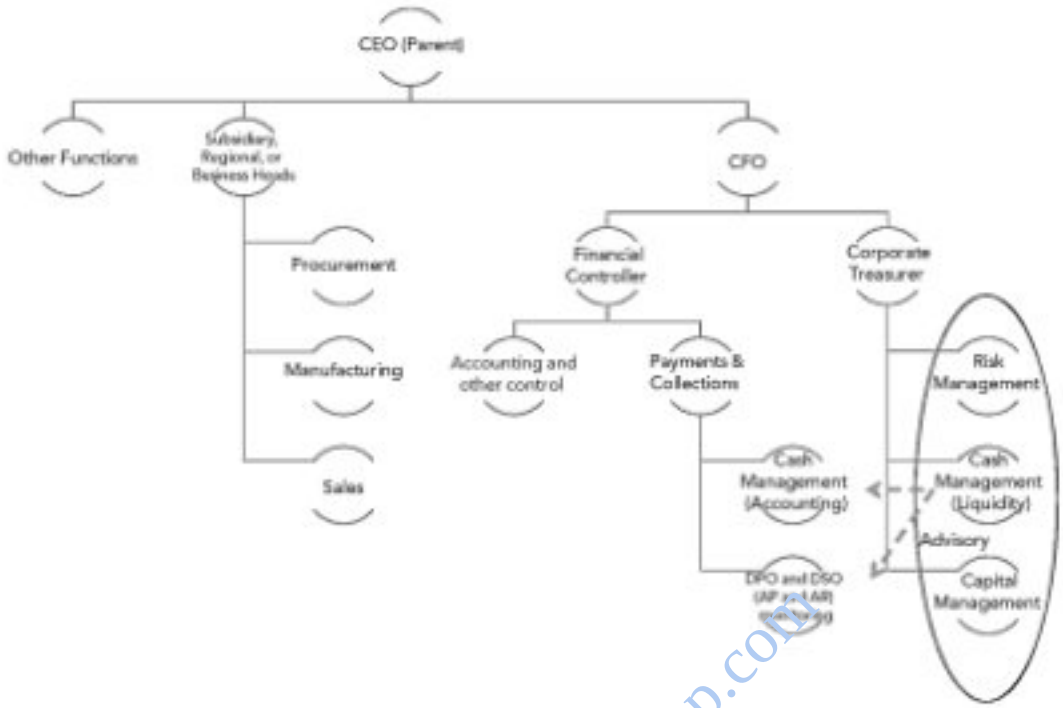

FIGURE 1.4 Treasurer in the Organisational Context

The role requires the Treasurer to have varied skills and an approach that fosters teamwork with a solution-centric approach. The concept of a Treasury Culture is elucidated in Chapter 3.

The Treasurer and the Treasury team have to interface with, on a regular basis, entities from outside as well as in-company functions. Figure 1.5 illustrates some of these contact points for a corporate Treasury.

Some of the external interfaces of the Treasury team are:

- **Regulators**. The regulatory aspect of capital and fund flow, apart from market operations, makes Treasury a critical contact point for regulators. Compliance with local regulations and law is paramount. Areas for which Treasury is directly responsible—the movement of money and the participation in local markets for various reasons, such as investment, risk management, foreign currency requirements, trade flows, collections and payments—are areas where such regulations and laws could be contravened, because of process lapses, operational error, fraud, or other reasons. Hence, central banks, securities and exchange commissions and regulators, registrars of companies, and ministries in relevant departments are some of the important regulators with whom an interface is required.
- **Exchanges**. If the entity is listed on the exchange, the Treasurer, as the key interface for execution of capital, would be in contact for compliance and reporting purposes
- **Banks**. The Treasurer is usually the key contact point for banking relationships for both the bank and the company. The Treasury puts together the various

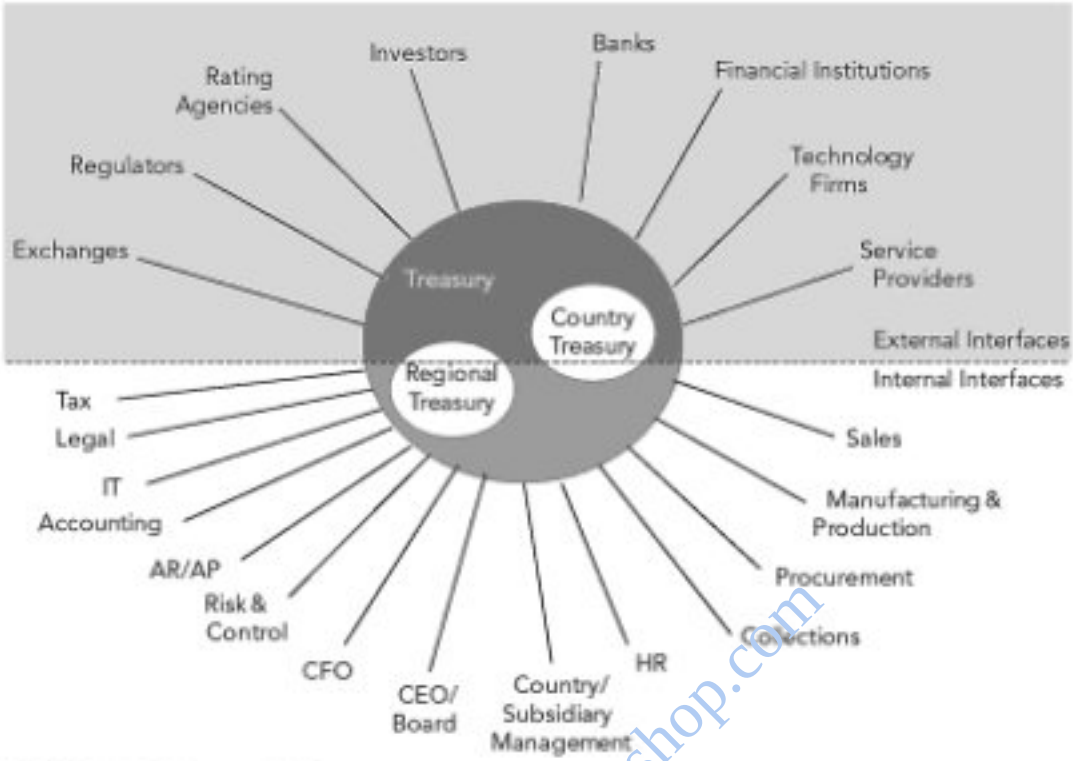

FIGURE 1.5 Treasury Linkages

geographical, operational, funding-based, cash management, trade, hedging, markets, and account operations that are the key ingredients of the banking potpourri. Also, for longer-term capital market transactions, the Treasurer remains the key driver and hence the main contact point for the bank.

- **Investors**. As the company goes out to acquire diversified and alternative sources of capital, the Treasurer, being in charge of capital raising and also having the most visibility on the firm's balance sheet, financials, and cash flows, would be the key resource for investors to have a discussion with to gain a broader understanding of the firm's financial position and hence their return expectation. In many organisations, the Treasurer is also given the responsibility of managing investor relations. This is a logical additional responsibility given to the Treasurer but is not technically a Treasury function.
- **Rating agencies**. The Treasurer is responsible for the credit rating of the firm and for achieving the optimal credit rating. Hence the interface with the rating agencies (and sometimes analysts) is driven by the Treasurer.
- **Financial institutions**. In many countries, financial institutions (nonbanking finance companies, funds, money market players) remain a source of capital as well as originators of useful investment products and channels (funds, investment banks, etc.). In line with the duties of Treasury, the interaction with financial institutions for both origination and investment is driven by Treasury.

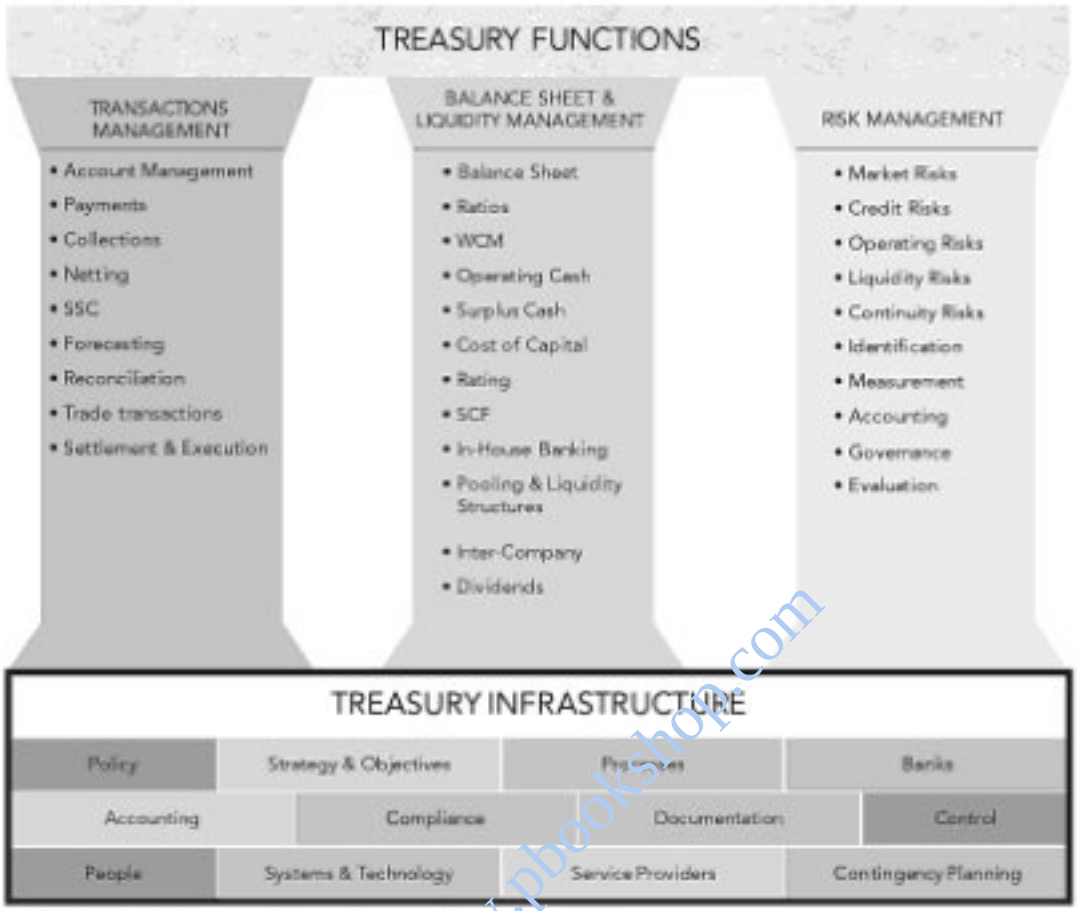

FIGURE 1.6 Treasury Functions and Responsibilities

Transactions

The transactional and operational element of cash management and the movement of money is the first of the three functions. This includes:

- Managing accounts
- Monitoring and enabling payments and managing the payment process and timing
- Monitoring the collections process and facilitating the concentration and movement of funds received
- Coordinating the process of consolidating and netting payments for increased efficiency
- Supporting financial control in the creation of a shared service centre to optimise the AR and AP processes
- Establishing an appropriate forecasting process for cash flows to enable better planning and management, and coordinating with various business units and functions
- Reconciliation of accounts and cash flows
- Execution of trade-related transactions, such as letters of credit and bank guarantees
- Settlement and execution of cash flow and cross-border transactions

Balance Sheet and Liquidity

The balance sheet and financials and liquidity element of the organisation's money and assets and how it funds these assets is the second of the functions. This involves the management of:

- Balance sheet
- Ratios
- Working capital management (WCM)
- Operating and surplus cash
- Cost of capital
- Credit rating
- Supply chain finance (SCF)
- In-house banking
- Pooling and liquidity structures
- Intercompany financing and capital
- Dividends

I often get asked the difference between cash management and liquidity management. The following note articulates the same.

What Is the Difference between Cash Management and Liquidity Management?

Liquidity management for a company is a part of cash management. The overall ambit of cash management is the movement of money from where it is sourced to where it is needed. Liquidity management is a subset of that—ensuring that funding is available at a location in a currency required, when it is required, and optimally utilising the cash—if the money is not needed in one location, it could yield better returns used elsewhere.

Risk

The element of managing the various financial risks because of market movements, credit deterioration, operational issues, market liquidity, and contingency situations is the third of the functions. This involves the management of:

- Market risk (such as foreign exchange, interest rates, commodity, etc.)
- Credit risk (includes counterparty and cross-border risk)
- Liquidity risk
- Operational risk
- Contingency risk

This management can be accomplished using many methods with various elements of rigour and flow. This book covers the use of Aktrea's Set IMAGE© methodology, which involves a simple continuous five-stage process.

1. Identification of risk
2. Measurement of risk
3. Accounting and reporting of risk
4. Governance of risk
5. Evaluation of the risk management process

Treasury Infrastructure

Managing and working with the resources that the Treasury team needs to perform their functions and fulfill their responsibilities form a core part of the Treasury function's activities. The various elements that make up the infrastructure for Treasury Functions are discussed next. Guidelines for some of these elements are included in the Toolkit in Part Five.

Policy

Policies are the core of a treasury's functioning. It is important to have a thought-out but simple policy approved at the board level and reviewed periodically. The Treasury policy will set out all aspects of the treasury's functioning, including transactions, balance sheet and liquidity, and risk management, and also the reporting and review methodology for these functions. A sample policy is provided in the online appendices.

Strategy and Objective

It is essential to define treasury's objectives and strategies as well as how to measure its performance. Whether Treasury is a cost centre or a profit centre, whether it needs to be an active Treasury or a passive one, are all aspects that have to be identified up front and the objectives must be set accordingly. Chapter 27 has a detailed set of key performance indicators (KPIs) that can be a starting point for goal setting and performance measurement.

Contingency Planning

For treasuries that work across countries, regions, and continents, having a continuity-of-operations plan in place is critical. The more centralised the operations, the more important the need for a well-planned, tested, and robust contingency plan.

Processes

Processes and their management can differentiate treasuries. Smooth and efficient processes result in quick turnaround and service levels, which in turn reduce operating and financial costs and increase employee motivation. The importance of operations is discussed in Chapter 5 and in the Toolkit (Part Five).

Control

Given the linkages with money flows of the firm, Treasury needs the highest standard of control to prevent losses owing to operational, compliance, regulatory, and fraud reasons. Part Five covers the importance of some aspects of operations and control and contains an operations and control checklist that can be built on to create a robust control environment for an organisation.

Compliance

For a multinational organisation with a presence and operations across countries, local regulations and laws have to be complied with at all costs, and processes, systems, reporting, and other statutory aspects have to be aligned accordingly. In some cases, the local regulations could determine the course of operations as well.

Documentation

With the background of cash and money flows, watertight and properly executed documentation becomes one of the backbones of a robust Treasury.

Accounting

Different accounting norms across locations make it imperative for Treasury to be aligned with the accounting process. Since the Treasurer is responsible for the balance sheet and the capital structure, the accounting methods, translation, and recognition of revenues and expenses make a difference to the firm's profitability and financial position. Some transactions may have an economic benefit but could be unfriendly from an accounting standpoint. Mark-to-market values on hedges and investments could also create volatility in the financials. Market moves could change the values of assets, liabilities, and cash flows. Given the Treasurer's responsibility to manage uncertainty, which includes the variability of the balance sheet, the Treasurer's linkages with the accounting systems and the financial controller become paramount in the smooth functioning and performance parameters of Treasury.

Systems and Technology

Always enablers, systems have become an integral part of the modern Treasury, linking every part of the globe to increase visibility of cash flows, managing risks, and deploying cash where and when it is needed. The advent of great banking platforms and outsourced solutions has also dramatically increased the ability to leverage systems and technology.

Service Providers

The use of various service providers for activities such as such as systems, integration, netting, reconciliation, system maintenance, and the like is becoming more and more

popular, to ensure greater degree of specialisation, scalability, and control. Outsourced treasuries, covered in more detail in Chapter 30, are also returning in popularity.

Banks

Banks form the infrastructure of treasury's architecture. No Treasury is complete without a banking partner. Whether the Treasury is a simple one with operations only in one country or a complex group-wide, in-house bank acting as a bank for all group companies, an efficient suite of banking services and solutions is paramount to delivering value to the business. Throughout our discussions, the roles and offerings of banks will be discussed. In the Toolkit, we also provide a note on how to go about picking the right banking partner.

People

Systems and process define a Treasury, but the people run it. Having the right people at the right places with the right approach and motivation is a necessity for a great Treasury. The roles in Treasury offer empowerment, opportunity, learning, and perspective and are a great breeding ground for finance and business leaders of tomorrow. In Chapter 3, we introduce the concept of a Treasury Culture, an empowering approach for a stronger dynamic in building a cutting-edge Treasury.

Treasury infrastructure, while being the non-glamorous part that does not hit the headlines when times are good, plays one of the most pivotal roles in the successful functioning of a Treasury.

KPIs AND DELIVERABLES

Now that we have explored the role that Treasury plays in the organisation and the context of its operation, it is important to explore the value that Treasury creates, its objectives and goals defined adequately and transparently.

Given the linkages that Treasury has with other functions, and the interdependence of other functions and extraneous factors, such as markets, regulations, liquidity, and the banking system, quantifying and measuring treasury's direct contribution to the organisation becomes a complex task. It is compounded by the nature of the Treasury desk, which is also a service unit in many firms, intended to provide robust support to business and operations around the world to ensure smooth running of the company globally. A disruption to operations or the financial supply chain because of an absence of funding, or high volatility in the markets, will impact the organisation as a whole adversely.

Thus we make an effort to identify specific parameters of treasury's performance—its contribution to the financial indicators of the firm—and to directly link the output of Treasury with the overall organisational performance. A detailed set of sample metrics is provided in Chapter 27.

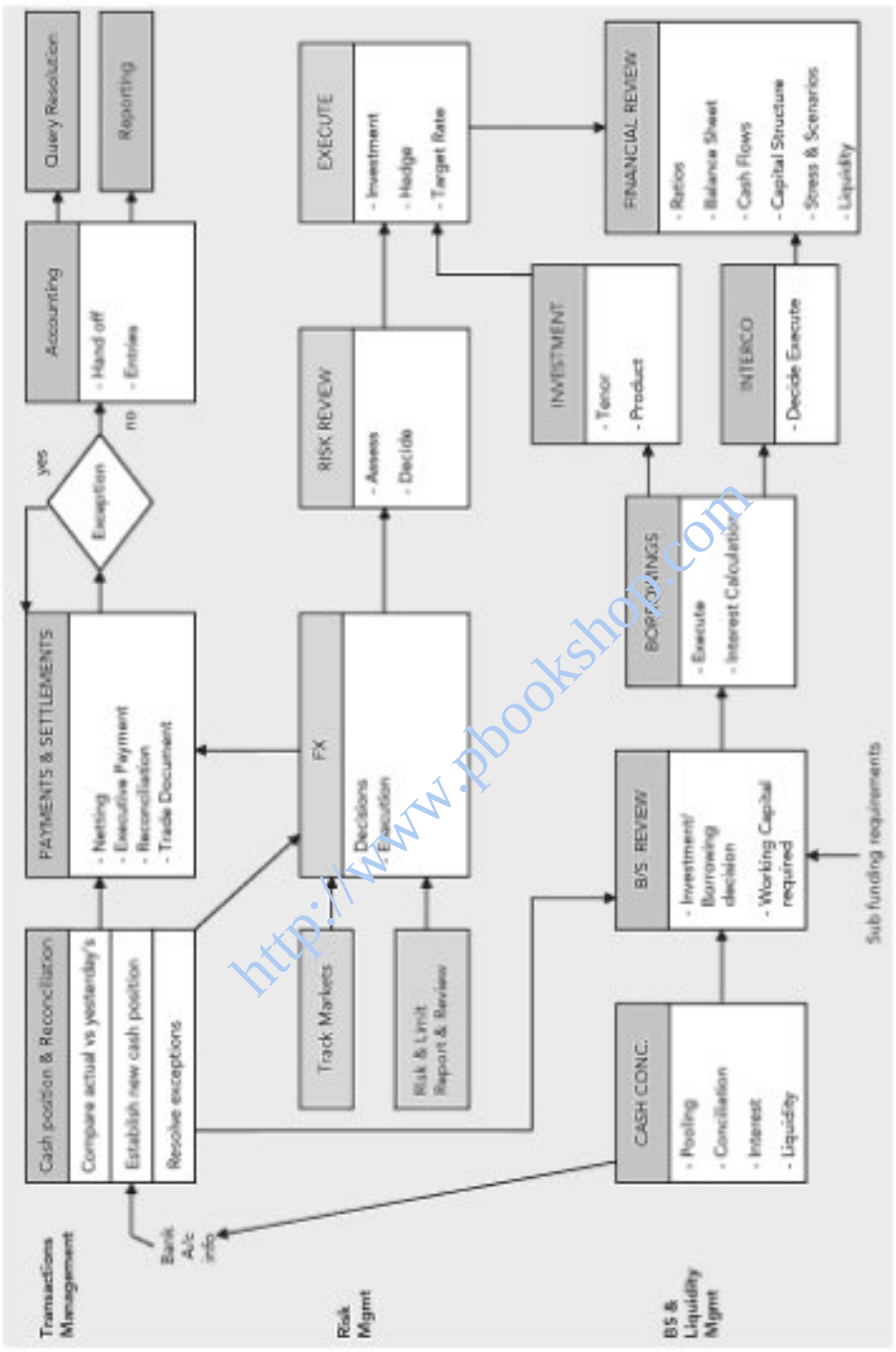

FIGURE 1.8 A Day in the Treasurer's Hot Seat

Payments are made and executed. These include trade-related payments and documentation and netting payments, if applicable. Post-payment reconciliation is done to ensure that all proposed payments have gone through.

If there are payments still pending, these are referred back and resolved.

Meanwhile, incremental borrowings are executed, and the money inflows are recognised.

After a well-earned lunch, the Treasurer is back at his or her desk reviewing the risk management aspect, looking at the overall risk positions and taking stock of any incremental hedges that need to be put out. Corrective actions on any limit excesses are also planned at this time. Discussions with bankers and economists on general market views reinforce some of the views and decisions to be made.

On the balance sheet side, investment decisions are made. Intercompany loans and money movements are identified and executed.

Risk management and investment transactions are then executed with banks and professional counterparties, and the deals are booked in the system.

On the transactions side, the Treasury ensures that the handoff entries to the general ledger system or enterprise resource planning are posted and accounting entries are passed into the back end. Any reconciliation issues with the books of the firm and Treasury systems are also reconciled, and reverse handoffs are posted.

Queries coming in from the field are resolved after this. (Very critical queries are likely to have been resolved earlier in the day.)

All reporting activities are also finalised and circulated before the day ends.

The final piece of the daily puzzle is filled in when the Treasurer reviews the financials of the firm. Any large material changes or expectation of changes based on forecasts are also explored. Results of stress and scenario analyses may also be examined at this time, and discussions may take place on possible resolutions.

SUMMARY

In this chapter, we went through the context of the Treasurer's role in the organisation, along with key responsibilities and functions in Treasury. We discussed the important aspects of Treasury infrastructure that help make a Treasury more robust. We concluded with a look at some of the KPIs for a Treasury and went through a typical Treasurer's day, across various themes of transactions management, balance sheet and liquidity management, and risk management, starting off with time-critical morning activities and ending with reviews and matters of strategic importance.

CHAPTER TWO

2 Treasury Design

THE CONCEPT OF TREASURY DESIGN is simple: to organise the Treasury function, its people and processes, working toward efficiency, elegance, and utility.

The starting point for Treasury Design is a study of the key performance indicators (KPIs), since the existence of Treasury and its structure has the eventual goal of achieving these performance goals. These KPIs were mentioned briefly in Chapter 1 and are further elucidated in the Toolkit in Part Five.

Since it is possible to have more than one route and model to achieve similar goals, other considerations come into play in designing an appropriately organised Treasury for the organisation. These considerations are:

- Lower cost
- Lower turnaround times for decision making and resolution
- Higher degrees of control and wider net for control
- Lower cost of capital and increased availability and diversity of capital
- Legal environment of various locations
- Accounting practices followed by the firm and accounting environment of the geographies in which the business is being done

- Tax aspects
- Automation required
- Existing and future volumes
- Growth and increase in business and geographies
- Expectation of turbulence of competitor and industry landscapes

The three Treasury themes or functions—the management of transactions, balance sheet and liquidity, and risk—are the foundation for these KPIs and considerations.

Figure 2.1 shows the development of the Treasury Design process.

KEY ELEMENTS OF TREASURY DESIGN

Next we run through the key elements of Treasury Design and then explore some models and how they can be made to work.

System Design

The importance of systems and technology and their role in Treasury was introduced earlier. Systems must be designed with various aspects and considerations in mind. The Toolkit in Part Five contains a detailed overview of the Treasury system selection, implementation, and integration process.

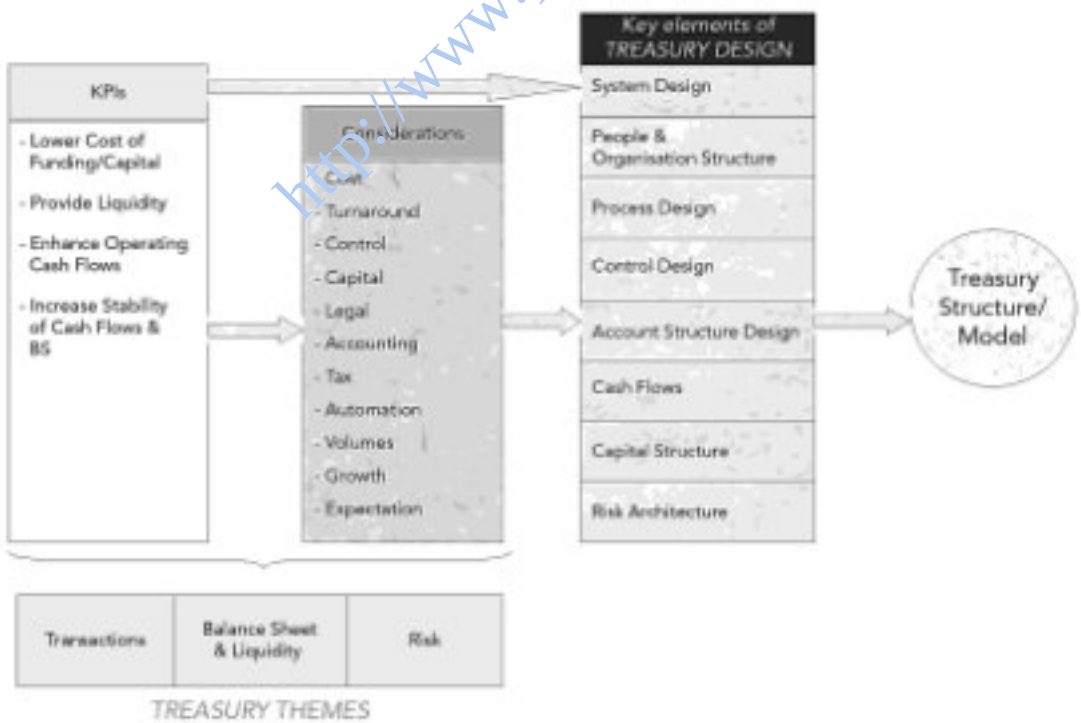

FIGURE 2.1 Treasury Design

People and Organisational Structure Design

This people and organisational structure design entails identifying the right people, equipping them with the right skills, and putting them in the right jobs with the right reporting line. It is also linked to the decision of the degree of centralisation and outsourcing.

Process Design

Based on creating watertight processes with controlled and measurable handoffs, the process design forms the bulwark of the Treasury function.

Control Design

A strong control element is a safeguard against potential hazards and situations around implementation and execution. Even if the rest of the Treasury Design elements are put in place, a weak control design element will not help sustain the strength of the implemented Treasury Design and processes. We explore the control element through the various chapters and end with a detailed overview in the Toolkit in Part Five.

Account Structure Design

Covered in more detail in Part Two of this book, designing the right account structure is an often-underrated element. Ad hoc account creation can result in increased cost, lower control, and poor visibility and utilisation of cash. In some countries, regulatory conditions could also force the decision on which account structure to go with.

Cash Flow Design

Cash flows can occur across locations, in various forms and currencies at different times. Consolidating and concentrating these flows creates greater efficiencies through reduced cost, increased control, and better visibility of flows.

Capital Structure

One of the Treasurer's key areas of delivery is ensuring that the firm is adequately capitalised and that the price the firm pays for the capital is the lowest in the circumstances. Capital structure also has a bearing on the firm's credit rating and financial perception and performance, making it one of the critical areas evaluated by potential investors and lenders.

Risk Architecture

The last, but one of the most critical, components of Treasury Design, covered in detail in Part Four, is that of risk management and its architecture.

We now explore the evolution of Treasury models, with snapshots of various models, and discuss some of their benefits and concerns.

INTRODUCING CENTRALISATION

Centralisation as a topic has been one of the larger areas of focus of Treasurers over the past few years. Growing businesses, increasing geographies, evolving technologies and emerging markets have necessitated fresher approaches to managing cash and risk more efficiently.

Centralisation itself can cover a wide gamut and array of themes. The concept itself evolved to achieve three key objectives:

1. Increase efficiency
2. Reduce cost
3. Achieve deeper and wider control

What are we actually centralising? Centralisation involves concentrating aspects into one physical location. The factors going into the choice of these locations vary by company and situation and are described in detail in the Toolkit in Part Five. The aspects that can be centralised may be broadly classified into the following:

- **Accounts and financial activity**. Moving the actual venue of where the accounts and financial activity, such as capital raising, cash concentration, risk management, and investments, are situated is one of the aspects. The drivers of these will be location specific, such as availability and cost of capital, cost of maintaining accounts, accounting status, tax friendliness, any potential financial benefits on offer, and the like.
- **Systems and infrastructure**. Cost, control, backup, access, and service providers, among other aspects, determine the location of centralised systems and infrastructure.
- **People (processing, execution, and decision making)**. Location of the people actually performing these roles could be different from the locations of the accounts and systems. For example, a centralised Treasury with accounts in Singapore could be operated by people based in London with the databases and systems located in Hong Kong.

With these objectives and areas in mind, we explore the context and themes of centralisation, depicted in Figure 2.2.

The idea is to move from multiple systems, nonuniform processes, different legal entities having different degrees of control in different locations, various service providers, numerous bank accounts in various currencies, and varied degrees of support, toward an operation that minimises all of these; the end result is close to having uniform systems and processes to support various entities from one location, with a rationed set of service providers, minimal bank accounts, and consistent service levels.

Various benefits accrue from these that tie into the three key objectives discussed earlier.

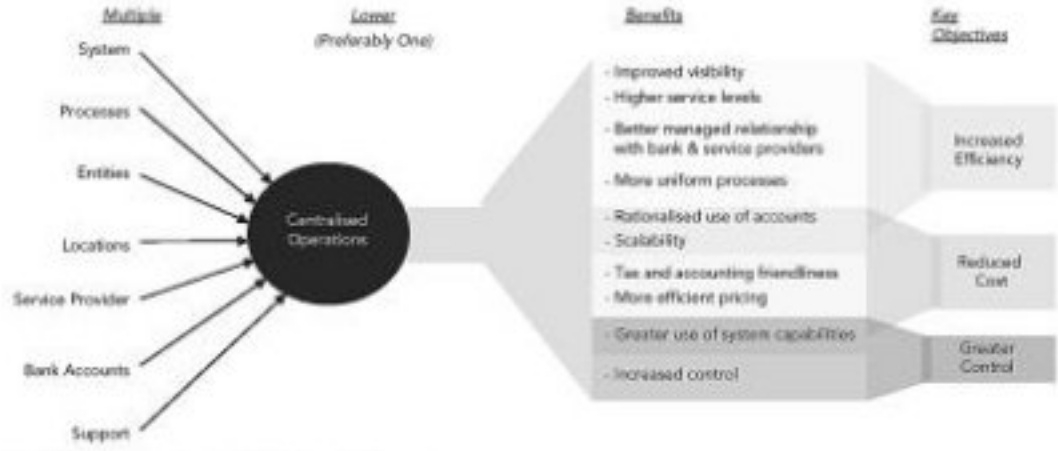

FIGURE 2.2 Centralisation Themes

EVOLUTION OF TREASURY MODELS

We now explore the various models of Treasury and what they mean across various parameters.

Figure 2.3 (not to scale) summarises the value added across various stages of centralisation.

The definitions here are only indicative and different companies follow different models of implementation and achieve varied degrees of success and benefits from these models. Some companies do not follow a progressive, stage-by-stage route but prefer to implement entire structures at one go.

Decentralised Treasury

The decentralised Treasury is the basic model, where many companies start off. Decision making across various criteria is decentralised at a subsidiary or country level, with headquarters (depicted as HQ in Figure 2.4 and subsequent figures) only consolidating the numbers and framing the overall group policy. This is more in vogue in younger firms where business leaders in each country run the businesses more or less independently with an entrepreneurial and sometimes unstructured approach. The dependencies and control then depend very much on the people running them, and consistency of results and value is not guaranteed.

As can be seen in Figure 2.4, the bulk of activities in the boxes are being done by the local teams on the ground. Aspects such as systems, reporting line, and performance measurement can be done centrally at headquarters or locally, or a hybrid model can be developed.

The benefits of this model are increased flexibility and speed of operations. Control, economies of scale, and lack of synergy could contribute to increased costs, potential losses, and larger degrees of exposure and risk to the firm's financials.

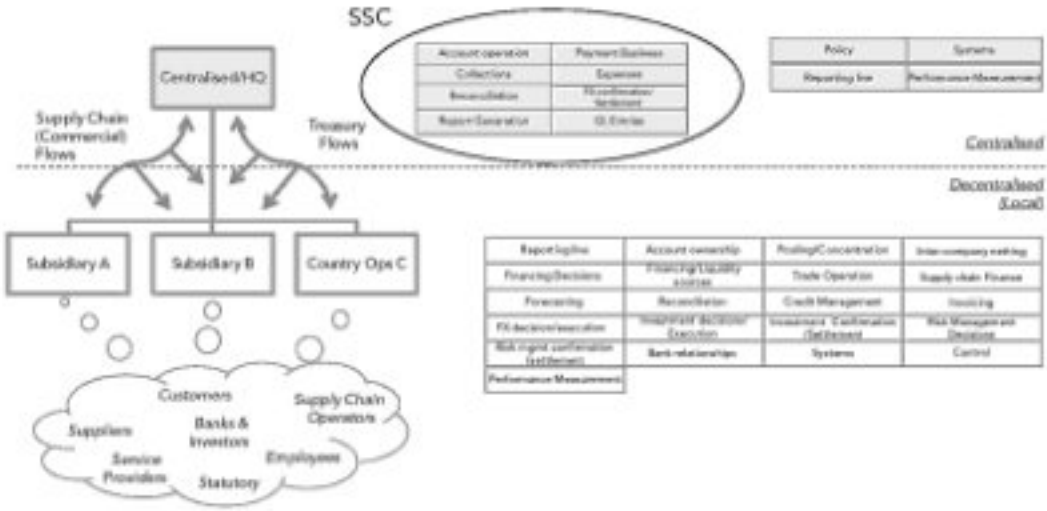

FIGURE 2.5 Shared Service Centre Model

payroll, general ledger (GL)/enterprise resource planning entries, and report generation are typically handled by the SSC, sometimes referred to as a payments factory (an accurate but incomplete description). More evolved SSCs also perform confirmation and settlement of foreign exchange (FX), risk management, and investment transactions.

The SSC technically covers areas that report to the financial controller. While it retains very close linkages to the functioning of the Treasury, it can be distinct from an organisational standpoint. Given the closeness and proximity, transactionally and conceptually, to Treasury activities and process and the interconnectedness of the two, we have included these areas in the scope of this discussion. Figure 2.5 shows the activities typically housed in an SSC.

Basic Treasury Centre

The basic Treasury centre (TC) model (see Figure 2.6) adds value in parallel to an SSC. Here, more complicated activities are taken up, and the TC comes under the direct ambit of the Treasurer.

Cash concentration, trade operations, netting, centralised bank relationship management, financing decisions, and FX decisions are made in the basic TC. In addition, account ownership may reside with the TC. What is the key difference between an SSC and a TC? The answer is quite simple: complexity and core functions. The SSC is a typically high-volume, low-complexity shop with lesser decision making and a high process and task orientation. The TC is a typically high-complexity, lower-volume shop that is more oriented towards decision making and policy. Figure 2.7 highlights some of the activities occurring between the two centres.

Various aspects of TCs and SSCs, including structure and location decisions, are covered in detail in the Toolkit in Part Five.

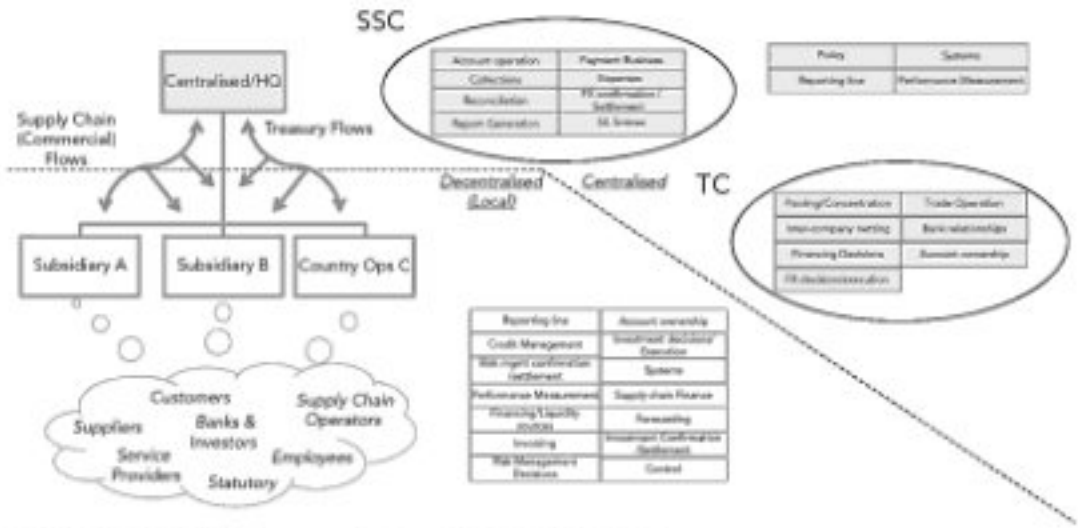

FIGURE 2.6 Basic Treasury Centre Model (with SSC)

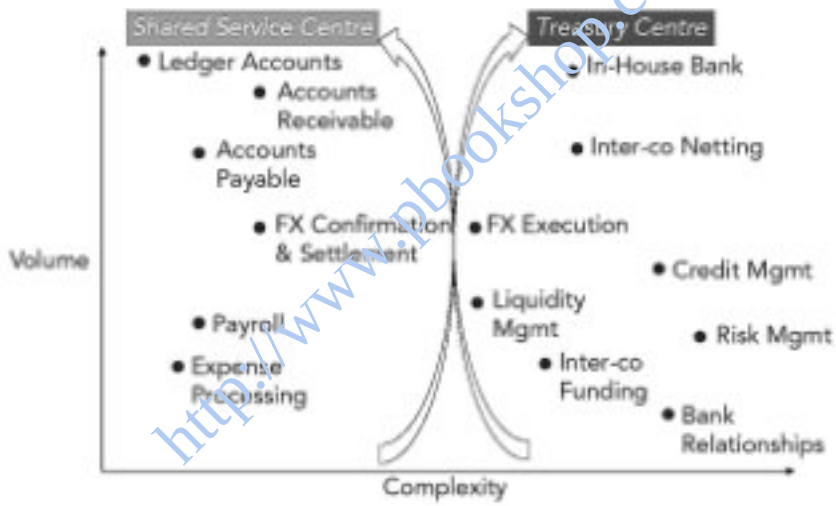

FIGURE 2.7 Division of Activities Between SSC and TC

Picture courtesy of Gourang Shah

Value-Added Treasury Centre

The value-added Treasury centre (TC++) concept takes off from the basic TC, with activities of forecasting, risk management decision making, investment decisions, funding and liquidity sourcing and intercompany funding, systems, control, and reporting all moving to a centralised location. Likewise, the confirmation and settlement of the risk management and investment transactions could move into the SSC or the TC. Now we have reached a stage where the entire Treasury operations are now centralised, with very little activity residual within the subsidiaries or country operations (see Figure 2.8). There may be some variations on this format, depending on regulations regarding outsourcing and ownership.

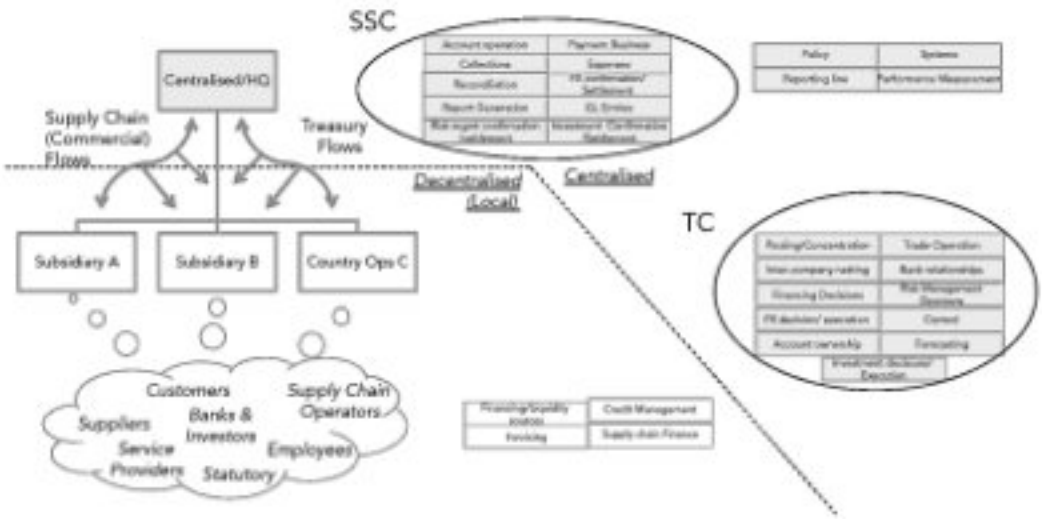

FIGURE 2.8 TC++ Model (with SSC)

In-House Bank

The next stage in the evolution is the concept of the in-house bank, typically as part of the TC (see Figure 2.9) Value-added services such as invoicing (or re-invoicing), credit management, and supply chain financing are taken up here. Most important, however, the TC acts as a bank for all subsidiaries and countries that come under the ambit of the in-house bank. The TC behaves as a banking service company, providing account management, funding, funds transfer, investments, and risk management solutions to the entities. In turn, the TC interfaces with banks and professional market counterparties to execute consolidated transactions on behalf of the entire group.

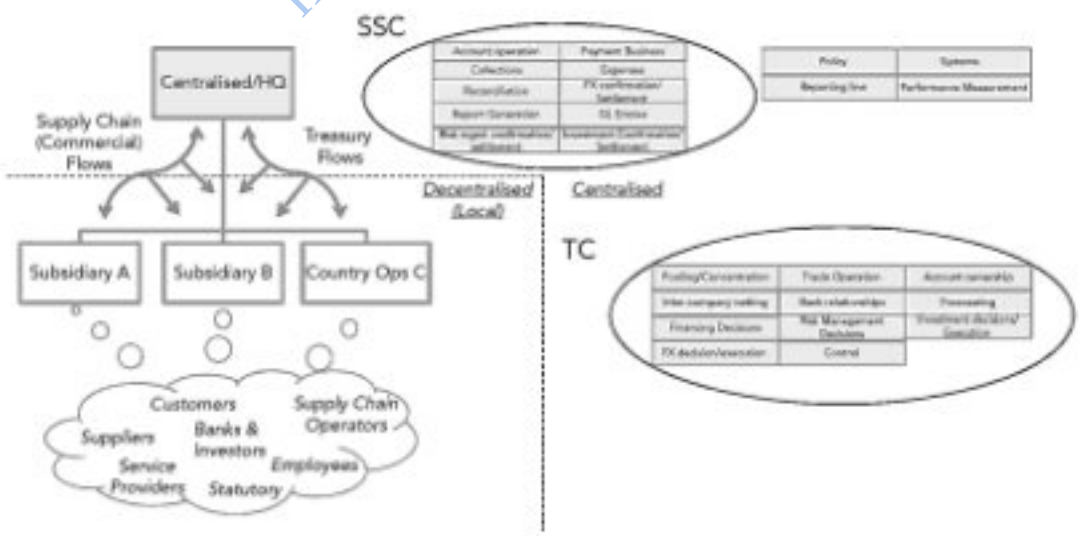

FIGURE 2.9 In-House Bank Model

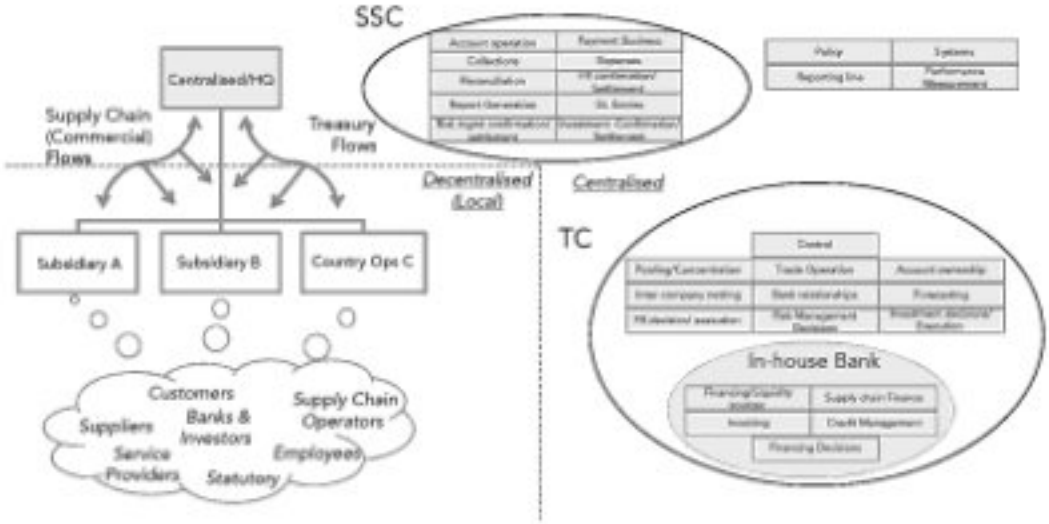

FIGURE 2.10 Outsourced Model

An in-house bank requires a very high degree of expertise and a high process orientation. The scales of the operations and financial transactions of the group must also justify the investment and maintenance cost of the in-house bank.

Outsourced Model

The outsourced model of Treasury works in a rather simple way: Outsource the process-focused or non–decision-making activities and keep the decision making, review, and ownership in house (see Figure 2.10).

Caveats of Outsourcing Jobs and Data

With increasing pressure on employment, many countries are looking adversely at outsourcing value-adding jobs. Also, data protection laws are becoming stringent about keeping confidential financial and strategic data housed in servers resident overseas. These aspects have reduced the speed of the outsourcing bandwagon, and companies would do well to assess the impact of outsourcing across each geography and market prior to embarking on an activity that is effort intensive to put together and expensive to roll back.

The Toolkit in Part Five covers outsourcing in some detail with a checklist on essential aspects of outsourcing.

Figure 2.11 summarises the various processes and centralisation aspects across these sample models. This is only an indicative list. Companies must thoroughly analyse their requirements and situation prior to embarking on this exciting but involved journey.

Progress by Activity

Aspect	Function	Decentralised	SSC	Basic TC	TC ++	In-House Bank	Outsourced
Policy	TC	Central					→
Reporting Line	TC	Local & Central		→	Central		→
Account Ownership	TC	Local	→	Central	→	With TC	→
Account Operation	TC/SSC	Local	Central			→	Outsourced
Payments - Business	SSC	Local	Central			→	Outsourced
Expense (incl Payroll & other Internal)	SSC	Local	Central			→	Outsourced
Collections	SSC	Local	Central			→	Outsourced
Pooling/Concentration	TC	Local	→	Central		→	Outsourced
Intercompany Netting	TC	Local	→	Central		→	Outsourced
Financing Decisions	In-House Bank	Local	→	Central			→
Financing/Liquidity Sources	In-House Bank	Local			→	Central	→
Trade Operations	TC	Local	→	Central		→	Outsourced
Supply Chain Finance	In-House Bank	Local			→	Central	→
Forecasting	TC	Local		→	Central	→	Outsourced
Reconciliation	SSC	Local	Central			→	Outsourced
Credit Management	In-House Bank	Local			→	Central	→
Invoicing	In-House Bank	Local			→	Central	Outsourced
FX Decision/Execution	TC	Local	→	Central			→
FX Confirmation/Settlement	SSC	Local	Central			→	Outsourced
Investment Decision/Execution	TC	Local		→	Central		→
Investment Confirmation/Settlement	SSC	Local		→	Central	→	Outsourced
Risk Mgmt Decisions	TC	Local		→	Central		→
Risk Mgmt Confirmation/Settlement	SSC	Local		→	Central	→	Outsourced
Bank Relationships	TC	Local	→	Central			→
Systems	TC	Local or Central		→	Central	→	Outsourced
Control	TC	Local		→	Central	→	Outsourced
Performance Measurement	TC	Local & Central			Central		→
Report Generation	SSC	Local	Central			→	Outsourced
GL Entries	SSC	Local	Central			→	Outsourced

FIGURE 2.11 Detailed Processes Across Various Sample Models

Hybrid models can also be structured as a combination of these models, where some activities are done in-country or in the subsidiary and the remaining activities done centrally at the SSC or TC.

We now go through a case of Treasury Design for a global company in the growth stage.

CASE STUDY: TREASURY DESIGN FOR A GROWING GLOBAL COMPANY

Any company that thinks globally and has started growing in that direction needs to start thinking in the same way.

Sample company Global Growing Group (GGG) has increased its presence to over 50 countries now and is continuing to grow (Figure 2.12).

The company's unchannelised growth had made decision making complex, involving various people at headquarters, region, and on the ground in the various countries. In some locations, two different businesses in the same country would work independently even though both were 100% subsidiaries of the parent company.

(Continued)

TABLE 2.1 Treasury Reengineering

Theme	Starting Point	End State
Location of Treasury Ops	Decentralised	TC++ model.
Location of AR and AP Ops	Decentralised	Integrated with TC++ model (SSC).
Banks	Locally decided and mandated	Centrally decided and managed, moved down to few global relationships and local ones only where required.
Systems	Parent and 2 subsidiaries using systems	Centralisation necessitating increased use of systems. Integration with global banking and local banking systems.
Accounts	Multiple. More inactive accounts than active ones. Some subsidiaries have one active account per stock-keeping unit (product item)	Accounts rationalised and moved to one per subsidiary as much as possible. Intelligence in the reconciliation built into the transaction reference number and easy to track through integration of systems mentioned above.
Cost	Distributed and multiple operations	Headcount saved through removal of redundant activities and reaching economies of scale (redeployment of resources). Banking costs rationalised and saved—potentially over 50% saved. Uniform pricing from global banks and local banks.
Service and Relationship Management	Multiple relationship management and service levels	Location of Treasury operations centralised to another location with one person located at head office reporting to Treasurer to manage banks' relationships centrally. Banks' service side managed by Treasury operations with identified points of contact from the banks' side.

- **Professional services support**. Accounting, tax, and legal across countries have to be deeply involved in the process. HR and related aspects will also have to be considered.

  Some of the challenges are captured in the next case.

In summary, growing companies may not always have the management bandwidth to implement centralised operations right away, but smooth process management and integrating policies and systems when acquisitions are being done helps to reduce the effort to centralise considerably, when the time comes.

The next case study, contributed by one of my favourite Treasurers from his own experience and observations in the industry, articulates some of the important but unwritten situations that companies could face.

CASE STUDY: OVERCOMING HURDLES IN IMPLEMENTING CENTRALISED CASH MANAGEMENT

Every Treasurer—and every company—understands the benefits of centralised cash management. They are:

- Using cash available in some legal entities to avoid borrowing in others, thereby avoiding the bid/offer spread.
- As a result, reducing pressure on funding lines for the borrowing and counterparty limits for the deposits.
- Reducing the number of banking relationships and rationalising them. This results in greater bargaining power and more customer attention from the cash management banks which are retained.
- Ability to offset currency positions, to reduce the amount of hedging required
- Enhanced visibility of the cash position and balances, reducing the need for cash buffers across the company
- Improvements in cash forecasting—or, at least, a reduced dependency on accurate forecasting, as errors in individual legal entities will tend to offset each other, and emergency cover can always be provided from the central Treasury.
- Enhanced Controls
  - There is no longer a need to monitor the activities of multiple local Treasury teams to ensure compliance with policies.
  - Enhanced separation of duties—often the finance or Treasury teams in subsidiaries are not big enough to ensure this.
  - The central Treasury team can also invest in skill levels not necessarily available—or desirable—in smaller subsidiaries.
- Last, and not least, a reduction in the overall number of Treasury headcount.

These benefits can be even further enhanced by the implementation of a re-invoicing centre. This can have the benefit of providing funding via a goods (or services) current account, thereby eliminating the need for intercompany loan agreements and the associated issues with arm's-length pricing and potential withholding taxes. It can even simplify items like HQ funding and internal royalties, by building them into the price of the goods or services. The resulting elimination of intercompany billing between subsidiaries can be a significant saving.

If these benefits are so significant, why isn't every company in the world operating this way?

First, many companies have moved some way towards this approach. While true, 100% centralised treasuries are still rare, it is equally unusual to find a group in which each subsidiary is entirely free to raise and invest its cash as it sees fit. At the very least, there is usually some form of regional Treasury centre, even if this sometimes operates as a centre of expertise and advice rather than as an operational Treasury centre executing transactions.

The main reason many companies hesitate to centralise fully often lies in psychology and internal politics. Control over funding and payments is a key element of power and autonomy. As long as they control their cash and their funding, the general manager and CFO of each company feel they have the

ultimate control over their own destinies. To transfer this responsibility to someone else is to give up an essential aspect of being a separate company.

Naturally, the objections are never expressed in these terms—the immediate answer would be that they are part of a larger group, not an autonomous entity. Instead, these arguments are usually heard:

- The central Treasury operation will not be able to make urgent payments in time. This will mean that essential items, such as taxes and payroll, will be paid late.
- Payroll has to be paid via a local bank. Employees cannot be made to open accounts with an international cash management bank, which usually will not have enough branches in the country.
- Customers will not agree to pay cash directly into an account with a foreign bank.
- It is difficult to close the relationship with the local banks that have provided support to the company over the years.
- The international cash management bank will not provide the same level of service as the local bank.
- The local Treasury team can get better rates by trading—and timing—in the local market.
- The central team "just don't understand" the local environment.

Not included in the list—but nonetheless often a factor—is that the CFO and the general manager will no longer be invited to lunches or golf days organised by the local bank.

How can you combat these arguments?

A lot will depend on the company's structure, and the relative internal political forces. A strong finance function, with a strong CFO who is convinced of the business case, will be able to push this through. But even then, it will be a tough struggle—every glitch in the operations, no matter how temporary or how it was caused, will be brought forward as evidence that the approach does not work.

Of course, it is preferable to implement this kind of project by convincing the business of the merits and getting everyone's buy-in. It is indispensable to build a good business case and to communicate the benefits of the new approach to all members of the business's senior management, especially line management, who normally tend to side with the objections brought through the country line management team.

At the same time, it is necessary to develop a convincing technical answer to all the points brought forward by the local teams.

Some of the items in the list do not merit serious consideration. But some are real issues that have to be addressed.

- **Payroll** is often a real problem. Employees often choose to have their personal accounts with a local bank rather than with one of the recognised international cash management banks. It is important to have a payment process that interfaces with the local clearing system. This can be surprisingly difficult—especially in Europe and Latin America. If worst comes to worst, an account can be maintained with a local bank, just for payroll—the bank can often be incented to provide good service by giving it the opportunity to access the personal banking requirements of the company's personnel.

(*Continued*)

- **Confidentiality** is also a major issue with payroll. The best modern banking interfaces provide a summary debit to the account for accounting and reconciliation purposes, so the Treasury and accounting teams do not see all the details of the payments. Again, the availability of this facility can be uneven, but it can be a determining factor in deciding on a local versus an international bank.
- The **local service levels** are a problem. Even the best international cash management banks can find it difficult to provide top-quality service to the smaller local entities, which often are not big enough to be serious clients for their local teams. In awarding international cash management mandates, it is essential to make sure the bank can always give top-quality service, even to the smaller entities that do not represent a significant business opportunity for the local branch. The effectiveness of this process often depends on the internal incentive and management systems of the bank; do not be afraid to ask how these operate for international mandates.
- **Funding** is essential. In negotiating a cross-border cash management mandate, it is important to make sure that sufficient local liquidity lines are available. This can be a significant challenge—not all international cash management banks have cheap access to local funding in all countries.
- At the same time, it can be very helpful to call in references from other companies that have implemented these solutions, to demonstrate that they can work.

During the implementation phase, it is essential to make sure that full communication is maintained and that all issues are addressed openly and in a timely manner. Experience says that once a centralised process is up and running, most local CFOs will actually appreciate the fact that it makes their lives easier. But it is essential to do everything to win the hearts and minds of the doubters until the implementation phase is over.

Even once the project has been completed, it is important to guard against complacency. The banks that have lost out as a result of the centralisation will continue to campaign and apply pressure. It is important to make sure that the banks that win the central cash management mandates do not become complacent and let their service levels drop. And finally, the choice of location to centralise to will always be the subject of some internal politics.

In summary, the benefits of a centralised cash management structure are clear. But, as with all centralisation projects, it is possible to make this happen only by removing autonomy and independence from the local operating units.

Getting full buy-in for this is a real challenge, and requires an exceptional level of communication and enthusiasm by the central Treasury team. It also requires flawless execution: The smallest failing will be used as a reason for turning the clock back.

The savings are real—but so are the challenges.

Contributed by Damian Glendinning, vice president and Treasurer, Lenovo; president, Association of Corporate Treasurers (Singapore)

SUMMARY

In this chapter, we explored the concept of Treasury Design, dwelling on the key themes of a good Treasury Design, and evaluated some Treasury models that could be adopted by global firms, with the use of shared service centres, Treasury centres, in-house banks, and outsourcing many process-oriented activities.

CHAPTER THREE

3

Treasury Culture

THE CONCEPT OF TREASURY CULTURE as introduced in this book is a thought and action process essential to the path of Treasury Leadership. It involves creating the right mind-set and environment for the employees of the Treasury function to work together and with other functions to produce best possible results and service standards. Practically, doing this includes equipping the employees with the right knowledge, skills, tools, empowerment, atmosphere, and attitude to generate best results.

A good Treasury Culture can explain the difference between two high-performance treasuries: one, a high-speed, cutting-edge, and efficient Treasury where motivated employees make everything appear smooth and well-oiled, with zero defects, prompt service and turnarounds to other functions, and a fun environment at work, where a Treasury role is sought after; the other, a good well-organised Treasury where employees are stretched and work overtime under intense pressure to deliver the same results, where Treasury is perceived to be a silo support function that burns the midnight oil.

CASE STUDY: THE INSIDER

The use of company funds for social ends as part of the firm's social responsibility is a given in today's corporate world. Ever since the corporate world began, some employees have benefited from their company's largesse apart from their official compensation. We're talking about internal fraud, with or without complicity.

Many companies that issue dividend payments have a long list of investors or shareholders who do not redeem their warrants. The monies for this purpose are usually held in a separate escrow and remain there for a period of time. Typically, banks are instructed to flag any transactions on such accounts immediately as exceptions. As M, an employee of a company's centralised Treasury who had direct responsibility for account management, had figured out, the dividend account of a few years' past had not been monitored apart from his sign-offs on the bank accounts.

A test transaction followed—a forged funds transfer instruction from a particular dividend account was flagged in the bank's system, but the bank's operations manager called M, since he always handled all account-related clarifications. On M's assurances that the transaction was genuine, the operations manager released the small payment. Since no one else in the organisation tracked these balances and since the amount was not large, the next audit thereafter caught no specific transaction.

Then the funds outflow took shape. Over the next 15 months, M transferred over USD 400,000, all in small amounts, to accounts with other banks, from where the money was siphoned off to further accounts in the names of A's relatives.

Since the quarterly impact was not significant as a percentage of the company's operations and the reconciliation process was not being followed for this account in the absence of reporting, the transfers did not set off any of the other control triggers.

When M was promoted to a more senior role, he insisted on retaining responsibility for account management, which his managers took to indicate his extreme dedication.

When his lifestyle began to improve quite a bit over time, another employee, Q, thought it fit to red flag the situation. Doing her utmost to review the process, she did a few quick investigations into M's lifestyle and found that it was rather lavish—quite a change from when he had joined the firm.

When flagged, the report went through to the human resources (HR) head. When confronted with questions around recent developments in his life, M took offense and threatened to quit and also to show documents from his inheritance from a dead uncle. M promised to place some of the money in an escrow account with the company for the duration of his employment. The HR head was moved and went along, failing to call M's bluff.

Another employee, F, had moved to the middle office and, oblivious to the goings-on, intercepted account statements sent by the bank to M's attention. F became curious. A few investigations revealed that the accounts in question were not part of the recon process.

F, unclear of the company's whistleblower policy, shot off two parallel sets of letters—one went to the chief financial officer (CFO) and Treasurer, and the other went to members of the board of directors. Both sides promptly raised this with

(Continued)

the chief executive officer (CEO), who was then asked by the board to be involved in the ensuing investigations. M, who had become aware of the investigation when a bank staffer asked him for information required for the investigation, had made plans to leave the country and was caught at an immigration checkpoint.

The company's control processes were strengthened after that, but the sense of control displayed by two employees showed that the individuals' sense of responsibility, more than the company's control culture, ultimately saved the day. The moral of the case is that while our instincts sometimes tell us what facts will later prove, the presence of a control culture can reduce instances of financial losses to a degree. The adage "trust, but verify" is certainly applicable in this context.

Teamwork

Earlier we discussed the various linkages and partnerships that Treasury needs to develop in order to add value to the business. Treasury will not be able to add value without a requisite amount of teamwork. Organisationally, joint cross-functional team goals in employee and team appraisals also enforces teamwork.

Transparency

The cost of capital and operations of Treasury get passed on to the business or operational units in many firms, since Treasury is mainly a support function. Given the cost of capital, returns on investment, gains or losses on marked-to-market (MTM) positions on hedging and targeted rates, apart from cost of operations and account maintenance, the cost and return parameters of Treasury will likely have an impact on the financial performance of various business units. Transparency with numbers, operations, and turnaround times will go a long way in reinforcing other units' faith in the Treasury group.

GENERAL SKILLS

General skills involve interpersonal and basic technical skills that the treasurers have to look at from a development and training perspective.

Relationship Building

Treasury team members need good interpersonal skills given their dual responsibility of managing the Treasury and being service managers to support the business. Their interpersonal skill, specifically in relationship management, is key, given the various interfaces that Treasury has with external and internal entities. (See Figure 1.4 in Chapter 1 for a snapshot of these linkages.)

Culture Knowledge

Since interactions with people from different backgrounds, countries/nationalities and culture is a way of life in the Treasury function, being able to understand and

appreciate other cultures would assist in smooth interactions and in gaining the most from meetings, conversations, and discussions with the other party. Working in a cross-cultural, multinational environment also requires an appreciation of the backgrounds, markets, and environments of the various team members. Team contributions and performance depends a great deal on how well the team members work together to create solid and efficient output.

Technology

Members of Treasury teams do not need very technical skills but definitely have to be very good users of technology. Those involved in system decision making and implementation/integration need a good, well-rounded understanding of system architecture and usage so they have the tools to make decisions on which systems to use.

Process Orientation

Tightness of processes and zero tolerance for errors help make a Treasury perform beyond expectations. Along with a control mind-set, process orientation of Treasury employees creates respect within Treasury for the sanctity of well-laid out processes, which in turn ensures that other functions and external service providers also participate to make the end-to-end financial supply chain work seamlessly and efficiently.

Written Communication

A global Treasury has a lot of interfaces with entities through email and, where required, letters and notifications. Given the increasing dependence on email for most forms of communication, and the corresponding increase in the volume of emails, Treasury emails need to be crisp and articulated well enough for readers to immediately grasp the situation and respond should immediate action be required. Information-related emails should be clear and unambiguous, ensuring that there is no further follow-up that could waste precious time for both parties. There is a corresponding danger of overcommunication—in order to reduce reverse queries, some information emails contain an overload and excess of information. In these cases, the receiver could well come back to Treasury asking for where the information could actually be found and how to read the mountain of data that was sent.

TECHNICAL AND WORK-RELATED SKILLS

The final category of Treasury Culture involves finance and job-specific items that are core to the functioning of a well-rounded Treasury team.

Business

Basic business skills and the understanding of the company's business model, supply chain, dynamics, and industry and competitor backgrounds will serve in good stead to help Treasury employees understand the context of their roles. Many Treasury

employees, especially at the junior level, struggle to understand the impact of their roles and how they are actually helping the organisation. Every Treasury role is critical, and the Treasurer and CFO would do well to ensure that each and every employee within the function has a good business understanding that will in turn help them add value to their roles instead of simply performing and executing tasks automatically.

Financial and Markets Awareness

Awareness of the global environment, especially the political and economic situations of the world around and its impact on markets, including the ones in which the company is present or likely to enter, is an important aspect for a global Treasury. It is important for Treasury members to be generally aware of key market factors, how they work, and general market trends and levels. Reading economic and industry reports regularly will also help to hone this knowledge base. Basic understanding of economics and balance sheet is also required.

Accounting

Given the impact of treasury's actions on the balance sheet through the accounting process, employees of Treasury must have at least a rudimentary knowledge of accounting and, more important, the basic accounting practices of the firm across its key locations. In particular, aspects of the cash conversion cycle (explained in Part Three), mark-to-markets or valuation of risk management transactions (explained in Part Four), and impact of translation of the balance sheet and related aspects should be well understood.

Regulatory

Treasury interfaces regularly with central banks, exchange commissions, foreign exchange regulators, and other regulatory and statutory bodies. The nature of Treasury work, especially cross-border and capital-related transactions, can sometimes create ambiguities around contravening regulations. It is critical to ensure that all activities and transactions follow appropriate regulations. In case of doubt, the compliance officer in charge must take the call, and unresolved or sensitive situations must be escalated to country or global management. While it is not in the realm of the Treasury employee to take the final regulatory call in sensitive or unclear situations, he or she must know the regulations well enough to recognise ambiguity or potential contravention.

An interesting example in the regulatory context is given below.

EXAMPLE: A PARALLEL CURRENCY

The nondeliverable forward market (NDF) is an often sensitive topic—the market exists, and certain central banks are concerned with trading on their currency outside of their purview, in locations where the notes are not legal tender.

We cover the NDF market in more detail in Part Four. Here we consider an example of a Treasurer who threw caution to the winds and decided to hedge a Latin American

currency that was largely restricted on hedging, through the NDF market. The rationale was the time spent in getting approvals or documentation ready for onshore hedges. The local Treasurer would undertake these hedges with global banks outside the country, booking the deals on the parent's books. The Treasurer then worked out a method to "reimburse" the local company through internal accounting adjustments.

When the local subsidiary suffered large losses owing to massive currency movement, the regulator was unimpressed. The parent had reported good figures, including profitable numbers from the local company. The disconnect was obviously the hedging of the local exposure through the NDF process. Furthermore, email communication from the local entity to overseas banks on the NDF transactions solidified the evidence.

The Treasurer and the local CEO were called in, and a few sensitive conversations later, the process was changed to hedge only onshore, with all efforts being made to ensure compliance on approvals and documentation.

In contrast, the regulator of another country who kept receiving annual request for approvals for overseas parent companies to hedge their capital onshore studied the market. A group of treasurers had gotten together to present the case to the central bank. Once aware that many other firms were instead routing their hedges through the NDF market and recognising the genuine need for such transactions, the central bank refused to provide case-by-case approvals. Sometime later, the entire transaction category itself was included under the heading of "Hedgeable Risks" that overseas entities could perform onshore with minimal documentation and no prior approval. This brought even the NDF flows into the country. Proactiveness is best when it is two-way.

THE MANY HATS OF THE TREASURER

The Treasurer wears many hats to fulfill and excel in his or her duty. This is a part of Treasury Culture, to inculcate a multidimensional "DNA" among senior Treasury personnel and wear these hats to assist the Treasurer and CFO, and to create a second-line to replace the Treasurer when the time comes for the current incumbent to move on.

Some hats of the Treasurer, illustrated in Figure 3.2, are listed next.

- Marketer
- Astute observer and analyst
- Fund manager (securing the firm's money)
- Gatekeeper
- Systems specialist
- Innovator
- Consultant and trusted advisor
- Lobbyist and regulatory interface
- Trainer
- Process engineer
- Economist and market expert

As we move through the various functions of Treasury, the relevance and applicability of these hats, and when the Treasurer wears them, will become more evident.

CASE STUDY: WHICH DESK SHOULD LOOK AFTER THIS ISSUE?

The CFO of a European technology company was in a quandary. The books in the control system and the Treasury system were showing different numbers. The Treasurer, who had claimed a massive savings as a result of his hedges, had resigned when the controller reported that the hedging process over the past two years had actually lost the firm a lot of money and that the objectives of achieving stability and visibility of financials were not being met. The week after the Treasurer had quit, one of the dealers came to the CFO with a problem: A hedge transaction that the Treasurer had done earlier in the month as part of the hedging programme that had also been reported in the GL system (ERP) had come up for maturity, but the bank had no records of the supposed transaction. Similarly, a payment that was supposed to have gone for an earlier hedge settlement through the electronic system had shown a confirmation, while the bank was still asking for the payment to be made.

The Treasury team was responsible for the transactions and interface with banks and for accounts and liquidity management. Any entries to be passed were done so by the controller's team based on reports issued by Treasury. The control team members were not experts on Treasury decisions and products; they left decisions to the expertise of the Treasury team, agreeing in the spirit of teamwork to help pass the entries in the back end. Implementation of a state-of-the-art Treasury system had assisted the process. Entries were now mostly automated except for a few processes, where the front end or dealers still handed over reports and the transaction entries in the ERP were then be passed by control based on these inputs.

The CFO immediately requested an independent review, and after two weeks, he received the report. Sifting through the points, there was one thread that was common: the differences between the various elements, systems, or desks on their evaluations, numbers, and balances. The reconciliation process had gone awry. The ERP (GL system) and the state-of-the-art Treasury system that the company had invested in on the treasurer's recommendation were showing completely different numbers on account balances and hedging transactions. Transactions reported on the Treasury system and whose mark-to-markets were being correctly reflected in the accounting books were not present in the banks' reports. Limit excesses by traders had been checked (the checklists had been ticked) but not reported, since the checks had been done by the traders themselves—system and banking reports would come in to the dealers who would perform the verification to the best of their ability.

The CFO called the controller and the senior members of the Treasury team. All of them had done their day-to-day operational jobs to the best of their abilities, but when the time came to discuss reconciliation, the answers were ambiguous. Owing to direct system handoffs between the Treasury system and the ERP, no one had felt that there was a need for reconciliation. The banks' offer to integrate their systems with the Treasury system had been rejected owing to incremental implementation costs. Hence the activity had remained with the Treasurer and his team. Limit checks were designated a noncritical activity by the dealers and hence were not factored into reviews on automated system reports—where they had

(Continued)

Situation: Contract Built In But No Compliance with IT Security

The Orion project is an advanced spacecraft programme in the implementation stage. Also known as the Multi-Purpose Crew Vehicle (MPCV), it is being built to explore farther into our solar system, including potentially returning to the moon, visiting an asteroid, and/or mounting a hugely complex and risky mission to Mars. The first manned mission is expected to take place after 2020. Each Orion spacecraft is projected to carry a crew of four astronauts. Most of the Orion project activities have been outsourced to selected prime contractors.

During a review, NASA discovered that appropriate security clauses around sensitive but unclassified (SBU) information had not been incorporated appropriately into the vendor contract.

NASA had redefined the responsibilities for information as part of establishing its security protocols (see Figure 4.5). However, the details of the requirements were not established until after contract award.

When the vendor was requested to assess the contract cost impacts of incorporating the new security protocols, the cost was more than NASA could bear. NASA now had two options:

1. Seek a waiver from NASA headquarters (HQ) and governing security agencies regarding levying the new security protocols on the Orion contract.
2. Negotiate between the Orion prime contractor and the owner of the security requirements (NASA HQ) to meet the intent of the levied security protocols to ensure the protection of sensitive information while maintaining the cost impacts within budgetary constraints.

On examination, it was evident that a waiver would have an irreparable impact and leave much sensitive information vulnerable to theft or misuse. The vendor was a long-standing partner of NASA; hence from a relationship perspective, it should be possible to work with it to find a solution.

It was decided to renegotiate the requirements with the prime contractor and HQ. However, there would be a price to pay, and the team at NASA recognised that. The way forward was to work closely to identify the security requirements and reduce risk to the largest extent, and also identify how these requirements could

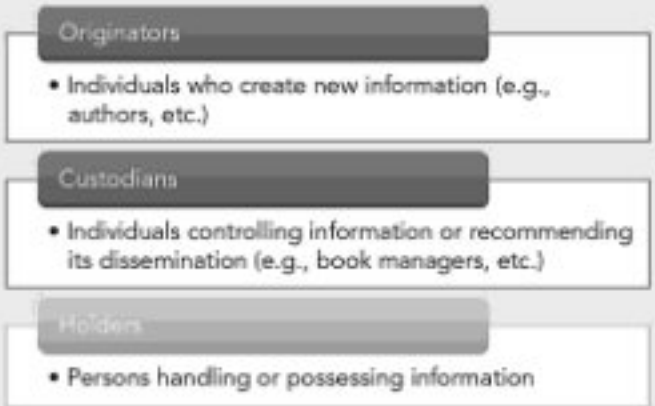

FIGURE 4.5 Responsibilities for Information

be levied on the prime contractor with minimal cost impact from wording or process changes (see Figure 4.6).

One of the key elements was training the team at the vendor side, so that they could fully understand and implement the new security protocols. The training would involve:

- Proper identification and categorisation of information (in this case, sensitive but unclassified)
- Proper marking of information
- Proper handling of sensitive but unclassified information
- Storage requirements
- Transmission requirements
- Decontrolling information

The consequences of noncompliance or failure to identify information as such could result in:

- Increased risk to programmes or operations essential to the mission
- Damage to a person's privacy interests or economic or physical welfare
- Possible administrative action and criminal prosecution
- Competition having access to the information

Once the vendor came back with estimates and the plan, the team at NASA worked with the vendor team to finalise the revisions and negotiate on the cost, for a win-win situation in the context of the information security gap.

Contributed by Jeevan Perera, PhD, JD, Johnson Space Center, NASA

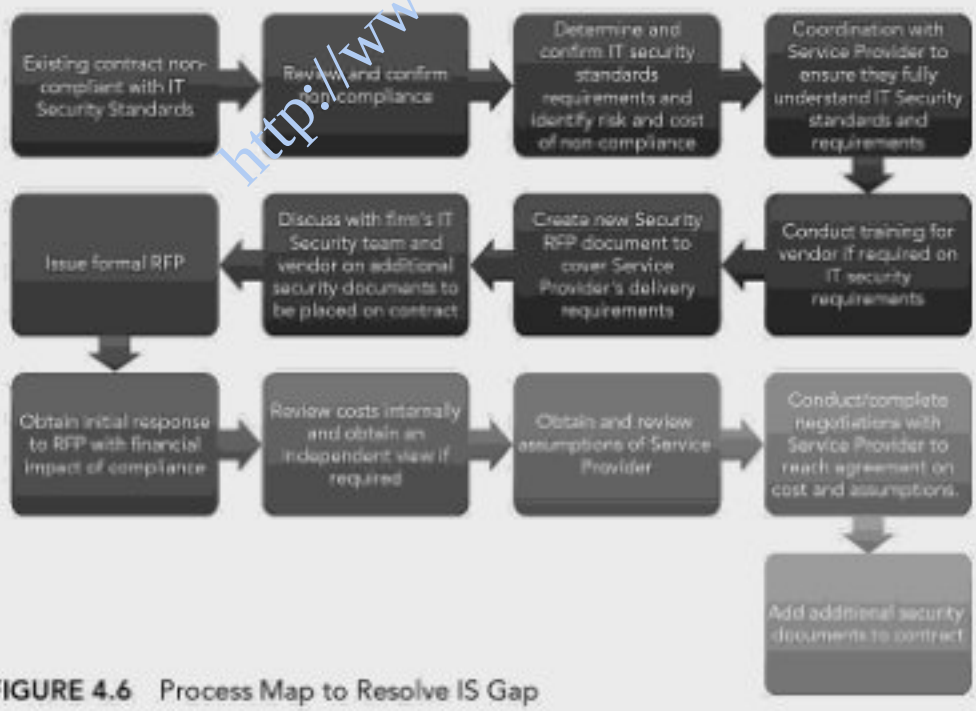

FIGURE 4.6 Process Map to Resolve IS Gap

(Continued)

Learnings

IT security is critical to the organisation, especially information on bank accounts, financials, risk management, and investments that Treasury is privy to and owns. IT security needs to be built in to outsourcing contracts to reduce operational risks.

If such clauses have not been factored into existing contracts, it would be worthwhile, as we saw in the case of NASA, to subsequently incorporate these clauses into the contracts and rationalise the incremental cost structure by working with the vendor or outsourcing partner.

SUMMARY

In this chapter, we looked at some of the important elements of Treasury processes, operations, and control. The importance of process mapping and other tools were highlighted. Finally, the delineation of Treasury activities and responsibilities across front, middle, and back offices and the growing importance and context of the middle office were discussed.