

*Strategic Treasurer's*

# TREASURY

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U P D A T E

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## **Hitting the Mark** Vision & Metrics

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## Treasury *Update*

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### Mission Statement:

Treasury Update, a resource for Treasury professionals, is published bi-annually to raise awareness of key Treasury items, issues, and events; assist with tactics and strategies; and enable Treasurers and their organizations to be more resilient, effective, and efficient.

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# Hitting the Mark

## Vision and Metrics

*"Would you tell me, please, which way I ought to go from here?" "That depends a good deal on where you want to get to," said the Cat. "I don't much care where –" said Alice. "Then it doesn't matter which way you go," said that Cat. "-so long as I get somewhere," Alice added as an explanation. "Oh, you're sure to do that, said the Cat, "if you only walk long enough." From Lewis Carroll's 1865 novel, Alice's Adventures in Wonderland*

By aiming at nothing, one is sure to hit it. The cover of this newsletter has a picture of darts in the center of a dartboard - multiple bullseyes. This type of outcome in darts, or treasury, arises from several key activities. Let's focus on the steps related to treasury. First, there needs to be a clear target or goal. A set of goals is fine. Second, there is diligent measurement and tracking of one's results against that goal. Third, flexibility is essential given the volatile nature of markets and financial risks. This requires the thoughtful formation of your team and development of your technology infrastructure. Finally, an attitude of dedicated perseverance is crucial for any treasury organization that seeks to consistently hit the mark.

### Having Clearly Articulated Goals

Vision statements are fantastic and necessary. They look great on wallet-sized cards, but the aspirational nature of a statement that describes how your group or company should be viewed is a vital first step. The vision statement by itself is not enough. Goals are needed. And, most of treasury's goals must be clearly articulated and understood within the organization. By this we are referring to something that is formal and written. Like Alice, everyone is sure to get somewhere if they keep moving. Where do you want your treasury group to go? Let's begin the discussion by talking about measurements and how to track your progress.

#### OPERATIONAL REPORTING

- Volume of Wire Transfers
- Error Rates
- Number of Bank Accounts
- Transactions Reconciled Automatically
- Liquidity Levels

#### COMPLIANCE MONITORING

- Audit Results for Bank Account Compliance
- Visibility to Banks and Accounts
- Loan Covenant Compliance Reporting
- Forecasting Variance Analysis

#### ANALYSIS & RISK MANAGEMENT

- Diversification Levels Across Various Dimensions (i.e., exposure by currency, country and commodity levels)
- Calibration of the Various Exposures and Risk Levels
- Portfolio Management
- Value at Risk, Cash Flow at Risk
- Stress Test Results
- Scenario Analysis

### Measuring The Results – A Culture of Progress and Performance

In order to foster an environment that excels and moves towards the goals you have set, measurements are needed. While not everything can be measured in a systematic or quantitative manner, everything that matters can and should be measured or evaluated. Let's look at several examples of measurements that can help treasury hit the mark from the operational to the strategic (see exhibit 1 and a pictorial rendering of these examples):

Exhibit 1

By having a clear set of measurements or metrics on the operational side, Treasury creates a culture of performance and expectations that certain quality, cost and efficiency standards will be achieved and exceeded. This forms a solid base for a treasury culture of performance. As important as those foundational items are, moving the department forward requires more than the just providing monthly reporting against these types of factors. Ideas and projects must be conceived, analyzed and then executed to address a range of emerging risks and opportunities.

Treasury staff must be challenged to develop and address new and emerging threats. Some of these initiatives may span months or years. However, each and every year these targets must be reset, renewed and new initiatives added. One challenge to making progress is the daily or regular fire-fighting that seems to crowd out progress on strategic initiatives and plans. When something can be put off to the next day, it usually is put off. Days can turn into months and months into years with little progress. This lack of progress is, of course, unacceptable.

One effective method for establishing significant goals and ensuring staff takes both the initiative and responsibility is the public accountability approach. This approach has each member of treasury describe their plans to the broader treasury group and receive feedback and input. The project has timeframes for progress and completion. Then, at a quarterly meeting progress and results are shared with the entire group. The public accountability ensures that each person and the entire department focuses on moving these initiatives forward consistently over time.

**Flexibility – Accounting for Windage**

When trying to hit the target or the bullseye, some environments contain varying levels of crosswinds. Not adjusting for a strong crosswind will result in some wild, unexpected and disappointing results. Flexibility comes in variety of forms; we will highlight two in this section. First, flexibility comes in the form of diversity of intellect and finance experience. Diversity of intellect and experience can provide better depth perception and a more complete sense in both dealing with a crisis situation



and in creating a better structure to address unexpected risks and situations. There are two main errors that should be avoided. If a treasurer hires someone with almost the exact same career path and background that they have, that may sound fantastic and result in less conflict; however, the need for a different financial perspectives is vital. By hiring an intellectual clone the capacity of the group only benefits from a minor fraction of a person. The other error can be to hire too many people from outside of treasury leaving a skill set gap. This can emerge from corporate edicts to hire internally. Overoptimistically treasury is told that the wonderful fixed asset accountant

- ▲ Scenarios / Models
- ▲ Stress Testing
- ▲ Portfolio Management
- ▲ Forecasting Variance Analysis
- ▲ Diversification Dimensions
- ▲ Policy
- ▲ Limits
- ▲ Forecasting
- ▲ Covenants
- ▲ Visibility
- ▲ Efficiency
- ▲ Performance
- ▲ Volume
- ▲ Cost



**Exhibit 2**

can pick up FX hedging in weeks or maybe a month. When senior management’s knowledge of treasury is limited, they may view it as simple. This can result in your organization being extremely exposed.

Second, flexibility comes in the form of the ability to respond technologically. Many of Strategic Treasurer’s presentation and articles highlight this need. We don’t want to belabor the point beyond a few comments. Risks emerge from unexpected ways, in volatile manners and in unpredictable sequences. Flexibility from a technology standpoint is possible, even though you can’t predict or prevent anything. Creating the proper type of technology architecture, from data, through systems to analytic dashboards requires a keen understanding of today’s technology and information. This understanding must be coupled with insight into how your organization can leverage this so that you can respond to the next issue without putting a team in a fire-drill that involves days

of re-entering data in a spreadsheet and making wild-guesses about the nature of this or that dimension.

For example, what is our exposure to French banks that are particularly exposed to Greek debt? What will happen to our liquidity and profitability if our Asian sales decline by 10% and the currency moves in an unfavorable direction?

**Perseverance – Never Give In. Never, never, never, never...**

In 1941 during World War II, Winston Churchill gave a very pointed speech at the Harrow School. He said: *“Never give in. Never give in. Never, never, never, never -- in nothing, great or small, large or petty -- never give in, except to convictions of honour and good sense. Never yield to force. Never yield to the apparently overwhelming might of the enemy.”*

Treasury glances backward, but faces forward. Treasury is charged with protecting the firm’s assets, providing adequate liquidity for the near-term, ensuring their balance sheet will be able to support their business plans, ensuring that financial risks are identified, calibrated and managed appropriately. These responsibilities are combined with a volatile and continually changing risk environment. While there are certainly times in the midst of a general financial crisis when one may feel like giving up, the vast majority of treasury professionals will run the crisis to its conclusion. Sometimes that conclusion is satisfying and sometimes it requires a different commute and new business cards.

The main intent of this section on perseverance is not merely to offer encouragement in the midst of a difficult crisis. The endorphins and sense of urgency seem to be strong enough motivating factors. The battle or situation is usually compromised or lost in the preparation stage. Resistance to proper preparation can come from those who seem to be allies and supporters. This resistance can come in various ways including in the form of questions:

**Staffing** Do you really need to add employees or change some staff? We have a hiring freeze.

You can train this person from another area that needs a home, it doesn’t matter that they, and the rest of your team, have no to little experience now.

**Technology** Let’s revisit your technology needs after we put in the massive ERP. They have some features that use some of the same words you used. We can consider this for phase two. Just be careful with your spreadsheets.

**Events and Priorities** No one expected that combination of events. You can’t prepare for the unpredictable. Besides, new regulations or capital levels address the last issue.

The kinds of situations you are describing are either not going to happen or are so unlikely to happen that we shouldn’t waste our time or money preparing for that.

There are certainly many more of these types of questions that we can list. However, the point is this: Treasury has a unique and vital role to play in the organization. Treasury must help the organization both before and during times of crisis. At all times, and certainly before the next crisis, Treasury must persevere in securing and building the staff resources, structures and technology infrastructure that will allow their organization the ability to succeed. This requires a clear set of goals. It requires a highly skilled and intellectually diverse staff. And, it requires an updated technology infrastructure that addresses work efficiency, analytical requirements and effective execution and management of transactions.

Perseverance, or as Churchill might say “never giving in” is a non-negotiable. Continue to educate and explain the need. Treat this education effort as a process and not as a singular event. Keep after your organization for the resources that are necessary no matter how long it takes. No matter how many times you have to make your case do not stop. Never give in. Never, never, never. It is the only way Treasury can hit the mark. 🌟



Craig Jeffery

Founder & Managing Partner  
Strategic Treasurer



# Reducing Your Organization's Exposure to Banking Fraud

Protecting your Organization

Unfortunately, there is not a way to be 100% immune from fraud. No preventative shot for the virus, no way to cover every "what if" scenario. There are only ways to reduce your exposure to the possibility of fraud and ensure you can respond quickly to issues. There is an incentive for fraud against organizations including the notion that it is a victimless crime, the lack of prosecutions and real consequences exacerbated by the fact that electronic fraud can happen from a different continent. Fraud is unfortunately always pervasive where money is involved. For as long as there have been payments, there has been fraud. In modern times, we have had issues with check payments, then ACH debits, and now even account takeovers via the internet and internet banking. Add to the mix, the

advent of online social media and you have more opportunities for social engineering to enter the fray as well.

Fraud is treated differently internationally depending on the method involved. In the USA we are bound by UCC law for payments, which has the caveat of placing the person (legal entity) in the best position to prevent the fraud liable for the fraud. This has enabled financial institutions to shift the burden of fraud to clients. There is limited case law on electronic payments and electronic banking, with some cases settled out of court, and until this new litigation is sorted out through the federal court system we have no clear direction except to protect our organizations

by using best practices and being aware of the risks by channel. This article's focus is on fraud in the USA.

Fraud can occur from so many angles. What is an organization to do?

### **Check Payments**

The ubiquitous check, this seemingly archaic method of payment, is still the preferred method by many consumers and corporates. Anytime a check is written, your bank account information is available to a myriad of people without fraud or wrongdoing entering the process: the organization you are paying and its employees involved in processing the payment, the bank processing the check, your employee with a payroll or reimbursement check, etc. These check payments can turn into fraud by many methods. One popular scam is to offer the payee an amount above the actual payment in exchange for the check, which can then be washed, encashed, or used to initiate debits from your account. There are many other scams as well. Checks can be intercepted in the mail, or fake invoices can be presented for payment. Once a crook has the check, or makes a duplicate, it can be cashed at a check cashing operation.

Social engineering is not just for the internet. Not only can a fraudulent check be a hassle, it can also be used as a social attack on your organization. This occurs when a fraudster makes "donations" using your bank information via a check to a political cause (perhaps a controversial one), a sick child's health care fundraiser, etc. And, your organization is caught in the middle when the check is returned.

In order to lessen the chances of check fraud at your organization, and more importantly your exposure to liability you MUST utilize Payee Positive Pay, preferably Payee Positive Pay. This matches your check when presented for clearing on the amount, the check number, and the payee name. There is case law that organizations that do not use positive pay have turned down a commercially reasonable security method, and are therefore liable for any losses that would have been prevented by its use. Always reconcile accounts in a timely manner, or within 30 days. Check your Depositor Agreement for specifics on how long you have to notify your bank about errors on your account.

Lock up blank check stock, so it is not available to pilfer or be misused. Use a dedicated printer that locks and that has restricted access from the intranet. Do not allow anyone, even employees, to pick up and deliver checks to vendors (or other payees). Mail all checks directly to the recipient. Or use the remote printing service at your bank.

Better protection yet, is to reduce the number of checks written and move to electronic payments—considered a best practice, this also relieves much of the burden of escheatment requirements and researching outstanding check payments. Encourage employees to use direct deposit as much as possible. Many states frown or will not allow this requirement unless it is part of the offer letter or employment agreement. Consider making direct deposit a requirement for employment and partner with Human Resources and Legal to ensure the success of this directive.

Be aware that no preventative measure will protect you from UCC 4-A Holder in Due Course, should someone cash a check purporting to be on your account at a check cashing outlet. In many instances you can be made to pay, and the bank will not reimburse your loss. Check writer beware!

### **ELECTRONIC PAYMENTS**

Electronic payments are considered a best practice in preventing fraud, processing costs, and preventing escheatment and other issues. However, sending or receiving electronic payments can compromise your sensitive bank account information such as routing number and bank account number.

In order to lessen the chance for fraud when utilizing electronic payments use a UPIC (Universal Payment Identification Code) to mask your real account numbers when receiving ACH or EDI payments. Banks who are members of EPN (Electronic Payments Network) generally offer UPICs. Only give out your bank information on an as-needed basis, never post on a web site, or do a mass mailing with this information. Again, social engineering can put your account information at risk. Educate customer service, collections, and accounts receivable about not giving out bank account information for the generic asking.

For a pure receipts account (best practices dictate the separation of payments and receipts accounts) use ACH web blocking. For accounts that must have ACH debits, use ACH positive pay (such as your master account and benefits account). This allows review of the attempted debits so that only legitimate debits post to your account, and all others are returned. NEVER allow a vendor (perhaps other than a payroll provider or benefits provider where it is the only way to reasonably operate) to debit your account by ACH. Rules surrounding ACH payments only allow business accounts 24 hours to dispute an ACH. If you must utilize Reverse Wires for payroll — do not allow auto-funding of the account (via ZBA or concentration), but fund the account on the day the wire hits to ensure it is legitimate and for the correct amount.

**ERRANT PAYMENTS:**

Ensure you know the parties that send wires to you and parties you wire funds to. If you receive a wire that you do not recognize, contact the bank to return the wire, generally within 5 days. An errant electronic payment can be a sign that someone is attempting to use your account to launder money or to avoid OFAC (Office of Foreign Asset Control, set up at part of the Patriot Act) compliance. NEVER refund an errant wire payment or ACH by a check or return wire. Have the bank return the wire.

The same goes for errant check payments. The bank can reverse the payment from your account and direct it to the intended party. This relieves you of the risk of having to cover the errant check should it later come back for fraud or other reason, and myriad of other business issues if there is an issue with the payment, the goods/services, etc. Have the bank handle errant payments.

**BANK ACCOUNT TAKEOVER:**

The recent spate of internet banking takeovers reported by various news outlets have largely involved smaller organizations that do not have traditional layers of control, such as dual control. Therefore, once one user was affected all online activities including

wire transfers were vulnerable. Relatively new viruses called “clampi” and “Zeus Trojan” which is a Trojan Horse programs that launch when a user clicks on a file attachment in an email, these Trojans will probe your intranet to look for other users to compromise.

Always employ Dual Security Administrators-it takes two employees to add/delete/change a user and the processes they can access. Employ dual control for

## Steps to Help Reduce Fraud

<b>Check Receipts</b>	Lockbox – image lockbox In house items to remote deposit capture and lockbox
<b>Check Distribution</b>	Positive payment Payee match positive payment 3 <sup>rd</sup> party check printing/distribution Convert to electronic payment Daily review of positive pay
<b>Electronic Payments and Receipts</b>	ACH Collections – use UPIC ACH Filtering and Blocking Electronic pre-authorization for external payments
<b>Systems and Control</b>	Dual security administrations for charges Only use secure internet connection Consider SWIFT Connectivity Daily monitoring and automated reconciliation
<b>Account and Transaction Control</b>	Clear account policy Opening/Closing/Signer management Account level controls Transaction level control Rationalize bank account structure Daily reporting/visibility on all accounts GL to bank account – one to one match

Wire and ACH Processing—it should always take two employees to launch an electronic payment.

Other best practices to combat electronic bank takeover include working with IT to ensure you always have up-to-date virus protection including regular virus scans, and use of a firewall. Educate employees about Phishing, Whaling and other social engineering practices. Never click on a link in an email, even if it appears to come from the bank. Never give out login information to callers, even if they claim to be from the bank. Recommendation: An education class



for employees. Ensure the CEO, CFO and other officers are educated on Whaling as well as administrative staff.

Public or Open Internet Connection — DON'T DO IT: Educate employees to never use a public internet connection or computer—no hot spots at the coffee shop, the airport or other sites. Do not log in from a library or internet café computer. Instead employees should use a wireless card for remote operation of the bank accounts.

Banks are beginning to recommend stand-alone computers for internet banking, however this will not protect the stand-alone from clampi, Zeus, or other malicious programs that seek users on the intranet. If a stand-alone computer is used some suggest circumventing the intranet and using a direct connection to the internet, however this would require manual updating of firewalls and virus software/scanning and may leave the computer more vulnerable than computers on the intranet. There have been legal actions regarding this issue, but so far all cases have been settled out of court and have included non-disclosure agreements. Discuss this option with your organization's IT security unit.

At least monitor activity, if not reconcile, EVERY day on the accounts via online banking to spot any suspicious transactions and report them immediately to the bank. Use a large cash management bank to ensure better technical and financial resources to fight attacks and who are adept at keeping clients informed about emerging risks. Stay up to date on the latest issues with online banking, payments, phishing, etc. And, finally, consider blocking online social networks from being accessed via the intranet, i.e. Facebook, Twitter, etc.

## FINAL CONSIDERATIONS:

Do not put the CEO's or CFO's legal signature in an Annual Report, Public Filing or employee/client communication. Use a shortcut such as only your first name.

Always know who you are communicating with via telephone and email regarding your bank accounts.

Know your risks and your responsibilities in agreements.

Evaluate insurance to cover cyber-crime, speak to your risk manager or insurance broker about coverages available and what types of crime are covered. Stay vigilant and be suspicious. If something doesn't seem right, check it out. 🌟



— Deborah McSheffrey, CTP —  
Director, Global Treasury Practice Leader



# Treasury Nirvana

## MAKING THE CASE FOR CENTRALIZED GLOBAL TREASURY

According to our recent survey on Treasury Visibility and Forecasting the vast majority of companies employ a centralized treasury group for continued international presence and growth. Many treasurers would agree that having a centralized global treasury function is highly desirable. However, many have not achieved this state nor do they have a clear view of where to start on the journey to achieve a centralized treasury function.

To start, consider the current state of your organization's treasury and the reasons it exists in its present form. Then mentally build an ideal treasury for your organization...What would it be? Where would it be? What would it do? How would it benefit the overall organization? And, most importantly, how would it be achieved in an orderly way?

Achieving a global centralized Treasury is as much about preparing for the journey as reaching the destination. It will require a dedicated commitment of time and resources. For a global organization, with proper resources, expect to spend at least 12-24 months on the journey. The more complicated your legal and tax structures are, and disparate your current operations, the more time it will take to complete. There are no short-cuts, you will need to understand your current structures and their reasons for being before attempting to change them. For example, your Risk Manager may have separated a few legal entities to shield the main parent from a more risky operation. Your Tax Department may have built Tax Nirvana with a low effective tax rate in some areas. You will not want to unwittingly undo these meaningful endeavors.

The most important part of your journey is to gain the support and cooperation you will require from others along the path. In order to enjoy this cooperation you will need to build a compelling case for both local stakeholders and those at the highest levels of your organization. An executive sponsor will be one of your most important allies. They can help push through some of the natural barriers such as inertia, resistance to centralization, and other fears you will encounter. You will also need extraordinary teamwork from legal and tax, and your localized finance/treasury staff, along with an effective communication plan.

**Executive Sponsor.** Your executive sponsor should begin the project by communicating the vision of the plan and the desired end-state. Have him/her explain the project will be a journey in stages and that once completed this plan will enhance the strategic direction of the organization and add value to its stakeholders. Ensure you are introduced as the leader that will champion the project in order to place you firmly in charge of the project and have the support to garner needed resources throughout the organization.

**Stakeholders and Partners.** You will need to gain the support of your global stakeholders and partners. Meet with executives and management involved in the project. Talk openly about concerns and local custom (especially important in Indo-Asia). Set realistic mutual goals to ensure everyone is on the same page, understands the end state and that there will be a centralized plan. Work with local management to ensure proper staff levels at critical times for their regions/functional areas, understand any local custom

for vacations and holidays and avoid those times for critical deadlines. Ensure that organizational goals and bonus plans are aligned so they are not unintentionally in conflict with a centralized global treasury. Share your vision and work together to remove any benchmarks or goals that will be centralized. Consider taking all bank service charges to a centralized budget in treasury to prevent local stakeholders from resisting change or necessary technology due to local costs at the expense of global savings. Position the change as taking away an unnecessary burden from the local staff, not as a reduction in staff. Strive to be in harmony with local staff and customs as much as possible.

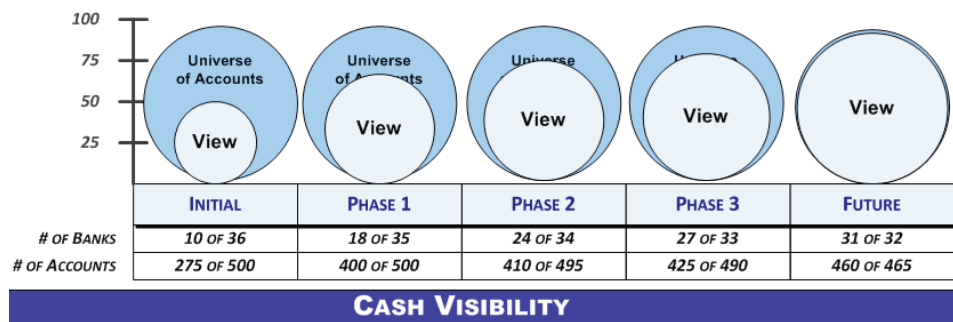
**Better Understanding.** Before outlining a detailed plan or choosing financial partners for the end-state, ensure you have a keen understanding of all requirements and service levels that need to be fulfilled. Survey your local finance team and their partners to identify the products used and understand the rationale for using them. Thoroughly investigate and understand any internal systems limitations that may need to be considered, such as the timing between submitting a payroll file and when employees expect to be paid. Understand any statutory limitations that require a local or state bank, some examples are: tax payments in Italy, telecom payments in Japan, capital accounts in China, etc. Thoroughly examine existing practices and rationale, and look for ways to harmonize these practices, reduce expenses and reduce risk. Work with local staff and your bank partners to uncover these issues early in the process and incorporate them into the plan.

**Socialize The Vision.** Share your vision with legal and tax to ensure that you understand any legal or tax reasons that an entity may need to be operated independently, or for which cash should not be co-mingled with other entities in your organizational hierarchy. These reasons can include risk mitigation measures, you may have a contract that includes government or other entity funding that specifies a certain bank, or that funds cannot be co-mingled.

There may be plans to divest a subsidiary, or to acquire another entity that you will need to consider. Work with the tax department to explore ways to pool or net your accounts with the least tax impact, and the best overall effective tax rate. Keep in mind, that just because you cannot pool or net certain accounts does not mean that you do not want to have visibility and access to those accounts, they still need to be part of the global centralization plan.

**Prioritize.** Now that you have socialized your vision, have an executive sponsor and have brought all of the needed areas into the plan, identify the most critical region and begin work there first. This may be the region where the most funding is required for operations, where the most cash is on hand, has the most FX transactions, has the least visibility to headquarters, etc. Then identify the regions that will follow. Socialize this plan with your critical partners and obtain their buy in.

**Clarify.** Often misunderstood, global centralized treasury does not necessarily mean that all functions

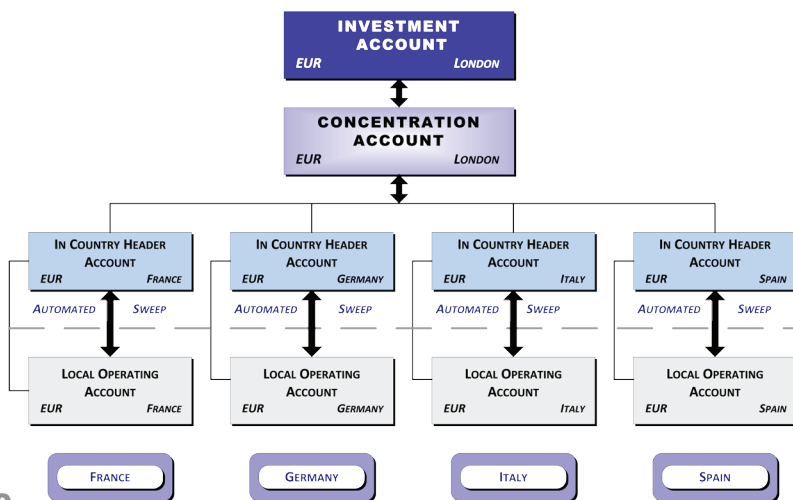


must be performed from the same building, country or region. You can have a centralized treasury with regional service centers, as long as everyone involved has the same vision and goals and their incentives are organizationally aligned. However, the Global Treasurer should have the ultimate responsibility and control of all the areas. Cash is a corporate asset, and this should be supported at all levels of the organization from the top down. Centralized treasury does not mean that every account in every country and every currency must all pool up to one master account, but that all treasury functions work in harmony. Use cash pools where possible and beneficial, net transactions to reduce FX exposure and transaction fees, and ensure you can see all cash. Global centralized

treasury means the sharing of one vision to consolidate processes, reduce risk and ensure operations are supported properly.

**Partner Carefully.** To support your operations properly, you will need to carefully and deliberately choose your financial partners. Since the credit crisis of 2008, banks value and demand ancillary business for credit, so if you maintain debt relationships you will need to ensure to include your key banking partners in your global plan. For example, you might want to place your European business with Bank A, your Asian business with Bank B, your South American business with Bank C, and your North American business with Bank D. Or some combination of banks that work for your particular needs.

Pooling for entities operating in the Euro zone might look like this: (You can also pool USD and other currencies in the Euro zone)



**Regulations!** Be cognizant of where local banks are required for statutory or other reasons (such as payroll), and ensure the partners chosen can communicate and operate with your main key bank partners. For example, you would not want to bank with a small local bank that is not capable of SWIFT messaging or executing same day wire transfers. Ensure that headquarters has access to control the signers and products associated with the account, if necessary work with legal to accomplish.

**Technology.** Employ one technology solution on a global basis for treasury reporting, forecasting and transactions. This will involve receiving and sending files to/from your banking partners, so be sure to include any file format requirements or preferences in your requirements document with your banking partners. This one technology could be on a bank platform, via a SWIFT corporate connection, or via a treasury workstation. Explore the options and choose the solution that works best for your organization.

**Caution:** Potential detours along the way:

- Depending on the location of your pool, you may need to execute cross-entity guaranties with parent/headquarter support. This may require a waiver in existing credit agreements.
- Choose your pooling/netting location so as to not create deemed dividends, and ensure you can hold multi-currency accounts in that jurisdiction.
- If centralizing to one physical location, ensure staffing across major time zones (Europe, Asia, Americas) to avoid unacceptable time delays or the inability to be proactive in the region.
- Never underestimate the human factor of your project.

Once your global project is complete benefits you should enjoy include:

- 100% or almost 100% visibility to global cash
- More accurate cash forecasting
- Increased yield on investment balances, due to concentrating balances, while ensuring investment policies are followed.
- Attractive FX rates by concentrating business with a few banks.
- Consolidating hedging activities, and more effective hedging operations
- Free staff for more strategic activities.

Once you have reached your destination, don't become complacent, as your organization changes your treasury operation will need to adapt as well. Optimizing treasury is a never-ending pursuit. 🌟



# When failure is NOT an option

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- Insulation from frequent SWIFT technology changes



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# Electronic Bank Account Management Update

Imagine if you will: It is late in the day and an operating subsidiary has emailed the treasury department a request for additional bank accounts. The analyst assigned to this area faxes an opening request to the bank only to find out that the bank has a recently implemented requirement for additional identity and corporate resolution documentation. The analyst further finds out that the signatures on file are no longer valid and will therefore need to track down the treasurer and the CFO to sign. The CFO recently left for Asia and the treasurer is in Europe. Overnight packages are prepared, emails are sent, and red tape continues. Only there was a way to simplify this process.

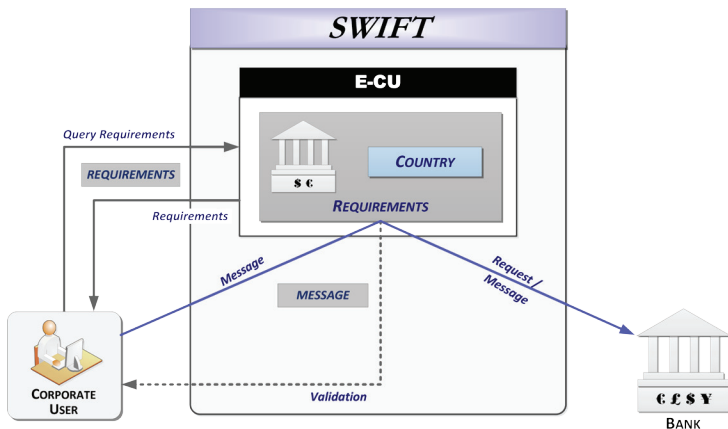
Scenarios like this help keep interest in eBAM at a peak as corporate treasury departments are spending increasingly large amounts of time managing many bank accounts on a global basis. Corporate officers, such as treasurers and CFOs with bank signature approval authority, are extremely busy, and often hard to reach. Treasury departments frequently need to chase signers around the globe with overnight packages of documents to be signed, verified and returned. Once returned, the paperwork is often faxed for immediate updates and the originals overnighted to multiple banks in various countries. As a response, many banks have recognized the risks of fax and have introduced a

method of using existing online portals to accept bank mandates. These portals work surprisingly well, but as the number of banks proliferates, so does the complication and time required for the corporate treasury department to manage disparate portals from all of their banking partners. In response to this problem, SWIFT originally released the capability to transact a set of electronic Bank Account Messages over the SWIFT network. These eBAM messages (i.e. add a signer to these accounts) were a first step to solving the problem. But, despite significant corporate demand for unified solutions, the banking industry response has been somewhat tepid, with some banks preferring their own solutions citing security concerns. Recently, SWIFT has taken a second step to better solve the challenge by introducing two items designed to help speed the adoption of eBAM messaging. These items are the 3SKey Identity Solution and the Central Utility.

## Digital Identity:

There are currently only two large-scale digital identity solutions/standards on the market: SWIFT 3SKey and Identrust's Trust Prime. Both of these solutions are gaining industry adoption from the banking industry and corporate customers. Identrust offers an entire solution set/software package that

many banks are offering via white label as a part of their portal along with the Identity solution. Both solutions work with the SWIFT messaging standards. Despite differing technological solutions, the key distinction is who ultimately verifies the identity or holds the store of trusted information. In the Identrust solution the driver is a private company, who already holds a key market position of being the “go to” provider of digital identity certificates for many other applications. In the SWIFT solution,



the bank owned network holds the trust key, but information is first verified and administered by the company and registered with the banks. (See 3SKey.com) The market has not yet decided which standard will reign indicating a strong probability that both will remain viable for the foreseeable future.

### eBAM Central Utility:

One of the most challenging aspects of account opening and closing for treasury is keeping up with the requirements and the documentation required for opening or closing an account. These requirements often change over time with little or no notice. Understanding what documents are required in what country or by which bank for each mandated action is critical. As the Corporate foot print grows, so does the complexity of this task. In order to begin to solve this problem SWIFT has introduced the E-CU that validates a SWIFT eBAM message against a list of requirements for each country and bank. The Central Utility checks each message for the required documents as the message is sent, and the message is returned if it is missing a key piece. Please note that the Central Utility does not validate the contents of the documents,

it merely validates that the appropriate documents are attached. (i.e. if the format of the document is incorrect, or has wrong information this will not be validated until the message is received by the bank and inspected) The Central Utility is a new solution and was just announced in September at SIBOS in Toronto. The ECU is designed to work nicely with the 3SKey solution and maintains a data base of country and bank specific document requirements and templates. The ECU appears to be a well thought out addition to electronic bank account management and is unique to the SWIFT solution to eBAM.

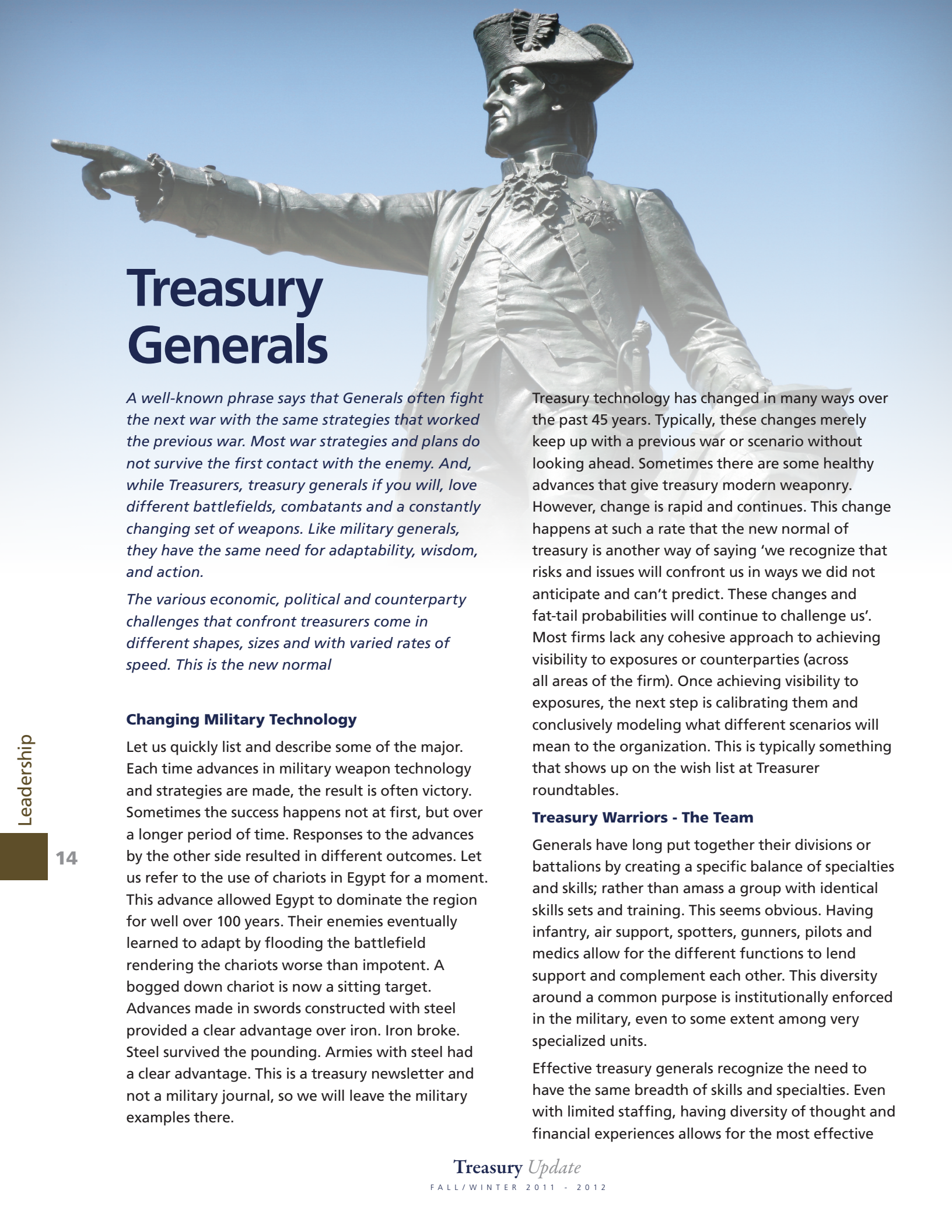
### What does it all mean for corporate treasury?

SWIFT has made great strides in offering a product that fits well within their secure bank messaging network. While it may not make sense for a corporate to adopt SWIFT messaging for this solution alone, it does bring additional value to the overall proposition of using SWIFT for connectivity. Using SWIFT along with the identity solution (3SKey) and

requirements management solution (E-CU) has great appeal to many treasury professionals. However, there is still a requirement for a system to provide the messaging that SWIFT uses. This may be in the form of a stand-alone bank account management solution or a broader treasury management system supporting eBAM. Additionally, as we have said previously, internal processes that are broken will not be fixed by plugging in an eBAM solution by itself. The Bank Account Management process often must be streamlined before completing the eBAM connection with your banking partners. Finally the requirements for KYC and a legal framework under which the account opening, closing and maintenance are accomplished often require a lot of paper with a wet signature applied and it will take a long time before the manual processes will cease. ✨



Richard Thompson  
Practice Leader, Treasury Technology



# Treasury Generals

*A well-known phrase says that Generals often fight the next war with the same strategies that worked the previous war. Most war strategies and plans do not survive the first contact with the enemy. And, while Treasurers, treasury generals if you will, love different battlefields, combatants and a constantly changing set of weapons. Like military generals, they have the same need for adaptability, wisdom, and action.*

*The various economic, political and counterparty challenges that confront treasurers come in different shapes, sizes and with varied rates of speed. This is the new normal*

## **Changing Military Technology**

Let us quickly list and describe some of the major. Each time advances in military weapon technology and strategies are made, the result is often victory. Sometimes the success happens not at first, but over a longer period of time. Responses to the advances by the other side resulted in different outcomes. Let us refer to the use of chariots in Egypt for a moment. This advance allowed Egypt to dominate the region for well over 100 years. Their enemies eventually learned to adapt by flooding the battlefield rendering the chariots worse than impotent. A bogged down chariot is now a sitting target. Advances made in swords constructed with steel provided a clear advantage over iron. Iron broke. Steel survived the pounding. Armies with steel had a clear advantage. This is a treasury newsletter and not a military journal, so we will leave the military examples there.

Treasury technology has changed in many ways over the past 45 years. Typically, these changes merely keep up with a previous war or scenario without looking ahead. Sometimes there are some healthy advances that give treasury modern weaponry. However, change is rapid and continues. This change happens at such a rate that the new normal of treasury is another way of saying 'we recognize that risks and issues will confront us in ways we did not anticipate and can't predict. These changes and fat-tail probabilities will continue to challenge us'. Most firms lack any cohesive approach to achieving visibility to exposures or counterparties (across all areas of the firm). Once achieving visibility to exposures, the next step is calibrating them and conclusively modeling what different scenarios will mean to the organization. This is typically something that shows up on the wish list at Treasurer roundtables.

## **Treasury Warriors - The Team**

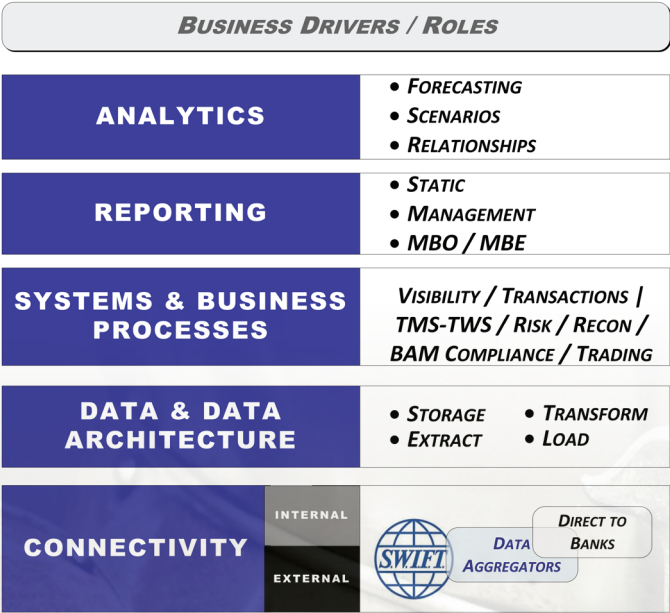
Generals have long put together their divisions or battalions by creating a specific balance of specialties and skills; rather than amass a group with identical skills sets and training. This seems obvious. Having infantry, air support, spotters, gunners, pilots and medics allow for the different functions to lend support and complement each other. This diversity around a common purpose is institutionally enforced in the military, even to some extent among very specialized units.

Effective treasury generals recognize the need to have the same breadth of skills and specialties. Even with limited staffing, having diversity of thought and financial experiences allows for the most effective



complement of skills and functions. With this in mind, it seems odd at first that some treasurers focus on hiring staff that mirror their training and experience or have a similar professional pedigree. This seems less odd given one's appreciation of the great learning and experiences that they achieved by their 'unique path'. However, ensuring a diverse set of financial skills and experiences are pulled together is vital in order to achieve the type of team that can look at the same problem, with the same goal and bring their unique insights together to analyze the situation optimally. This treasury group can now act as a cohesive unit until the issue is resolved or the battle won.

## TREASURY TECHNOLOGY STACK



### Changing Threats Require Resiliency Which Requires Technical Flexibility

Threats emerge from various sources sometimes without much warning. This often leaves treasury scrambling to achieve 'battlefield visibility' before being able to act effectively. For those treasurers that are taking a leading general approach, they are making progress on several fronts including:

- **Building a Diverse Team.** Diverse in financial experience, setting clear responsibilities and forcing them to report their progress and goals to the broader treasury group helps to keep the team on track. This is all centered on a clear

understanding of the mission of the organization in general and treasury in particular.

- **Architecting a Flexible Treasury Infrastructure.** Being able to marshal the information and analytical resources requires treasury to properly architect their entire treasury infrastructure. A mass of unconnected spreadsheets coupled with a Treasury Workstation and a few trading platforms is almost the default position and is highly dysfunctional for most multi-national organizations. Clearly defining the treasury technology stack (see exhibit) allows for the effective use of data, connectivity, processing systems and analytics in a way that supports treasury's mission.
- **Communicating on a 360 degree basis.** Communication upwards to the CEO and the board about their role, as well as, the situations that seem imminent is a starting point. Viewing the need to demonstrate and educate the organization on Treasury's role as a process is another major piece of this front. Acting as a business advisor with financial discipline and rigor will round out the communication need for the group.
- **Allies.** In war, good allies can be invaluable. For treasurers, these allies can come from within the organization as well as from other sources. Developing strong (meaning well connected), open relationships with bankers will provide your organization with far more than access to capital. The ability to tap your bankers intellectual resources is highly useful for those who know how to leverage this asset. Consultants who act as multi-year partners also play a vital role in helping organizations move rapidly and gracefully to various changes and threats that seem to emerge on a quarterly basis.

So, think and act like a Treasury General. Not like the one who focuses solely on the last conflict, but one who ensures that they build a team with an infrastructure that is flexible and resilient. One that leverages their diversity of skill sets, architects a flexible technology structure, communicates effectively across all channels and fosters relationships with the right allies. ✨



# Developments in Treasury Technology

Reflecting back on Treasury Technology developments during 2011 we decided to highlight some of the major changes that have occurred. This year saw three Treasury Management Systems (TMS/TWS) move into the North American market from Europe. The integration of risk management calibration activity fits in with the risk approach of many treasurers and was notable in the receivables space with an acquisition. Netting systems have been viewed as, more or less, a commodity over the past few years. Expansion of a netting system's capabilities to address thorny accounting issues raises the bar and adds some competitive excitement to the mix. Other vendors either merged or continued to develop their offerings. Readers are encouraged to join Strategic Treasurer's LinkedIn group on Treasury & Risk Technology [www.StrategicTreasurer.com/LinkedIn.php](http://www.StrategicTreasurer.com/LinkedIn.php)

## More Than Netting? Netting System Addresses Accounting Issues

**Coprocess.** Netting provides corporations with great value through the reduction of transactions and FX fees. This value has provided the business case for netting for years. The process that sits behind netting (exchanging invoices between various entities) also has an accounting and reconciliation components. These accounting and reconciliation components can take a significant time to manage and resolve disputes. This is far too frequently ignored by Treasury as it can be viewed as operational or accounting in nature. Coprocess, in addition to their core netting capabilities (upload of invoices, automated matching, etc.) has developed a rather rich resolution process. This includes online discussion and dispute capabilities that keep the

Coprocess - Netting - Invoice view

### R Invoices from AR

Drag a column header here to group by that column									
	Invoice	Payer	Payee	Currency	Amount	Due Date	Match	Settlement	
<input type="checkbox"/>	V0Y273	BEWIN	DEJUG	EUR	237,270.90	13/09/2011		201109	
<input type="checkbox"/>	8GA955	BEWIN	USADH	DKK	250,000.00	13/09/2011		201109	
<input type="checkbox"/>	MNMT16	BEWIN	CHASP	USD	6,274.09	13/09/2011		201109	
<input type="checkbox"/>	A9DX13	BEWIN	CHASP	USD	9,000.00	13/09/2011		201109	
<input type="checkbox"/>	YPXE90	BEWIN	CHASP	USD	19,281.07	13/09/2011		201109	
<input type="checkbox"/>	07A418	BEWIN	JPCAR	USD	48,200.00	13/09/2011		201109	
<input type="checkbox"/>	HMNZ17	BEWIN	JPCAR	USD	38,029.00	13/09/2011		201109	
<input type="checkbox"/>	LRC715	BEWIN	CHASP	USD	26,400.00	13/09/2011		201109	
<input type="checkbox"/>	DIJ714	BEWIN	CHASP	USD	16,000.00	13/09/2011		201109	
<input type="checkbox"/>	HCG512	BEWIN	CHASP	USD	36,701.00	13/09/2011		201109	

operational and accounting process moving rapidly to conclusion.

The invoice exhibit shows a rendering of a reconciliation issue. One system shows an intercompany invoice in USD while the other is expecting EUR. The discrepancy on currency is noted and the dispute resolution process begins.

## Risk Management

Credit Risk Management Calibration.

- **SunGard Acquires PredictiveMetrics.** Earlier this year (3Feb2011), SunGard acquired PredictiveMetrics. This represents another step in SunGard's ongoing plan to improve their offerings across the cash conversion cycle and corporations ability to manage working capital. PredictiveMetrics specializes in analyzing trade credit, debt collections and provides predictive scoring. Predictive scoring helps organizations to prioritize their collection and credit management efforts in a manner that contemplates risk.

## Developments.

- **SunGard.** Accounts Receivable securitization support and stratification is enabled and integrated within their existing collection suite.

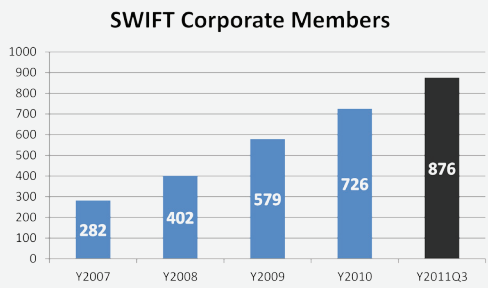
An outsourced third-party arrangement for hedge accounting support has been established.

## Mergers of SWIFT Service Bureaus

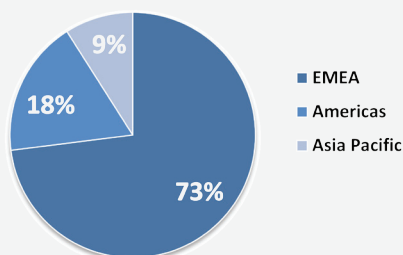
- **BankServ into FundTech.** In September, GTCR announced plans to acquire FundTech. They stated their plans to combine BankServ, the SWIFT Service Bureau and banking services provider with FundTech. The newly combined company will be based in New Jersey and use the FundTech name.
- **Synthesis into SunGard.** Synthesis, the European based service bureau, was acquired providing SunGard with a bigger footprint. Integration of the service with Mint and expanded Patriot Act capabilities flesh out the connectivity as a service (CaaS) solution.

## SWIFT For Corporates

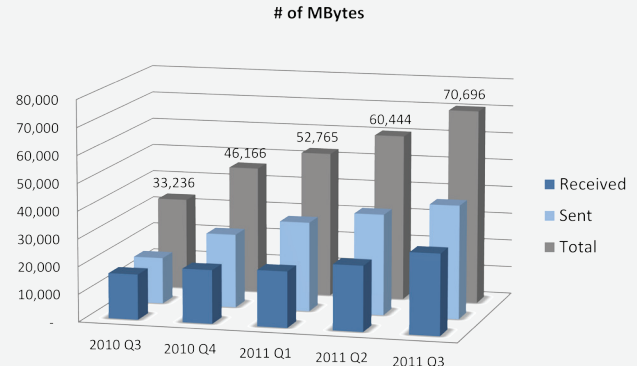
The use of SWIFT by corporates continues to grow consistently as has the use by corporations outside of Europe. The rapid growth rate of messages and data exchanged by corporates over SWIFT continues. Traditional message traffic (FIN messages) grew by over 30% from 2011Q3 over 2010Q3. However,



## SWIFT Corporate Dispersion



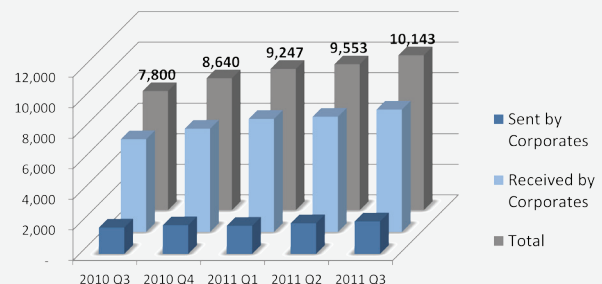
## Corporate FileACT Volume



FILEACT traffic grew by over 110% over the same period.

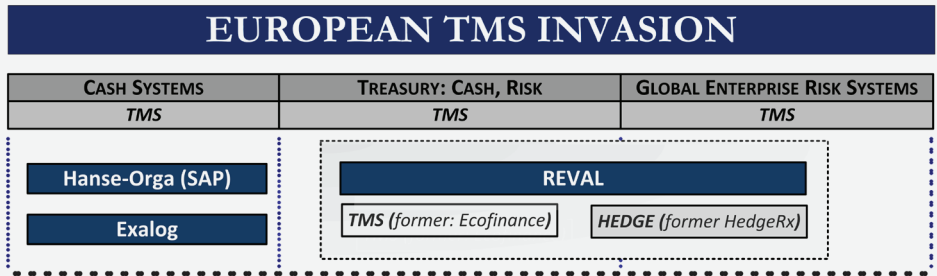
FILEACT is a method of passing non- SWIFT formats through the SWIFT network in a package. SWIFT becomes the delivery channel or pipe. One example is sending a direct deposit of payroll file, a NACHA format, to your bank using SWIFT for the connection.

## FIN Traffic (000's of messages)



## European Invasion of TWS/TMS

2011 has brought European TMS providers to North America. Three solution sets have jumped the pond. Two by a desire to expand their presence, and one by acquisition (as noted in the Spring Issue). This graphic shows the three 'invaders' and their position in the TMS/TWS landscape chart.



- Hanse Orga.** Hanse Orga offers an SAP treasury solution set that is built into SAP. For some firms that insist on having everything financial in SAP, there is now an option besides SAP treasury modules. There are clearly differences between the two offerings that should be understood. However, the ability to address core cash management needs quickly within SAP is a position that may prove to be a good fit for SAP shops in the US. Exhibit 2 shows a cash position worksheet (CPW) view from within SAP and Hanse Orga.

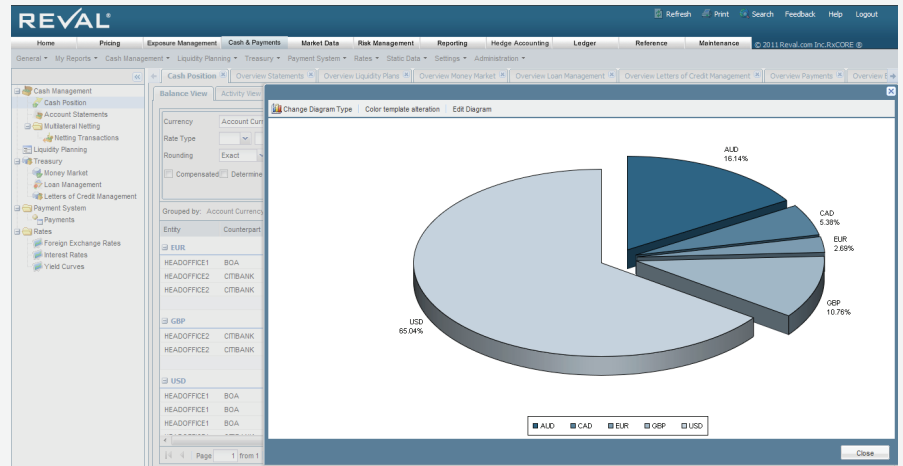
CPW flow

Display from: 23.03.2009  
 Content: Bank statement items and short-term plannings  
 Unit target cur: 1 EUR  
 Company codes: incl. M\_MU  
 No: incl. EUR1  
 Report structure: Individual values and subtotal

Report structure	Name flow type	23.03.2009	24.03.2009	25.03.2009	26.03.2009	27.03.2009
<b>Opening balance</b>		45.646.069,53	30.500.049,53	34.112.030,78	31.073.006,39	57.618.886,81
<b>Inc. payments operational</b>	Transfer in international	0,00	950.000,00	0,00	2.810.000,00	0,00
	Cheques Incoming	610.000,00	0,00	0,00	0,00	0,00
	Transfer in Domestic	4.134.000,00	0,00	0,00	0,00	0,00
<b>Outg. payments operati...</b>	Cheques outgoing	0,00	0,00	0,00	200.000,00	0,00
	Bank costs	20,00	20.000,00	0,00	0,00	0,00
	Urgent transfer out	0,00	0,00	600.000,00	0,00	1.780.000,00
	Transfer out domestic	1.110.000,00	0,00	0,00	0,00	0,00
<b>Total operational</b>		5.853.980,00	930.000,00	600.000,00	2.610.000,00	1.780.000,00
<b>Inc. payments Treasury</b>	Capital in	0,00	15.535.000,00	0,00	36.535.000,00	0,00
	Interests in	0,00	1.227,92	0,00	8.233,75	0,00
	FX out	0,00	0,00	2.439.024,39	0,00	0,00
<b>Outg. payments Treasury</b>	Capital out	21.000.000,00	12.604.246,67	0,00	12.607.353,33	0,00
<b>Total Treasury</b>		21.000.000,00	2.931.981,25	2.439.024,39	23.935.880,42	0,00
<b>Cash pooling/carryforward</b>	Kontenttransfer	0,00	250.000,00	0,00	0,00	0,00
<b>Closing balance</b>		30.500.049,53	34.112.030,78	31.073.006,39	57.618.886,81	55.838.886,81

Hanse-Orga's integrated SAP TMS. Daily Casflow View.

- Reval – EcoFinance.** In the 2011 Spring Issue of Treasury Update, we highlighted some of the rationale of the Reval acquisition of ecoFinance. Reval has been busy. EcoFinance is now incorporated into the SaaS platform and has been marketing this integrated solution set (treasury and hedge accounting) with the Reval name and using the Total Visibility theme leading up to the release. Reval now covers a much broader section of the treasury technology front.



Reval's SaaS integration of cash, risk and hedge accounting. Currency Allocation View.

- Exalog.** Created in 1984 and headquartered in France, Exalog reports 5,000 corporate clients use their SaaS model from almost 50 different countries. They recently opened up an office in New York City to market directly to North American clients. Their offering covers a range of the cash/ debt/ investment space in our TMS Landscape chart.

Allmybanks.net  
 Worldwide electronic banking and cash management  
 Forecast balances and account balancing

Execute the macro: No macro

Group of accounts: BANK ACCOUNTS  
 Accounts: Select an account

Period from: 11/07/2011 till 11/12/2011 on Value date

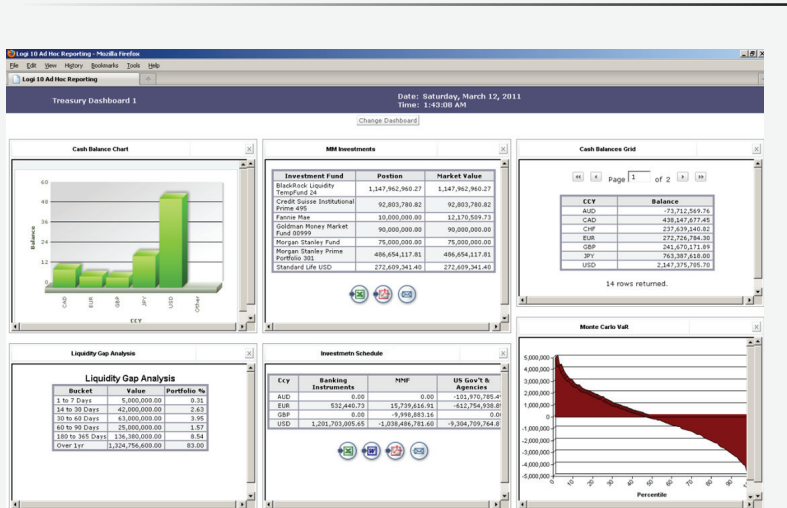
	Mo 11/07/2011	Tu 11/08/2011	We 11/09/2011	Th 11/10/2011	Fr 11/11/2011
<b>Available funds(USD)</b>					
<b>BANK ACCOUNTS</b>					
<b>EXASOLAR CORP</b>					
Total credit EXASOLAR CORP	73.321.00 USD	73.321.00 USD	473.321.00 USD	473.321.00 USD	473.321.00 USD
Total debit EXASOLAR CORP	-40.846.60 USD	-40.846.60 USD	-40.846.60 USD	-40.846.60 USD	-40.846.60 USD
Banking balance EXASOLAR CORP	32.474.40 USD	32.474.40 USD	432.474.40 USD	432.474.40 USD	432.474.40 USD

Exalog's Cash Positioning View.

Navigating the technology landscape requires an expert guide. Strategic Treasurer can assist you with both technology strategy and technology projects for all phases.

## Treasury Technology Column – Release Watch

Beginning with this issue we have added a Treasury Management System (TMS/TWS) release watch. This section of the treasury technology column highlights recent or upcoming developments or release information for treasury systems. Seeing some of the recent or schedule updates to leading systems is helpful for those who monitor the changes occurring in the TMS space. We also received request for system screenshots to help our readers visualize the systems we are covering in this column. Your suggestions are welcome.



Sungard's Risk Module can be used with their various TMS and offers a configurable dashboard view.

## GTreasury™

Logout   Home   Treasury   Balance and Detail   Funds Transfer   CIV   Processing   Reconciliation   Debt			
TREA_DEMO_TREE	Setup	Treasury Demo Account Trees	
User Code by Account	Global Cash Position - ***	Financial Institutions - ***	Countries - ***
9/9/2011 (Fr)	Act	Act	Act
Opening Balance	5,511,049,893.15	5,511,049,893.15	5,511,049,893.15
-----Cash Inflow-----			
Incoming Transactions	11,809,079.73 [6]	11,809,079.73 [6]	11,809,079.73 [6]
Preauthorized ACH Credit (0165)	11,809,079.73 [6]	11,809,079.73 [6]	11,809,079.73 [6]
1 Day Float (0072)	0.00 [9]	0.00 [9]	0.00 [9]
Incoming Wire			
Lockbox Deposit (0115)	90,000.00 [5]	90,000.00 [5]	90,000.00 [5]
ZBA Credit (0275)	17,602,323.24 [15]	17,602,323.24 [15]	17,602,323.24 [15]
Miscellaneous Credit (0399)	561,450.00 [2]	561,450.00 [2]	561,450.00 [2]
Total Credits (Calculated)	30,062,852.97 [28]	30,062,852.97 [28]	30,062,852.97 [28]
Total Credits	30,062,852.97 [28]	30,062,852.97 [28]	30,062,852.97 [28]
-----Cash Outflows-----			
Preauthorized ACH Debit (0455)	11,229,188.00 [5]	11,229,188.00 [5]	11,229,188.00 [5]
ACH Settlement (0466)	353,442.58 [8]	353,442.58 [8]	353,442.58 [8]
Check Paid (0475)	4,275,908.40 [78]	4,275,908.40 [78]	4,275,908.40 [78]
Outgoing Money Transfer (0495)	235,339.36 [7]	235,339.36 [7]	235,339.36 [7]
ZBA Debit (0575)	24,593.51 [2]	24,593.51 [2]	24,593.51 [2]
Miscellaneous Fees (0698)			
ACH Return (0689)			
Total Debits (Calculated)	16,118,471.85 [98]	16,118,471.85 [98]	16,118,471.85 [98]
Total Debits	16,118,471.85 [98]	16,118,471.85 [98]	16,118,471.85 [98]
Total Net Receipts w/o FINA	5,524,994,074.27 [126]	5,524,994,074.27 [126]	5,524,994,074.27 [126]

GTreasury's Account Tree offers a selection of views for their cash sheets. The screen shot shows the same base information aggregated on a global basis, bank or country basis.

## TMS/TWS Release Watch 2011

Product	Version	Release Date
GTreasury	10.14	Jul2011
GTreasury	<ul style="list-style-type: none"> <li><b>Process.</b> Process flow visualization</li> <li><b>Risk.</b> Management and tracking of counterparties</li> <li><b>Coverage.</b> eStatement capability</li> <li><b>Coverage.</b> Expanded account analysis</li> <li><b>Presentation.</b> Double-Byte character support</li> </ul>	
	Kyriba	11.1
Kyriba	<ul style="list-style-type: none"> <li><b>Risk.</b> Scenario testing, sensitivity analysis including yield curve modification</li> <li><b>Risk.</b> Hedge effectiveness module. Retrospective and Prospective.</li> <li><b>Forecast.</b> Cash forecasting enhancements, statistical modeling of history.</li> <li><b>Coverage.</b> New financial instruments: IR (caps, collars, floors); FX (non-del forwards); Debt (lease contracts)</li> <li><b>Presentation.</b> Double-Byte character support</li> </ul>	
	Reval	11.1
Reval	<ul style="list-style-type: none"> <li><b>Presentation.</b> 12 new modules fork key areas of treasury, offering flexible views for global cash management and liquidity, including funding, investing, transaction and payments.</li> <li><b>Coverage.</b> Single platform for all instrument capture, covering derivative, debt and investment instruments and a single sub-ledger for all treasury accounting.</li> </ul>	
	<ul style="list-style-type: none"> <li><b>Risk.</b> Enhancements to Reval's pricing and risk module including: credit contingent collateral reporting for credit adjustment, ISDA netting and CSA's applied stress testing and derivative balance sheet reporting.</li> <li><b>Risk Accounting.</b> Optimal hedge tool to automate the designation of derivatives. New constant maturity method for regression effectiveness assessments.</li> </ul>	

# Forecasting and Visibility Survey

## 2011 Overview and Select Findings

Surveys often provide value in several ways. First, they create an impetus to move or steps towards a best or better practice. No one wants to fall too far behind. They often show some numerical evidence (often called data-driven or fact based) that may support or challenge your logical or otherwise derived view of what-is or what-should-be. Second, future looking surveys or surveys that ask the same questions during the survey's different iterations provide us with trend information about what is changing and how things are changing. The why or rationale for these changes can be part of the survey questions themselves. The challenges are creating a survey of substance that is also relatively short so it won't be abandoned. The 2011 Forecasting and Visibility Survey results were compiled during August and September.

### Survey Differences 2011 and 2010.

Once again, as in 2010, Strategic Treasurer and Bottomline Technologies worked together on this survey. We expanded the survey to include a deeper understanding about forecast methodologies and to parse the progress and future plans of organizations with regard to their connectivity needs.

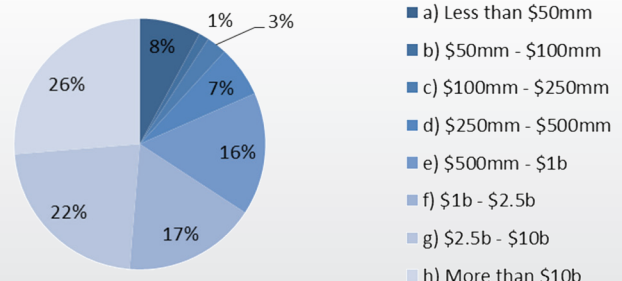
### Survey Respondent Composition

**Company Size:** While the size of companies in the broader world can fit into a nice pyramid with the

SURVEY FOCUS	
2010	Information management related to: <ul style="list-style-type: none"> <li>• Cash Positioning and Cashflow Forecasting</li> <li>• Organizational Complexity</li> </ul>
2011	Expanded to include: <ul style="list-style-type: none"> <li>• Forecasting methodologies used</li> <li>• Insight into connectivity: understanding, progress and plans</li> </ul>

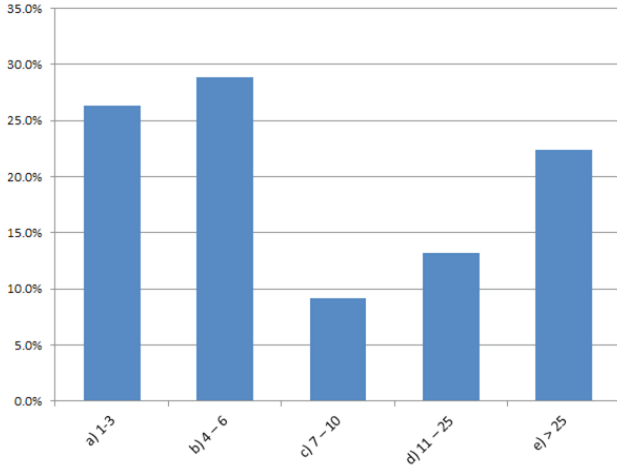
base being made up of tiny companies, we hope to have a survey with a more even weighting by company size across several sectors. Again, this roughly equivalent mix by revenue size was evident in the 2011 with approximately a quarter of respondents in the <\$1B, \$1B-2.5B, \$2.5-10B and >\$10B.

### What is your company's annual revenue?



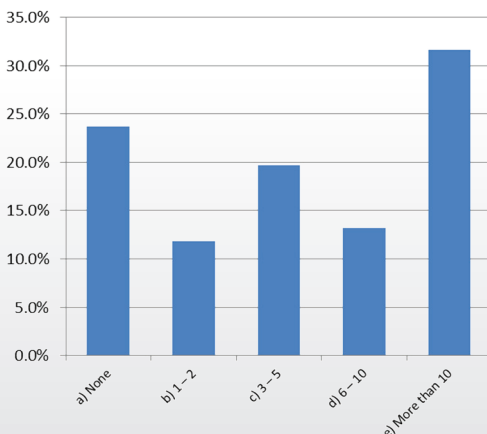
**Treasury Organizational Size:** This year's survey showed nearly double the representation of larger staffs, those with 11 or more, than in 2010. This represents just over a third of the population.

**How large is your global treasury organization, including analysts?**



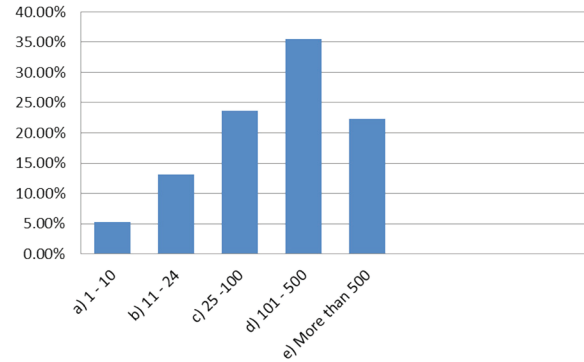
**Number of Banks:** Despite many years of organizations trying to rationalize their relationships to fewer banks, this survey population shows an elevated usage of banks both domestically and internationally. Domestically, those using three or more banks moved from ~75% in 2010 to ~82% in 2011. However, this same comparison for international banks was far more dramatic moving from ~45% to ~64% between surveys. Both survey results emphasize the level of complexity caused by the number of relationships and the global nature or aspect of many businesses.

**How many banks do you use outside of the United States?**



**Number of Bank Accounts:** Just over 55% of respondents indicated they had over 100 bank accounts. Additionally, nearly one quarter of the firms reported that they had over 500 bank accounts. This volume of accounts represents one complicating factor in performing cash flow forecasting since the vast majority of firms use bank accounts and the historical cash flows within them as a major component for cash flow forecasting.

**How many bank accounts does your organization have?**

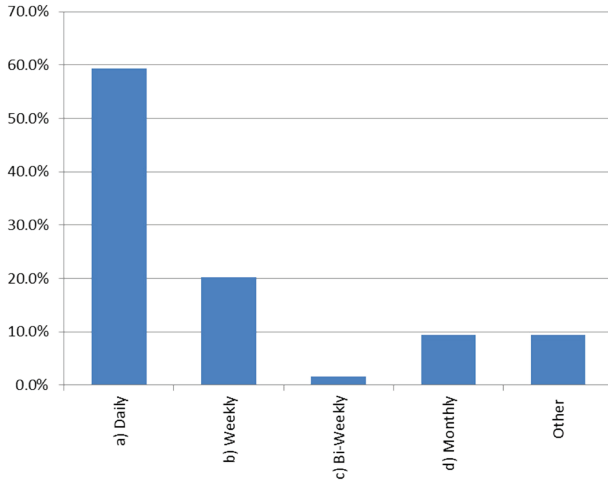


**Key Findings (Summary):** Here are three key insights gleaned from our survey coupled with some observations:

- **Increasingly Complex Environment for Forecasting.** The number and geography of bank relationships increased over the previous year. Substantial growth in international relationships was most notable.
- **Visibility Progress.** While the drumbeat about better visibility has continued since the 2008 financial crisis beginnings, we have finally seen substantial operational progress on a day-to-day basis (cash positioning) and on a longer term basis (cash flow forecasting).
- **Advanced Forecasting Activities.** For all of the arguments about whether forecasting is an art or a science, a common perception has been that forecasting is an undeveloped and rudimentary art. This survey provided insight into a number of areas including: How firms are tracking their forecasting accuracy (cash flow wins over cash balance) and managing their variances; the use of complex statistical

and distribution methods is indeed happening. While this use is with a small minority of firms, this appears to represent a growing and significant interest in accurate cash flow forecasting.

### What frequency do you receive cash position information from regional offices/HQ?

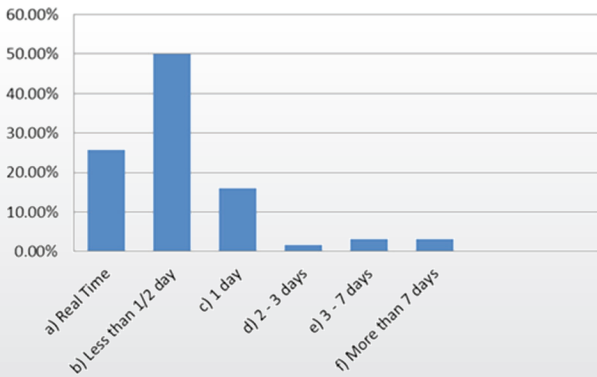


### Select Survey Results

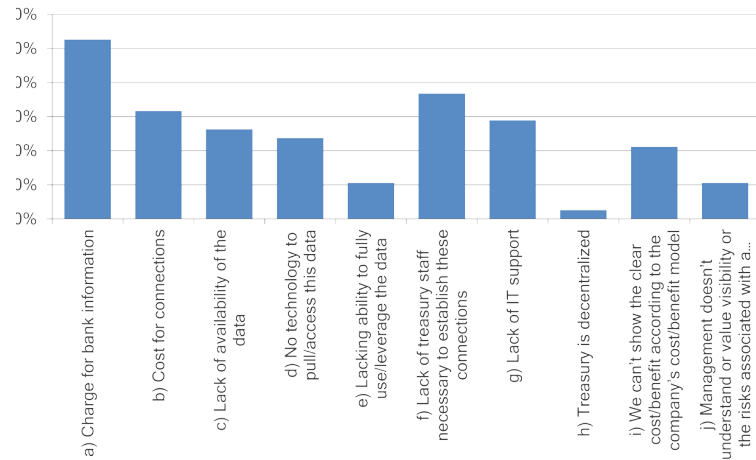
#### Frequency of Cash Position:

**Consolidated Forecasts:** Those firms which have a fully automated process can consolidate data in real-time. Highly automated processes or a staff-intensive commitment can allow this to occur on a same day basis. Those with a fully automated process (real-time consolidation) moved from under 10% in 2010 to ~25% in 2011, representing a notable and major change in capabilities in the industry.

### How long does it take to consolidate data from regional offices?



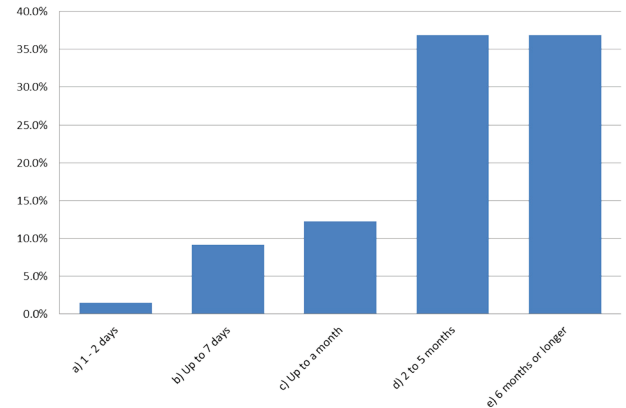
If you are not getting all of the data as often as you like, what are the barriers? (check all that apply)



**Barriers to Data:** Many barriers to securing the proper data exist. Interestingly, the top two reasons cited were: cost of bank data and the lack of treasury staff/resources necessary to make the connections to this data

**Forecast Length:** Less than 25% of firms forecast cash flows out one month or less. This survey showed an even amount (just under 37%) forecasting six months and longer and those forecasting between 2-5 months.

### How far into the future do you forecast cash?



### How frequently would you like your cash position updated? (select one)

Answer Options	Response Percent
a) Real time	39.1%
b) Daily	50.0%
c) Weekly	7.8%
d) Monthly	3.1%

**Cash Position Updating:** The 2011 results mirrored 2010 quite closely. Approximately 90% of firms would like real-time or daily updates to the information used for positioning cash.



**Forecasting Methods:** We have never been able to find any current survey results that show what types of forecasting methods are being used by firms. Regression and simulation methods

What methods of forecasting does your company use? (check all that apply).				
Answer Options	Treasury/ Finance Cashflows: Hedging	Treasury/ Finance Cashflows: Non-Hedging	Accounts Receivable	Accounts Payable & Payroll
	Manual entry or manual projects	27%	52%	37%
Sub-ledger forecasts or data pull	13%	25%	31%	37%
Rolling average	6%	15%	23%	25%
Weighted rolling average	0%	6%	13%	13%
Receipts & disbursements method	23%	37%	42%	42%
Allocation method (day of week, day of month, business cycles)	17%	35%	38%	42%
Regression analysis	4%	8%	10%	10%
Scenario (monte carlo)	8%	8%	2%	4%

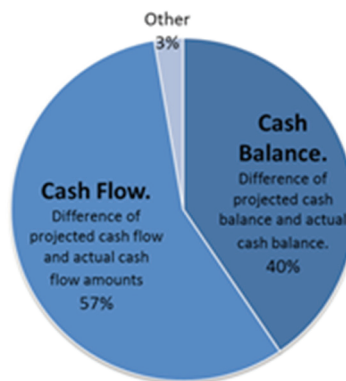
clearly show up, to a noticeable extent, in some specialized areas confirming our experience and observations in the field. The use of distributive methods is quite interesting and worthy of a standalone article. You will find more commentary on this topic in our overall survey results report.

**Variance Analysis...Or Not:** Why buy an alarm if you won't set it when you leave the house? Over one in five firms that perform cash flow forecasting do not perform any type of variance analysis. That statistic was not a surprise. However, the fact that just 1 in 20 firms that forecast have a fully automated variance analysis process was a surprise. Given that TMS exist in sufficient numbers and they contain the tools to do exactly that, we were quite surprised by this lack of use. Making some assumptions, if nearly half of the respondents have a TWS/TMS, only 1 in 10 of those firms are using the native abilities within the system to analyze forecast variances.

Our forecasting variance analysis is?	
Do Not Perform Variance Analysis	20 %
Fully Automated	6%
Manual	44%
Partially Automated	30%

**Variance Analysis Measured On Cash Flow:** In the debate over forecast accuracy, arguments can be had as to whether one should rely on the forecasted cash balance or on the forecasted cash flows as the basis of measurement. Cash flow advocates win the popular vote by a rather wide margin, nearly 50% more than those relying on cash balance for measuring forecast accuracy.

### What do you measure in your variance analysis?



### Conclusion

As shown, the survey exhibited a wide variety of changes to the industry in the past year. Some of the notable findings in this survey were the increased representation of larger treasury groups and a larger number of bank relationships globally. The number of organizations having a more automated forecasting process has shown a significant increase over the last year, as well: jumping from under 10% in 2010 to over 25% in 2011. This sudden shift represents the change in capabilities for the industry that have been discussed for several years. Another noteworthy change over the past year was the increase in the use of Treasury Work Stations as a cash reporting tool. Although the survey did show some consistency, and according to the data received, over 60% of the firms would still like to be able to view "real time" or "daily" updates when it comes to cash positioning, the survey mostly showed some significant changes that were made since 2010. The most dramatic change indicated were plans to use or expand the use of EBAM and Trade Confirmations. We thank all of the survey participants who proved that significant changes have been underway and more are planned and offer key learning points to other financial professionals.

*\*\*The full analysis of the survey including, information about forecasting frequency, what cash reporting tools are most popular and the methods used, as well as the awareness of SWIFT and other Electronic Data service use is available upon request. Please contact Strategic Treasurer's main office if you would like to receive a copy of the full analysis of the 2011 Cash Forecasting and Visibility Survey.*

# Redefining Cash:

## The Threat of Negative Yield on Corporate Treasury Management

Capital Advisors Group

As the Federal Reserve extends its zero interest rate policy into the foreseeable future and the Eurozone sovereign debt crisis shows no signs of abating, the treasury investment management profession also is entering a new and challenging phase. Corporate treasurers must face the prospect of a negative yield environment in which they may have to pay out real dollars for the privilege of sitting on big piles of cash rather than generating investment returns with those assets.

### Negative Yield Invades Cash Accounts

The FDIC's new deposit insurance requirements on bank assets and spreading concerns over the Eurozone sovereign debt crisis caused the yield on short-maturity Treasury securities to oscillate between near-zero and negative levels. Additionally, the Federal Reserve decided to keep the Fed funds target rate of zero to 0.25% in place for two more years – a decision that quickly pushed zero yields out to the six-month part of the yield curve. As a result, when transaction costs are included, the net yield on short-term Treasury securities is negative for many investors.

With some banks now charging fees on transient deposits and negative yields on Treasury bills, some investors may be pushed into other cash instruments, further depressing yields across the board. If the pressure does not let up, it is not unthinkable that we will see rates on overnight repos, discount notes and non-financial commercial paper also move into negative territory. If that happens, cash investment objectives for corporate treasurers may change from safety, liquidity and reasonable "returns" to safety, liquidity and reasonable "costs."

Cash investment strategies also may change from those that consider risk and return tradeoffs to those of pure risk diversification.

### Diversification — the Defensive Answer

It is imperative that corporate treasurers identify trends in the world of cash investments and have a contingency plan in place. With a great deal of uncertainty on the horizon for both Europe and the US, investors should be prepared to deal with the worst-case scenario of a prolonged negative

yield environment.

### Assess and Adjust Liquidity Expectations

In times of financial stress, liquidity premiums may increase sharply. Investors may find it wise to sacrifice some yield potential by building a liquidity cushion sufficiently large to avoid having to access the market when liquidity may be most expensive. In such extremely challenging environments, it is necessary to substitute the cash investment objective of "return on investments" for the "pay to park cash" alternative.

### Manage Concentration Risk Sensibly

While it is difficult to fault investors for hoarding cash in non-interest paying bank deposits in uncertain times, corporate treasurers also need to recognize the concentration risk associated with maintaining cash at a small number of large financial institutions. Diversifying balances among different cash instruments, in addition to exiting bank and money market fund relationships, may expand opportunities and reduce their exposure to negative yields. A properly structured separately managed account strategy may offer an additional arrow in treasurers' quivers as a potentially high liquidity risk premium, coupled with the Fed's clear message on monetary policy, actually may create yield opportunities for the right treasury accounts.

Even though the overall yield curve has shifted downward, securities with strong credit quality that are perceived to be less liquid may offer better yield differential over securities of similar credit quality. From an interest rate perspective, the risk of moderate maturity extensions also is lower given the Fed's stated intention to remain extremely accommodative well into 2013.

### A New Era Requires Fresh Thinking on Cash Investments

As companies hold off on investing in new capacity and new jobs, the stockpiling of cash into "safe" securities and bank accounts has resulted in a near zero to negative yield environment. Treasurers need to be aware that portfolio yield may stay negative for a lengthy period, and while doing nothing may seem like an easy option, treasurers should

take steps to reduce their concentration risk by diversifying among different cash instruments. Even if such moves do not increase their expected yield, they may, nonetheless, be prudent risk management practices.



Lance Pan

Lance is Capital Advisors Group's Director of Investment Research. He is responsible for assessing the risk of various asset classes in order to safeguard the investments of Capital Advisors Group's clients. His role includes creating advanced credit approval and surveillance procedures, issuing credit driven investment opinions to the company's trading desk and providing credit-based investment strategies to Capital Advisors Group's portfolio management team.

This article has been condensed. To read the full article or to access more of Capital Advisors Group's research on institutional cash investment strategies, please visit [www.capitaladvisors.com/whitepapers](http://www.capitaladvisors.com/whitepapers)

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## TMS/TWS Release Watch 2011

Product	Version	Release Date
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AvantGard Treasury Express Edition	Integrity 8	30Nov2011
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- **Presentation.** Dashboard capabilities expanded and simplified allowing users to configure to desired content.
- **Presentation.** Interactive workspace allows users to display key content as relevant.
- **CaaS.** Bank connectivity services including embedded SWIFT service bureau and eBAM.

AvantGard Treasury Corporate Edition	Integrity 8	30Nov2011
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- **Presentation.** Dashboard capabilities expanded and simplified allowing users to configure to desired content.
- **Presentation.** Interactive workspace allows users to display key content as relevant.
- **Coverage.** Expanded treasury dealing for binds, fees FX option, interest rate options, commodities, bulk wire approvals, futures and equities
- **Workflow.** Enhanced / Configurable workflow for treasury contracts and deal requests.
- **CaaS.** Bank connectivity services including embedded SWIFT service bureau and eBAM.
- **Reporting.** Reporting enhancements for scenario analysis and IFRS 7.

AvantGard Treasury Enterprise Edition	Quantum 5	31Dec2011
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- **Presentation.** Enhanced customer experience with the introduction of workspaces and interactive taskbars.
- **Presentation.** Function maps allowing users to quickly select the desired work area or tools.
- **Presentation.** Expanded dashboards and reporting for detailed analysis and presentation.
- **CaaS.** Bank connectivity services including embedded SWIFT service bureau and eBAM.

## Treasury Events 2012

### TEXPO

March 25 – 27, 2012  
Dallas, Texas

### UNC Treasury

#### Management Program

April 15 – 18, 2012  
Chapel Hill, NC

### TMANE

May 16 – 18, 2012  
Boston, Mass.

### NY Cash Exchange

30th Anniversary  
May 23 – 25  
New York

### UNC Treasury

#### Management Program

September 30 – October 3, 2012  
Chapel Hill, NC

### AFP

October 14 – 17, 2012  
Miami, Florida

### SIBOS

October 29 – November 2, 2012  
Osaka, Japan

## Get **Linked in** to Strategic Treasurer's Groups!

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- Working Capital & Supply Chain Finance
- Treasury Resiliency
- Treasury Government
- Treasury Non-Profit

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[www.StrategicTreasurer.com/LinkedIn](http://www.StrategicTreasurer.com/LinkedIn)



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Strategic Treasurer's website contains a video viewer allowing you easy access to videos on specific topics within various Treasury categories. Topics include: Float, Positive Payment, Working Capital, Account Analysis, Remote Deposit Capture, etc. More videos are planned for January 2012, so check back soon.

[www.StrategicTreasurer.com/Videos](http://www.StrategicTreasurer.com/Videos)

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Dimensional Analytics Risk Technology: Counterparty | Country | Currency  
Concentration | Commodity | Covenants | Instrument | Interest Rate | Structural | Transaction | Events

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