a Strategic Treasurer newsletter

TREASURY UPDATE

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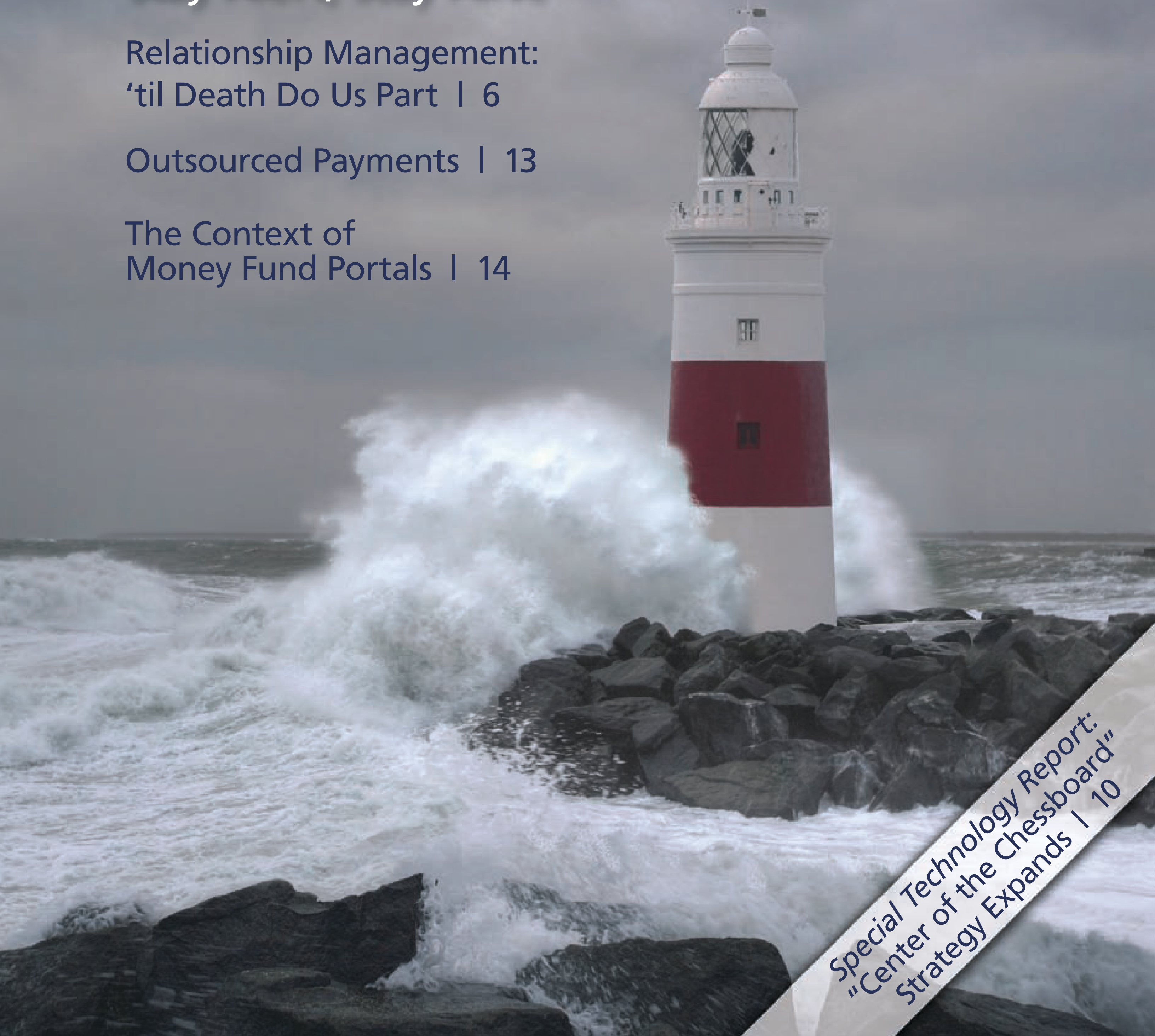

Contents.

Treasury Update

A Strategic Treasurer Newsletter
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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.

RISK MANAGEMENT

Stay Alert, Stay Alive

For the cover of this issue of Treasury Update *we chose a lighthouse, standing firm against the onslaught of a storm crashing all around it. Lighthouses, in days before modern technology, were warning beacons for alerting sea captains of the proximity of the shore and of rocky outcroppings and shoals that could strand or sink a ship. They provided a clear signal to direct the ship and its crew away from the danger nearby. They were particularly effective at night and in diminished visibility during storms. Foghorns offer a vital and alternative warning method and are typically employed during heavy fog when the light might not be an effective signal to ships, but when sound can make it through. For aesthetic reasons we did not show a foghorn on the cover.*

Why Stay Alert (background)

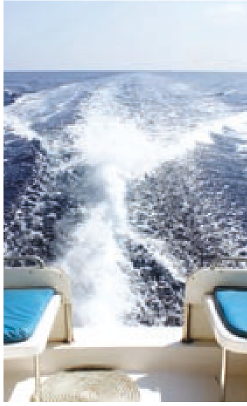
When the seas seem relatively calm and the rocky outcroppings appear to be far away, there is a tendency to relax. As we consider current events as well as events of the past few years, from the financial crisis to deterioration of sovereign credits and increasing country turmoil, it should be clear that a relaxed attitude is both unrealistic and inappropriate. Keeping your organization's 'ship' off the rocks and your crew alive requires alertness on three different levels, referred to here as hindsight, insight and foresight. (These headers have been used in other areas besides Treasury, and we gladly adopt them for the value they offer to this discussion.)

Types of Sight (three)

To give additional color to the discussion of the three types of sights may require that we will continue with the metaphor of navigating a ship. *Exhibit 1 (pg 2)* shows the three types of sights.

Hindsight is analogous to looking through the rearview or side view mirrors. The rearview mirror is useful in seeing what is approaching from behind and allows you to monitor what landmarks you have passed. No captain relies solely or mainly on hindsight—or the rearview mirror.

Insight is analogous to the view through the windshield. The captain can see what lies immediately in front of the ship all the way to the horizon. Good captains can keep their ship pointed properly and avoid the various flotsam and danger points by maintaining a proper perspective of near and mid-distances.



Foresight is the ability to 'see' the path and the route far ahead, recognize problems and develop alternate routes when the need arises. A Global Positioning System (GPS), coupled with radar, alerts the captains to congestion and other issues far ahead, giving them time to act thoughtfully. This provides far more time to react than merely using insight (the dashboard) and being forced into rapid corrections when a threat emerges almost directly in front of them.

Sight:	Hindsight	Insight	Foresight
Analogy:	Rearview Mirror	Windshield	Satellite Location with Mapping Overlay
Answer:	What Happened?	How Does X Relate to Y?	What if A and/or B Happen?

Exhibit 1: Three Types of Sight

Exhibit 2 provides a sampling of the value that each type of sight provides and a key warning about over-reliance on that one type of view or single warning system.

Hindsight focuses on what happened in the past. This is largely answered by effective reporting and would cover a range of items. For some examples:

- What were my investment holdings last month? By instrument class? By issuer category?
- Who were my top 25 counterparties? Banks? Customers? Supply Chain? With what firms did I have a net exposure in excess of $10mm USD equivalent in the past year?
- Historically, what has been happening with our cashflows over time? By type of business? By country? Currency?

Having quick and flexible access to this data allows the Treasury group to answer the historical questions and gain solid understanding of what happened.

Insight focuses on the current and immediate future, including the immediate past. It answers the question about what is happening and what the immediate future will look like. It also provides, through analysis, understanding of various relationships. The "if x, then y." For some examples:

- With this trade, will I be in compliance with my investment policy from a diversification perspective?
- What instrument and issuer changes are taking place on the short-term side of investments?
- Two signers left the firm last month; can I confirm that they were removed from all bank accounts globally?
- We understand that receipts trail sales orders by about eight weeks; what is my short-term working capital requirement caused by the recent sales spike? What can provide us with an early indication of sales orders?
- If the 3-month LIBOR rises by 50bps, what will this do to our cashflow?
- Do we understand what the price of a particular commodity increasing by 20, 40, and 80 percent will do to our income statement and cashflow within one month?
- Do we know our counterparty risk from a risk-weighted perspective? Can we really see all of the important relationships that exist with our bankers and customers? For all of our investments, do we know the ultimate entity of all of the issues that we hold—directly and indirectly?

Foresight looks further down the road. It has to consider the next bend in the road and beyond. To safely navigate the road ahead means understanding risks and challenges across a range of dimensions or directions. This requires enriched data, technical tools and the analytical ability to determine alternative courses of action in a proactive manner. Foresight answers a range of questions such as:

- What does our business model require over the next three years? What will our balance sheet need to look like to support that? What do we need to do to get our relationship banking partners ready for this upcoming change?
- What changes are likely in our working capital, given our business plan? Given a regional

crisis? Given a major fluctuation in key commodity and/or foreign exchange rates?

- What is the risk level in supply chain? By region? With critical suppliers? Which critical suppliers are at a high or moderately high level of risk?
- If we open new markets in country X, what are the proforma, realistic and worst case levels of cashflow impact?
- Do we know our major counterparty risk from a risk-weighted perspective? By sector or business type? By region or country? By currency?
- What level of risk are we willing to accept? Do we have a realistic view of what our current level of risk is?
- What banking counterparties are we most at risk from? What steps will we take at various levels of degradation or impairment? How quickly will we know, and will we have indications before everyone hears it on the news?

Foresight almost always requires newer technical tools that support dimensional analysis. For many organizations, it requires a particular set of enriched data such as historical and predictive ratings, relationship and constituent data. The base information, enriched information and technical tools must be linked together by and with analytically bright and intellectually curious professionals in Treasury. Exploring relationships, predictive indicators and various scenarios requires current thinking as well as current tools. These tools can act as early warning systems and as vital as they are, offer only part of the solution.

Building Your Lighthouses – Action Items

Lighthouses are placed where there is much ship traffic and danger. And, in a well surveyed region, the key shoals could be mapped and lighthouses erected. Foghorns offer an additional warning method and act as a supplement to the brightness emanating from the lighthouse.

The key take-away here is having multiple warning methods in highly dangerous spots where one method may fail. This is true for both ships' captains and Treasurers. Deploying and using the available tools is imperative when the risk is great.

Some dangers seem to be relatively fixed, or they change so gradually that there is plenty of time to react. Plate tectonics cause such slow movement of land masses that it would take many centuries to create enough difference to impact ship navigation. However, there are dangers that float around,

	HINDSIGHT	INSIGHT	FORESIGHT
ANSWERS:	WHAT HAPPENED?	HOW DOES X RELATE TO Y?	WHAT IF A AND/OR B HAPPEN?
VALUE:	Past experiences teach us much about the future.	Being alert and primed to act in a predetermined manner can prevent major missteps.	Having a planned route and alternatives – provides the greatest flexibility and safety.
WARNING:	The future may not act like the past.	Clearing only a small section of the windshield can create tunnel vision – a lack of peripheral vision is a dangerous risk.	A single-minded focus on the future may lead to neglect of the present and past.

Exhibit 2: Value Types and Key Warnings

appear suddenly or move with surprising speed. For ships, these are icebergs and other ships. For Treasurers, the moving dangers are multiple.

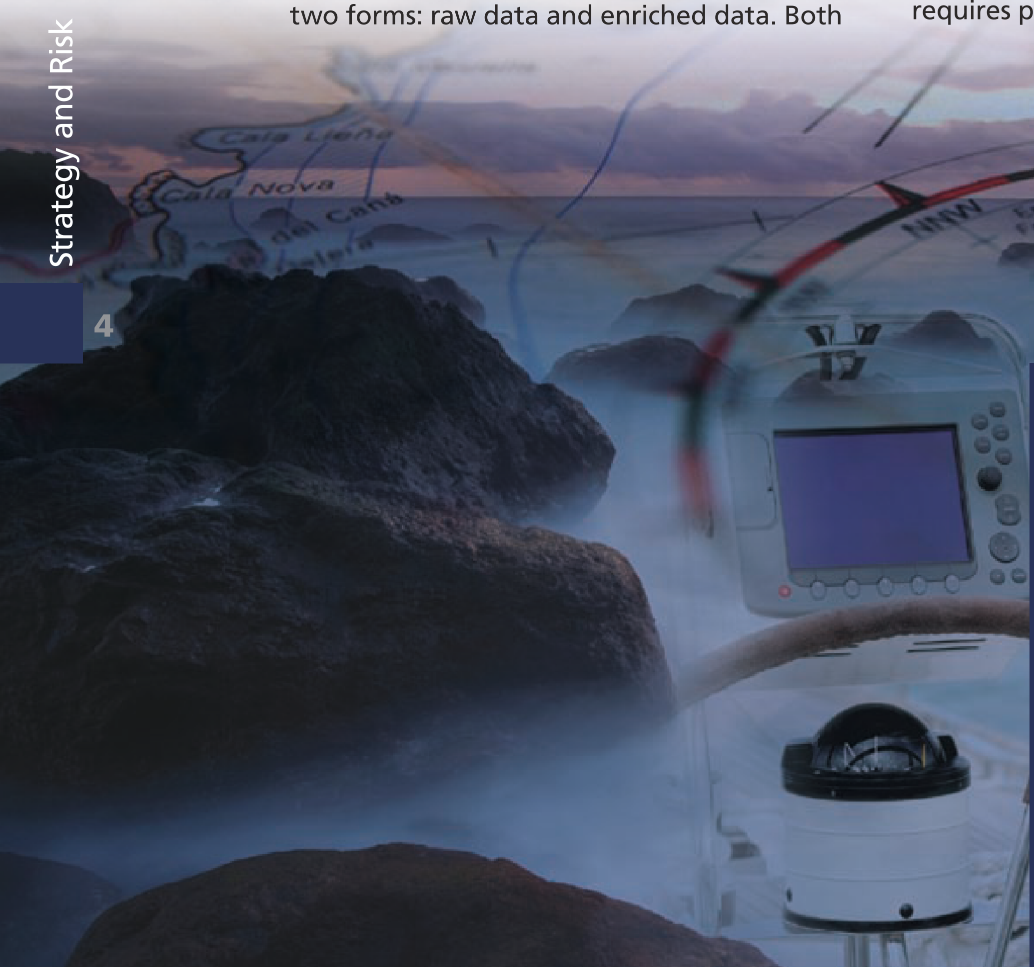
For those participating in a mutual fund, one moving component is the action of other fund holders. When they make rapid and significant changes, this can have an impact on an otherwise stable situation. Other floating risks include commodity pricing (direct or indirect) and foreign exchange rates—even relatively subdued interest rate fluctuations. These floating and moving risks represent a set of dangers requiring Treasurers to have some skill in steering and plotting their course.

This set of dangers is further compounded by greater sovereign and country level risks. Economic, natural and political issues, and even government regulations, create additional challenges that must be monitored. This monitoring and analysis requires some key items:

- **Data & Tools.** Lookouts were largely replaced by radar systems that pull in data and allow this to be mapped and visually delivered to the captain in a useful manner. Treasurers require access to extensive sets of internal and external data. The external data comes in two forms: raw data and enriched data. Both are necessary for the Treasurer's radar system to operate effectively. There is limited time for analysis and deep research. This requires the use of data and tools to help amplify the workforce and narrow the focus.
- **Communication.** Wise captains talk with other captains and those who monitor the weather. Current information and dialog provide additional data points and ideas. A communication network with your banks and consultant provides vital input and aid in having clear sight of all three types. This type of advice and information can help a Treasurer spend more time examining the most important areas.

Conclusion

Historical threats still exist and morph, while new threats constantly emerge. Treasury must maintain a vigilant watch for both types of threats. This requires using proper partners, data and new tools to monitor and analyze the course, the weather and the environment. It may be the ideal time to update your crew with training and a new set of tools. All of these tools, data and training should help you see and hear any warnings in time to avoid running aground. Happy and safe sailing requires preparation and vigilance.



Craig Jeffery
Founder & Managing Partner
Strategic Treasurer

Cash Investment Trends to Watch in 2011 and Beyond

Capital Advisors Group

Reflecting back over the years, we noted a change in how corporate treasurers have managed their cash portfolios since the capitulation of the financial markets in September 2008. If we characterize 2008 as the year of "shellshock" and 2009 as one of "bunker mentality," 2010 was the year of "transformation." As more treasury professionals recognize that managing corporate cash investments has entered the age of the "new normal," we see the following three trends playing pivotal roles in the years to come.

Sweeping regulations creating challenges, uncertainties and opportunities

Two years after the quake that shook the foundation of the short-term debt market, aftershocks in the form of regulation arrived to address systemic vulnerabilities. First arriving on the scene was the SEC's revised Rule 2a-7 for money market funds which strengthened a number of credit and liquidity requirements for money market funds. Next came the sweeping Dodd-Frank Wall Street Reform and Consumer Protection Act that resulted in the creation of the Financial Stability Oversight Council to address systemic risk in the financial system. Third to arrive was the proposed international bank capital adequacy standard, popularly known as the Basel III Accord, prescribing new capital, leverage and liquidity ratios for international banks. The intent of the new regulations is to repair the financial safety net so that a 2008-style crisis will not be repeated. However, their cumulative effect has been fewer investment opportunities, lower yield potential and higher compliance costs for the treasury community. Adding to the challenges are the patchy details in most of the new rules and conflicting provisions among some. For example, the SEC's new credit ratings agency designation requirement for money market funds is directly contradicted by an instruction from the Dodd-Frank Act for the SEC to avoid reliance upon credit ratings as risk gauges. Additionally, reconciliation of the Dodd-Frank Act and Basel III capital rules may take months or years to complete. On the flip side, new regulations have also created opportunities for investors with higher risk tolerance and flexible investment strategies.

Transparency 2.0 gathering steam

Although fund companies made efforts to provide timelier fund holdings in the past two years, 2010 was the year of more advanced portfolio monitoring. At the annual AFP conference last year, we saw at least three fund portals launching attempts at "enhanced" transparency products. Credit ratings agencies also tried to ride the wave of improved due diligence by revising their ratings methodologies. While Fitch's changes have been incremental, Moody's and S&P received criticism for being too draconian. Moody's proposal of introducing a "stability" component in its ratings and converting its ratings system to align with short-term investments has been met with resistance from the fund industry and certain lobby groups. S&P's requirement for explicit ratings for repurchase agreement counter-parties in money market funds received similar criticism as a result of difficulties in implementation. Meanwhile, some investors look to third-party research for credit opinions supplementing their own due diligence efforts. Against this backdrop, Capital Advisors Group introduced FundIQ, a research product designed to evaluate five unique risk factors within prime institutional money market funds (http://capitaladvisors.com/fundiq).

Increased recognition of money market funds as liquidity vehicles

Compared to 2009, assets in money market funds in 2010 declined drastically. Some observers attributed the loss to asset reallocation to stocks and bonds during the recent market rallies. We believe institutional cash investors are undoing what they did early in the last decade by shifting liquidity balances away from money market funds into other vehicles. The crisis, new regulations, and a low yield environment seem to collectively reinforce a new school of thinking in which money market funds are used as the liquid portion of a treasury portfolio, rather than the entire portfolio. Beyond the convenience of daily liquidity and a constant net asset value, treasury professionals are looking elsewhere for added performance. We saw interest in separately managed accounts increase after the Reserve event, an interest which continues today.

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.

To read more of Capital Advisors Group's research on institutional cash investment strategies, please visit www.capitaladvisors.com/whitepapers

Experiencing success in your banking relationship is a lot like finding the right marriage partner.

‘til Death Do Us Part

As all relationships during courtship and marriage require time, attention, mutual respect, and artful intention, so do Bank Relationships. The right relationship can be a great asset to your company, while the wrong relationship partner can spell disaster.

How can you tell if you will likely experience a successful relationship with your bank? First of all, you will need criteria to guide you as you decide who/what would make a good partner for you. And secondly, during courtship, you should proceed slowly and make careful choices before you decide to get married.

The Courtship

When speaking with a prospective new banking partner always remember to be upfront and honest, as this will build a strong foundation for any new relationship. Express the expectations regarding what you desire in this relationship in areas such as credit, Treasury services, etc. and what you will offer in return such as compensating balances, fees, etc. And, if you receive an unexpected call soliciting your business, it never hurts to know more bankers—as many learned painfully during the Credit Crisis.

During this time, get to know your prospective banker by finding answers to the following questions:

1. Do they have experience in your industry or segment? Ask him/her to describe that experience.
2. Has their institution recently exited any relationships in your industry or segment, and if so, why? For your industry or segment, you want to guard your company against general retreats at a bank. If there have been exits, they should only be due to individual circumstances.
3. How will credit decisions be made? Can you meet the Credit Officer? Remember, being a face and not a file is powerful.
4. What is the banker's reporting structure? Are decisions made locally, regionally, or nationally? (Meeting these decision makers is always beneficial.)
5. Is the Banker's primary focus on new business? If so, who will take care of the day-to-day needs of your relationship, and when can you meet them? What kind of support team does the banker have? How easy or difficult will it be to reach him/her if you need them, or alternatively, to reach someone with the skills to help you?

Even if you decide not to enter a formal relationship with a particular Banker, always have a cordial parting, as bankers often end up at other banks or financial institutions, and your relationship with your current bankers could change. You never know.

The Engagement

Ensure you know your banker and their institution before actually making a commitment to walk down the aisle. Do your due diligence. Check references—you might be surprised at the information you learn. Don't buy into the misnomer that all references they provide will still be good references. Check all of them. Additionally, be certain both parties are on the same page regarding what you expect from each other in services sought, fees to be paid, and timing.

The In-Laws

Meeting the "In-Laws" before you are married is vital, for they can be a source of strong support, or they can be an unwanted influence or distraction. Meet the banker's manager and other team members who will be involved with your relationship—you need to feel comfortable with them as well. Should your banker go on to other things, these folks will be even more important to you.

Before the wedding

The Pre-Nup: Put it in writing! Never assume anything about your bank relationships, offers to solicit your business, or pricing promises. If you are looking for credit, ensure you get a commitment letter and understand the conditions precedent. If you are looking for services, ask for a pricing proposal and have the banker disclose the assumptions (i.e., volumes, compensating balances, etc.)

The Marriage

Expect to have issues—all relationships do. It's how we deal with those issues that determines if our relationships are/will remain in good standing (on both sides of the transaction).

1. Have regular meetings to ensure you remain close to your banker.
2. Never make unrealistic demands or assumptions—this works both ways.
3. Don't let your banker be the last to know—always keep them informed about good and bad things. It can often be the end of a good

relationship when your banker learns about bad news from the newspaper or your latest SEC filing.

The Extended Family

1. You will expect and be expected to meet with other members of the bank. Bankers call this cross-selling, and it's vital to your banker's career—and therefore to your relationship. These meetings should, however, be about products and services that are relevant to you or meet a need. Your banker should know your business and tailor these meetings accordingly.
2. Expect your banker to want to meet your CFO, and as the relationship deepens, your President, CEO or other executives. This trend has been described as "brain capital." (If your banker indicates these meetings are necessary, they should only be scheduled for the most strategic relationship(s) or take place in a group setting, such as a banker's day. You would be wise to prepare your executives for these meetings.)

Now that you know the secrets of great and long-lasting bank relationships, go take the walk down the aisle. Please contact us if we can help you with any specific bank relationship issues.

Deborah McSheffrey, CTP
Director, Global Treasury Practice Leader

SWIFT for Corporates: *How this fits into Corporate Treasury*

Akshay

This article is written from the perspective of a SWIFT-centric vendor that has had the opportunity to work on several implementations of SWIFT for Corporates. We have been fortunate to work closely with Corporate Treasury in several implementations, giving us a good understanding of what SWIFT means to Corporate Treasury.

We will place little focus on the benefits of SWIFT for Corporates in this article since there is a vast amount of literature on that subject on SWIFT's website. If you are interested in learning more, we simply refer you to http://www.swift.com/corporates/.

For this article, we are more interested in: 1) what SWIFT cannot do and 2) in the implementation aspects of SWIFT from a Treasury perspective.

For a corporate, the decision of whether or not to use SWIFT really depends on how the corporate wants to communicate with its banks. SWIFT does more than provide a single communication channel and (nearly) standardized messaging. It is critical to note that the communication channel is neutral and bank independent, which provides corporates greater leverage in their relationship with the banks.

The direct cost of implementing SWIFT is usually not a consideration since it is typically only a small portion of the total treasury implementation budget. However, there is a significant one-time effort during implementation that Treasury has to be prepared for.

To understand why the implementation takes time and effort, see Exhibit 1, which shows a typical SWIFT for Corporates implementation.

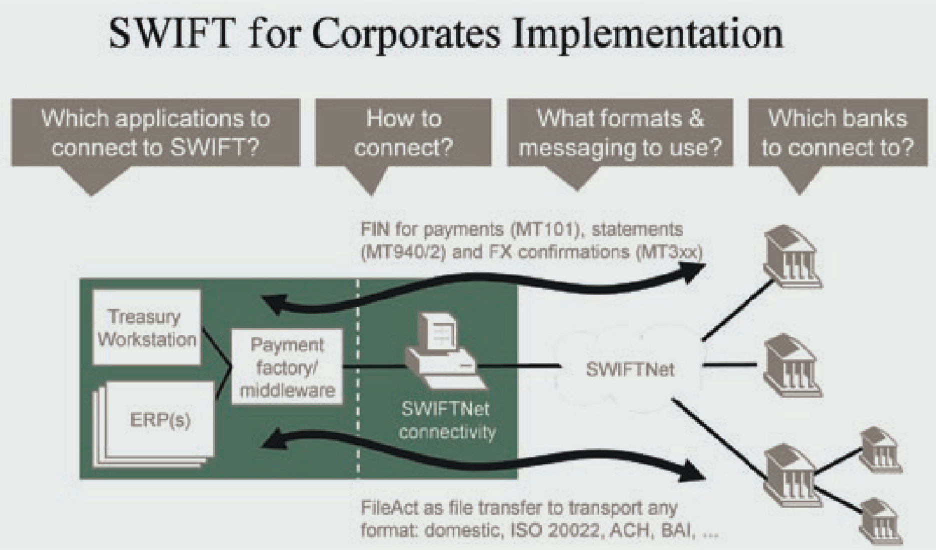


Exhibit 1: Three Types of Sights

Most importantly, SWIFT cannot solve the core Treasury issues such as cash positioning, liquidity management and risk management. These are solved through re-engineering your Treasury processes and implementing Treasury software; both can be achieved with or without SWIFT.

You will see that a successful SWIFT implementation means you have everything aligned, right from your Treasury software / ERP systems through SWIFT and to the systems at the banks. The least of the problems is whether a particular feature is implemented by SWIFT. The key questions are whether the banks you are working with have implemented that feature and whether that implementation aligns with the implementation in your Treasury Workstation / ERP software. This alignment between multiple banks and your back office (and of course, SWIFT) is what takes the most amount of time in a SWIFT for Corporates implementation.

Of course, the number of corporates that have successfully overcome these challenges is large and growing, so clearly the problems are worth tackling; but it is better to be mentally prepared with a clear understanding of what SWIFT can and cannot do for you as well as what a SWIFT implementation really involves.

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Akshay Software International, Inc., incorporated in 1993, delivers the full range of SWIFT products, services and solutions, including implementation, maintenance, support, training and outsourcing. Akshay has earned a reputation for delivering and providing high quality value-added SWIFT services on complex and innovative projects. Akshay works both with corporates and banks to assist with SWIFT implementations for corporates.

Akshay has over 100 SWIFT clients and operates out of offices in Princeton, NJ (USA), Dubai (UAE), and Mumbai (India), and is affiliated with representatives in New York, Los Angeles, the Miami/Caribbean regions, and Brazil. Having SWIFT certified staff at multiple locations allows Akshay to provide its global corporate clients with 24x7 support.

AKSHAY

In the Winter 2009 issue of Treasury Update *(Vol 3, Issue 2, pgs. 10-11), we outlined the strategies that SunGard and Wall Street Systems were adopting and labeled this as the "Center of the Chessboard" Strategy (CotC). To summarize, in this strategy the provider delivers the core Treasury data, processes and components and allows a select group of other products to plug in to the core on a pre-configured basis. These other products may be best-of-breed offerings from within the vendor's own solution set or from third parties. This strategy differs from a pure best-of-breed strategy whereby a provider seeks to make the best offering in a particular space and then connect to other providers as necessary. The difference resides with the totality of the solution and management of the data and processes between systems.*

TWS/TMS Expansion of the "Center of the Chessboard" Strategy

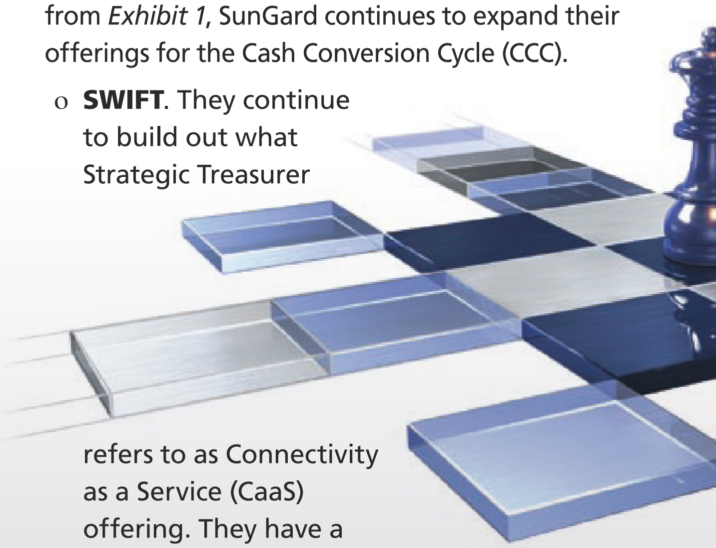
The best-of-breed approach dominated for a number of years with the rise of SaaS. In 2009, the CotC marked the response to this challenge by two of the largest TWS vendors (Wall Street Systems (WSS) and SunGard).

Some highlights of the ongoing battle through part of 2010:

- **Best-of-Breed (BoB)**. Offering a single solution set or a combination of two or three solution sets of this type (connecting) was winning the battle for market share over the enterprise or all-in-one system. SaaS technology helped speed the rise of BoB providers.
- **Enterprise vendors**. They were not going to sit still forever and see market share erode. They were slow to the ASP/SaaS model due to the disruptive revenue challenges.
- **Connection Complexity**. Connecting three or more BoB systems added additional complexity for a single area such as Treasury, and for these firms a more compelling solution was needed.
- **Core Strategy**. By offering a strategy (CotC) of providing core data and process management (without a hyper-complex, third party ETL layer), a more open market for the enterprise players was created. Certain third party BoB offerings could plug in.

Activities since the writing of the 2009 article:

- **WSS Shopping Spree**. As noted in the Treasury Update blog (blog.strategictreasurer.com), WSS has acquired:
  - o Speranza – one of their CotC partner firms who offers a leading bank account management solution set.
  - o CityFinancials – a TWS provider in the cash/risk space filling in the gap between their cash system offering and their enterprise Treasury offering.
  - o Treasura – a cash TWS provider offered via a SaaS model. This acquisition gives WSS scale in the cash space, leveraging their CotC infrastructure.
- **SunGard Vertical Expansion**. As can be seen from *Exhibit 1*, SunGard continues to expand their offerings for the Cash Conversion Cycle (CCC).
  - o **SWIFT**. They continue to build out what Strategic Treasurer refers to as Connectivity as a Service (CaaS) offering. They have a full service bureau as well as Trax, which allows firms to



connect to their banks through SWIFT for balances, transaction, and initiating funds movements, and they are ready for eBAM messages.

- **Credit Management**. Their collection management leader GETPAID can be delivered in the full version via an installed solution set. They also offer this via a SaaS model. They acquired PredictiveMetrics (Feb 3, 2011), offering credit risk analysis to their client base. They also provide pre-configured connections to credit insurance providers.
- **Electronic Bank Account Management (eBAM)**. Using their mantra of "build once and provide it through all of our Treasury applications," SunGard has developed a Bank Account Management service for just this purpose. This is one of the first in-production services flowing directly from their new development platform strategy.

TREASURY UPDATE

Vendor Movement – Center of the Chessboard

Creating a Complex Chart in Two Dimensions has Limitations: A filled in rectangle does not indicate completeness of offering. An empty rectangle does not indicate that no capabilities exists in that sector.

		Vendors			
Category	Component	Bottomline	Reval	SunGard	WSS
HEDGING	Exposure Identification		Reval – Hedging	Various, FX: FireApps	WSS Products
	Hedge Economics & Pricing		Reval – Hedging	AG Treasury Products	WSS Products
	Trade Execution		Reval-Hedging/FXall	AG Treasury Products	WSS Products/ Connections
	Exposure/Hedge Management		Reval – Hedging	AG Treasury Products	WSS Products
	Hedge Accounting		Reval – Hedging	AG Treasury Products	WSS Products
TWS / TMS (Categories I-IV are not exclusive segments. They are progressive categories that address scaling requirements)	IV. Enterprise (incl I-III)		Reval- TWS	AG: Quantum	WS: Suite
	III. Cash/Risk (incl I-II)		Reval-TWS	AG: Integrity	WS: City Financials
	II. Cash/Debt (incl I)			AG: Treasury XE	WS: Treasura
	I. Visibility	C-Series Cash Reporting Web-Series			
	Forecasting	C-Series Cash Reporting	✓	AG Treasury Products	✓
	BAM/eBAM			AG: eBAM	WS: eBAM (Speranza)
CONNECTIVITY (CAAS)	SWIFT Banks	Service Bureau		ECHOS, Serv. Bureau	3rd Party
	Other Banks	Yes. Multiple.		ECHOS	
PAYMENTS	Payment Risk: AML, KYC, OFAC	Yes. Multiple.		AG: Trax (Integration)	
	Paper - Checks	Yes. Multiple		AG: Payments	
	Batch - ACH	Yes. Multiple		AG: Payments	✓
	RTGS - Wires	Yes. Multiple. FX w/ Partner	✓	AG: Payments	✓
	Card			AG: PayNetExchange	
	Remittance Detail Access	Electronic, Paper, Portal		Electronic, Paper, Portal	
RECEIPTS & RECEIVABLES	Credit Underwriting & Evaluation			AG: GETPAID (Integration)	
	Lockbox			Yes	
	Collection Process Management			AG: GETPAID (SaaS/Install)	
	Risk Assessment			AG: GETPAID (PredictiveMetrics acq.)	
	Outsourced Collections			AG: GETPAID (Agency Placement)	
	Insurance (Credit)			AG: GETPAID (Portal Integration)	

Legend:	Newly Acquired or Built	Indirect Coverage or via 3rd Party Relationships	Existing Coverage	AG = AvantGard; WSS = WallStreet Suite

Exhibit 1: Vendor Comparison

- **Reval Breaches the TWS Wall**. While acquiring FXpress to broaden their client base for hedge accounting aficionados is already in the distant past, they have been active.
  - **Buys a TWS Vendor**. In early 2011, they acquired ecofinance and telegraphed their commitment to an integration path. Their strategy was clearly two-fold:
    - Add the incremental mass of 100 clients
    - Provide a compelling and integrated approach in the adjacent spaces of TWS and Hedge management
  - **Data management and integration is a key**. This acquisition seems to be a clear recognition by multiple firms of the value of occupying adjacent spaces in highly connected areas. By solving the data challenges, Reval helps their clients

address major issues (their hedge generates cashflows needed in the forecast, their forecast identifies exposures for hedging) through an integrated set of solutions.

- o **Nod to CotC?** This acquisition and their stated plans seem to indicate a vote for the strategic value of the CotC.

- **Bottomline Technologies Expands into TWS Visibility Space**. A longtime successful payment platform provider, they continue to grow rapidly (customers and capabilities). Their growth emanated from payments (vs. the TWS examples). Below is a selective summary of their recent acquisitions and developments:
  - o **Wires with FX**. They continue to build out capabilities within their wire transfer offering and have now included seamless integration of Western Union for FX wires.
  - o **TWS Cash Visibility**. Bottomline has created a cash visibility tool that enables rapid visibility and management of bank accounts on a global basis through an Excel interface that leverages other services.
  - o **Connectivity by Acquisition**. Their acquisition of SMA, a SWIFT Service Bureau, now provides Bottomline the ability to offer the CaaS sought by a range of organizations. The desirability of connecting directly to the SWIFT 'pipe' is a major piece of CaaS, and CaaS is showing great traction as a key component of the CotC strategy.

Exhibit 2, referenced before, shows the CotC vendors in a hybridized and vertical view of the Treasury landscape. However, using only two dimensions has limitations, of course. We built this view

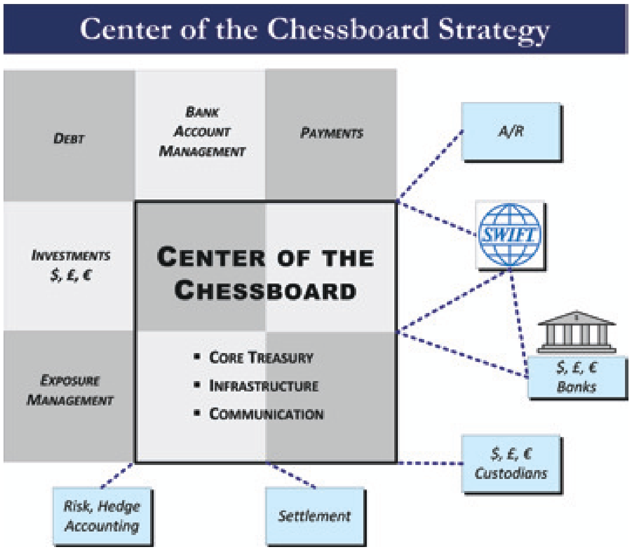


Exhibit 2: "Center of the Chessboard" Strategy

from a TWS/TMS-centric perspective (versus, for example, a payment-centric perspective). Bottomline Technologies' approach is from the payment side and as such, it requires we use a bit more force to get their offering into this exhibit structure.

In summary, we see continued strong affirmation and support for the CotC approaches by the two initial drivers (SunGard and WSS). We also see growing recognition of some of the key strengths of CotC by two firms who are moving into the TWS/TMS space from two different starting points (Reval with hedging and Bottomline from payments).

As Treasury professionals look at their technology needs and vendors, it is vital that they understand the changing dynamics of the operational piece that the various strategies represent. BoB is neither dead nor dying. Since some extremely viable structures differ, it requires careful review as you plan your Treasury information and systems roadmap.

Outsourced Payments:
Know Your Provider and the Process

Many companies are increasingly outsourcing non-value adding activities, including payments. Some of the most popular payments to outsource include Payroll, Payroll Taxes, Telecommunications, T&E Payments, Insurance Payments, and Benefits Payments.

Many of these arrangements also include the outsourcer making payment on your behalf, and they will involve the outsourcer debiting your account before processing the payment.

Companies often assume their funds are in protected fiduciary accounts, and payment outsourcers work diligently to assure clients their funds are safe. Your funds are typically not in a true fiduciary account—one with a separate tax identification number that exists to protect clients' funds—but typically in a separate account from the main operating account of your outsourcer.

Amount at Risk: Your funds are at risk for the time that they are in possession of the outsourcer until payment is received at your ultimate vendor. Should the outsourcer become insolvent, get hit with a levy, lien or garnishment that requires their financial institution to freeze their assets, have internal fraud, or a monetary judgment, your funds may be in jeopardy.

To protect your assets, only outsource payments to the most reputable firms and perform frequent due diligence on them:

- Monitor financial condition systematically, and understand which assets are actually the outsourcer's assets and which assets are actually client's funds in transit
- If the company is not public and will not share financials, consider that a red flag
- Many outsourcers' sales personnel will refer to the account where clients' funds are kept as fiduciary or an escrow account
  - Perform the due diligence step of validating this claim to determine if the account is indeed an escrow or fiduciary account
  - Have your legal department make sure you have language protecting you from a future change without your approval
- Consider having the outsourcer simply send you a payment file so you can initiate payments out of your account
- Consider whether the amount at risk at any one time is material, for example, a couple of days' worth of T&E expenses may not be material but telecom or payroll payments breach your threshold.

Always know your counterparties to any transaction and consider the potential risks before entering into any type of payment outsourcing agreement. Educate your A/P, A/R, Payroll, and Purchasing Departments on the risks inherent in having someone else make a payment on your behalf, debit your account or have your funds on deposit in their name / tax identification number for any period of time. And together, weigh the risks and rewards; some relationships may require monitoring while others may require changing the vendor or the process.

The Context of Money Fund Portals

Short-term investing, long considered relatively safe by many organizations, has received additional scrutiny since the financial crisis. The multi-year popularity of money market portals continues to enjoy strong support from many corporates—with several contextual reasons for this popularity. Many investors do not understand the differences among the portals, some of the collateral and complementary services that support investments, and money market funds. This article addresses a select subset of these differences.

Lessons Learned

Let us quickly list and describe some of the major lessons learned in investment management since the financial crisis.

- **Rating agencies record.** It is clear to all of the cogitating finance professionals that it is no longer sufficient to have rating agencies perform all of the due diligence for investors. They can and do 'get it wrong.' Or, perhaps, the warning of deterioration or pending failure is simply not timely enough. There is much discussion about how they are not always incentivized to get it right, but we'll leave that discussion for other forums.
- **Skepticism about dealer-supported markets.** Dealers do not always support the markets they make, and no one can pretend otherwise. This removes one of the perceived backstops.
- **Government regulations.** Whether old or new, government regulations (or even regulators camped out in offices) are not sufficient by themselves to thwart all risks in funds, banks, or other areas. Caveat emptor.
- **Not all securities are the same.** Even those in the same asset class, i.e., ABS and/or MBS.
- **Reality isn't like a statistics graph.** Low probability, yet highly impactful, events do occur. Unexpected events, and even ones thought to be impossible, do occur.

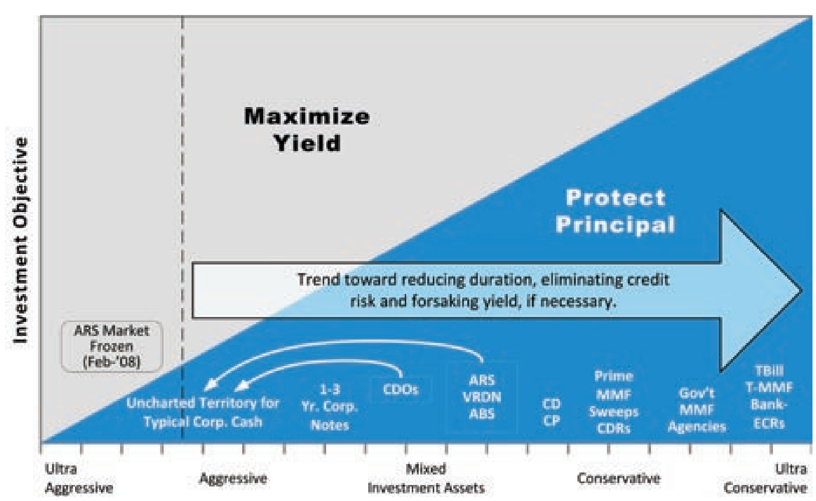


Exhibit 1

Movement along the Spectrum

Exhibit 1 provides a conceptual view of the investment spectrum, along with arrows indicating a move toward the SAFETY and LIQUIDITY end of the Safety, Liquidity Yield chart.

Our recent survey on Investment Risk highlights some of these movements, including other categories, beyond asset class. (This survey will be available upon request from survey@strategictreasurer.com during May 2011.)

Benefit	Description
Transparency (visibility)	Research Fund information/performance Account information Fund portfolio's holdings
Efficiency	$0 Cost for portal access Trading: One-stop shopping Streamline operations
Accessibility (networks)	Single point of access Web-based View of fund performance
Controls	Restricted access Trading history Investment policy compliance Dual control

Exhibit 2

While Money Market funds assets are off from their peak, as of early 2011, they still maintain a huge asset base. Exhibit 2 highlights some of the key benefits of Money Market Fund (MMF) portals that have driven their popularity in the recent past.

Revamping the Investment Process

The deleterious effects that some investment choices had on firms have caused the majority of organizations to implement a much more robust process. This includes:

- **Clear investment objectives.** Perhaps it would be more accurate to say, "more detailed investment objectives for achieving the levels of safety, liquidity and yield that they really seek."
- **Robust risk analysis.** Perfunctory reviews or 'pencil-whipping' any internal risk management analysis decreased greatly following the crisis. Expecting better internal and external risk analysis is now de rigueur.
- **Standards of good practice.** An emphasis on meeting the standards of good practice for investment processes has created a healthy discussion. This discussion is perhaps healthier and more aggressive than has been observed in practice. Nevertheless, emphasizing modified practices via three key areas is making headway in many organizations.
  - o Hiring the right people with the right skills.
  - o Retooling an investment policy, which can be used rapidly and confidently, to reflect current knowledge and understanding.
  - o Building a control framework for investments to establish the right type of infrastructure, allowing for good policy and great execution of that policy.
- **Appropriate Tools / Optics.** Visibility to one's exposures, holdings and the like, enjoys the enviable position of being achievable. This requires the proper set of tools, systems and data management. However, the toolsets (Treasury optics) that allow for this type of visibility are within reach of most organizations.

Exhibit 3 provides a view of some of the major risks that an astute investor takes into account.

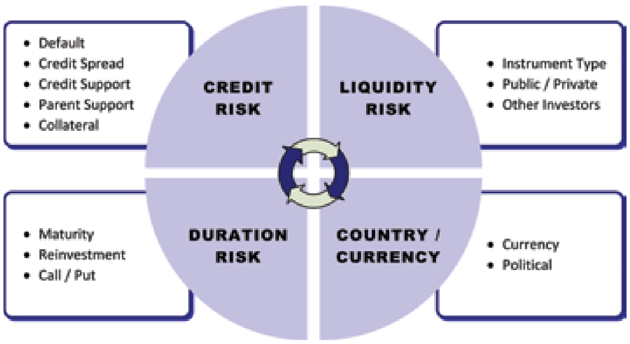


Exhibit 3

Standards of Good Practice

While the idea of having an investment policy is often the first thing that comes to mind when thinking about the standards of good practice for investments, that is only one part of the equation. *Exhibit 4 (pg 19)* adds some of the more relevant components to the overarching 'standards of good practice.'

In many organizations, some sections need to be strengthened. Other organizations are

Continued on page 19

Developments in Treasury Technology

The first quarter of 2011 and the last quarter of 2010 marked major changes in the Treasury Workstation / Treasury Management System (TWS/TMS) space. These represent a full-on movement toward the "Center of the Chessboard" Strategy we have detailed before. See www.strategictreasurer.com/chessboard/chessboard.pdf

Summary

A related article in this newsletter *(see "Center of the Chessboard" Strategy, pg.10)* highlights the key points and the re-alignments in the TWS/TMS landscape. A payment-oriented vendor also acquired a leading SWIFT Service Bureau, expanding into an adjacent and complementary space. We detail the consistent growth of membership and the hockey-stick growth rates of data passing through this pipe. Steady progress in the areas of electronic funds transfers (wires and ACH) continues. (More coverage on this in our next issue.)

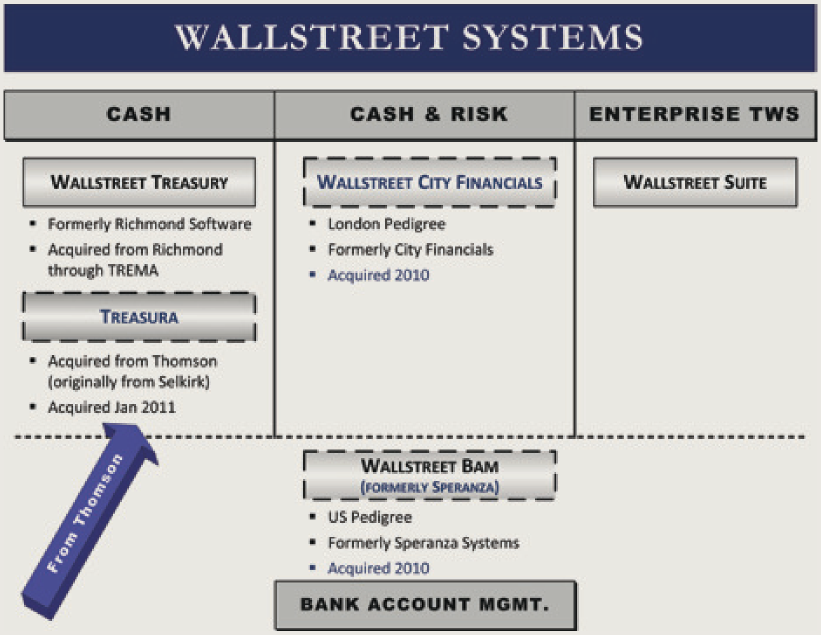


Exhibit 1: Wall Street Systems

Acquisitions Update

1. Wall Street Systems acquires Treasura (from Thomson) – On January 6, 2011, Wall Street Systems acquired, primarily, the Treasura offering from Thomson Reuters, a TWS product sitting firmly within the cash space. Many Treasury technology professionals believe this product was suffering from benign neglect, sitting within a massive finance data organization that was going through a massive merger with Reuters. *Exhibit 1* shows the movement of Treasura into the WSS landscape of offerings.

Value to Wall Street Systems (WSS):

- Major expansion of clients in the TWS cash sector, closing a major gap.
- WSS can now leverage their other offerings to the 200-250 clients of the Treasura product, and subsequently support their "Center of the Chessboard" Strategy.

Value to Treasura clients:

- Focus on the product by a firm dedicated to the TWS market.
- Potential upgrade path for additional services/features.

2. Reval acquires ecofinance – This acquisition offers Reval the opportunity to expand into the TWS market from their position of strength in hedge accounting. ecofinance has a strong and loyal following in central Europe and can now be distributed more widely. Jumping the pond with a TWS always takes more work than anticipated (three to four years), so Reval needs to double their efforts to accomplish the following effectively, and in a timely manner:

a. Integrate with HedgeRx®. While currently separate systems, the ability to integrate tightly is a key first step. Exposures coming from ecofinance will need to be ported to HedgeRx® for economic management and hedge accounting. Conversely, cash flows and forecast items generated from within HedgeRx® will need to be sent to ecofinance in a seamless manner to complete the integration loop.

b. Meet North American Treasury needs. ecofinance was built in central Europe and can help organizations effectively manage those cash management processes. Moving to North America and Asia requires a new range of capabilities to address regional and country-specific practices—an area often overlooked or under-anticipated.

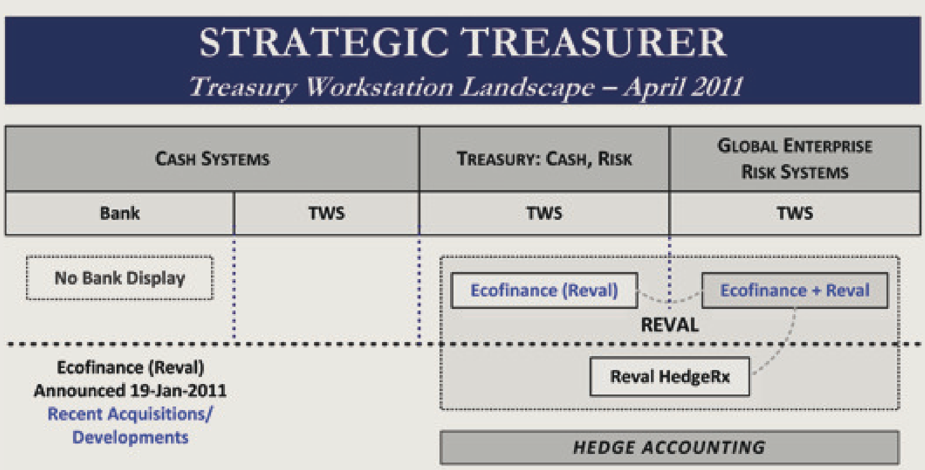


Exhibit 2: Treasury Workstation Landscape

Exhibit 2 illustrates the expanded conceptual positioning of Reval, given this acquisition.

1. SWIFT Corporation Growth

- SWIFT continues to enjoy solid growth: number of companies reached 726 in the 4th quarter of 2010. *(See Exhibit 3)*

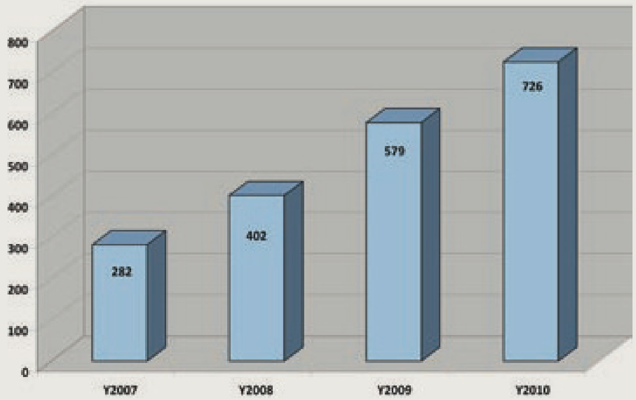


Exhibit 3: SWIFT Corporate Membership by Year

- The growth rate in messages and data exchanged is dramatic. *(See Exhibit 4, pg 18)* This is seen in >50% growth rates of traditional message formats (total FIN traffic) from 2009Q4 to 2010Q4. *Exhibit 4* shows FILEACT growth for corporate, which approximated 150% for the same period. FILEACT is simply a method of passing non-SWIFT formats through the SWIFT network in a package, and SWIFT is the delivery channel or pipe. This illustrates the dramatic uptake of SWIFT as a preferred connectivity option for corporate practitioners.
- Electronic Bank Account Management (eBAM) continues to generate good discussion about and around SWIFT. While it will be a number of years before we see this take off fully, it is bringing needed attention to the major challenge that companies face regarding the account and signer management processes.

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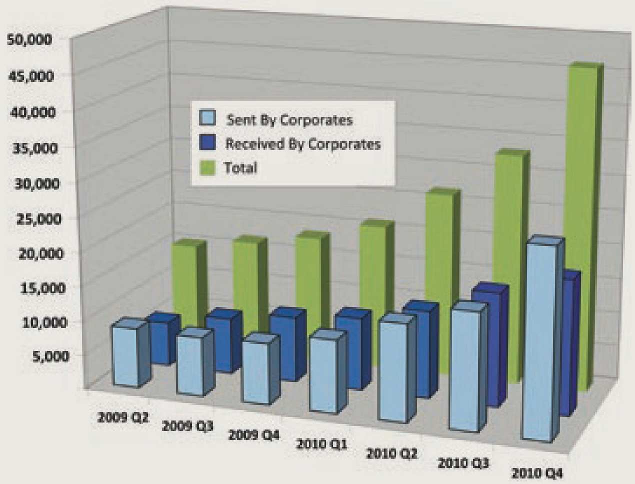


Exhibit 4: FILEACT: Combined Message Traffic

2. <u>Service Bureau Acquisition: Bottomline acquires SMA Financial in October 2010</u>

This acquisition fits firmly in the Treasury connectivity space. *(Strategic Treasurer calls this space the Connectivity as a Service or CaaS.)* Bottomline began as a remote check printing software firm, but it has greatly expanded to a full suite of "collaborative payment, invoice and document authorization solutions" (from the press release). We might describe their Treasury-related offerings as a full set of payment tools (wire transfers, ACH and paper-based) and visibility tools (C-Series™ Cash Reporting), which can rapidly pull in bank balances and provide different dimensional views in an Excel dashboard style.

Value to Bottomline:

- Immediate resources (ownership and expertise) of a Regional SWIFT partner and the tools/services it provides.
- SMA Financial brings a critical mass (over 100 clients), and it will likely leverage their North American sales force in 2011.
- This connectivity is adjacent to their services. Therefore, with the service and connectivity tools, Bottomline can now more thoroughly assist with the 'setup' of payments and information.

Expansion of Payment Portal Capabilities

Bottomline Technologies' C-Series™ Wires is a bank-neutral payment solution that enables companies to use one system for connecting to multiple banks with Real Time Gross Settlement transactions. Bottomline announced further enhancement of the product's SWIFT connectivity through the SMA Financial SWIFT Service Bureau (purchased by Bottomline in October of 2010), and they are now releasing foreign exchange (FX) capability through an arrangement with Western Union Business Solutions. This allows users of C-Series™ Wires to enact all methods of payments directly and seamlessly through one interface.

Exhibit 5 illustrates the C-Series™ Conceptual Connections (used with permission).

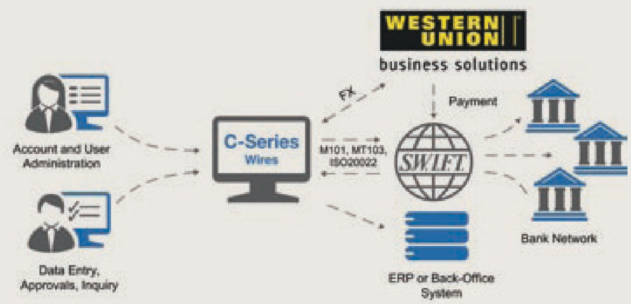
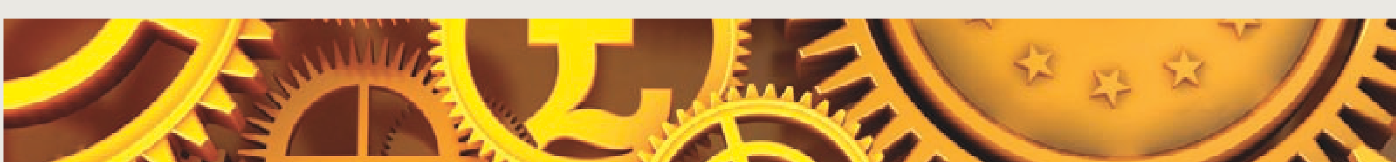


Exhibit 5: C-Series™ Conceptual Connections
(used with permission)

Banks Re-Start the Manufacturing/ Distribution Model

Before the 2008 financial crisis, several banks were pursuing the manufacturing/distribution model (i.e., ABN Amro). In this model, major banks develop advanced products that regional banks, who sell the service, can white-label. This leverages the development capabilities of major banks and the sales (distribution) ability of regional institutions, which cannot afford to develop many products and must rely heavily on vendors.

Major banks are now back in competition for development/manufacturing since they are not tied to a third-party provider and can get exactly what they want. By using a broader distribution channel NOT made up of its competitors, they can afford to do more creative development work. BNY Mellon has been the most aggressive in marketing this model to date. But others are also pursuing this model, which will lead to increasingly competitive offerings.



Portals: Continued from page 15

Exhibit 4

missing entire sections and need to perform rapid remediation. As we move off the foundational aspects of managing investment risk and establishing an appropriate framework, we turn our attention to money market portals.

Visibility – to and from the funds

Money market funds have many inherent advantages for many investors. At the same time, they create different exposures to be considered. Prime institutional money market funds that either failed (Reserve Fund) or required parental support (more than 20 in this category) often did so because of a 'run on the bank.' The rapid withdrawal of funds created a situation where the fund was going to 'break the buck' if something didn't happen (i.e., parental support).

We provide the following two charts and descriptions to highlight visibility from two perspectives. This is not to state which model is superior or has advantages but to identify some of the differences one should understand.

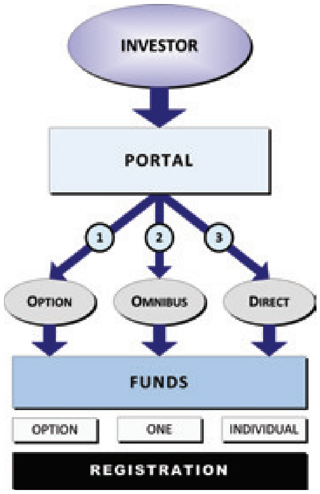


Exhibit 5

Exhibit 5 shows a graphic of the investor's view to the fund for each option. Portals offer three primary methods of registering to invest in a fund:

- **Option:** Investor has the ability to register only with the portal and have access to all funds, or they may register with specific funds. Specific registration is often used to ensure relationship credit with the particular fund manager.
- **Omnibus:** The investor registers with the portal. All funds offered through the portal may be invested in, typically via a single fund transfer.
- **Direct:** The investor must register with the particular fund. Those funds may then be selected for investment. Options for funding vary.

Exhibit 6 shows the same scenario but with the fund's viewpoint highlighted. The fund managers have a different view back to specific investors, depending upon the registration model used:

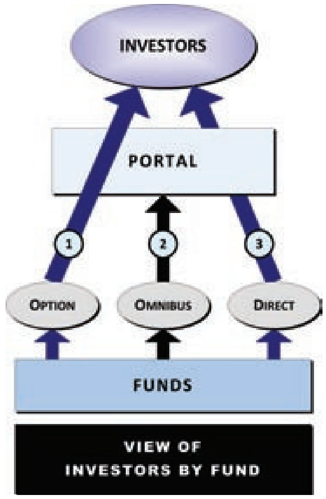


Exhibit 6

- **Option:** The fund can see investors who come in via the portal, if they have registered. In this model, the ability to register, but not the requirement, exists. Some may have only registered with the portal, and in those cases, the fund can only see the portal as the investor and not all the way back to the ultimate investor.
- **Omnibus:** The fund only knows the portal is an investor in their fund. No visibility back to ultimate investors exists.
- **Direct:** Specific investors and their position is known by the fund at a detailed level.

Development of Portals and Visibility Tools

Money Market Fund (MMF) portals have continued to develop, based upon client request and emerging market needs. Strategic Treasurer views three generations of MMF portals that have emerged in rather rapid succession. *Exhibit 7 (pg 20)* shows the three primary generational changes.

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1st - Trade Aggregation. Portals began as fund/trade aggregators. This addressed the core initial

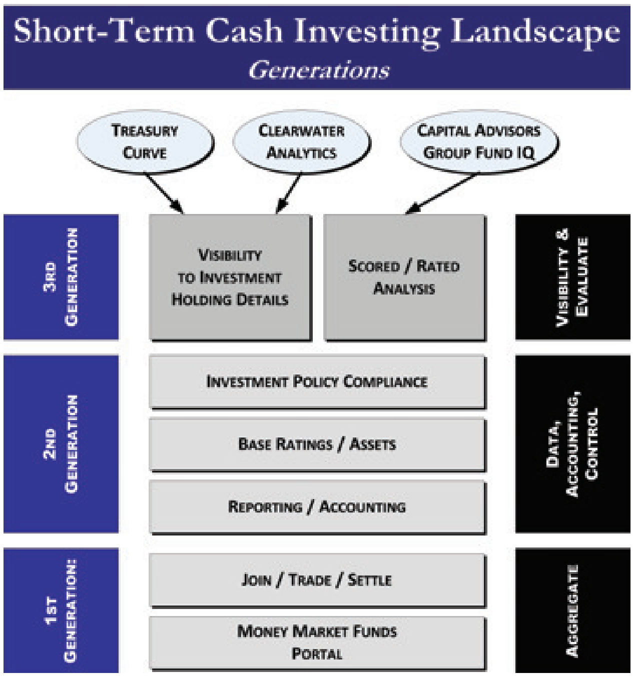

Exhibit 7

need for efficiency and flexibility around the use of various funds. Once they had this in hand, portal users demanded more.

2nd - Enhanced Reporting and Control. Additional reporting, filtering and control capabilities were requested and then added to extend the value proposition in an increasingly competitive environment for the assets that the portals were seeking to gather.

For the 3rd generation we have noted a bifurcation in the family tree. These two branches address two major requirements for investors that focus on two aspects of visibility. The first (visibility services) focuses on the holding level details. The second (evaluation services) highlights 3rd party ratings for the funds themselves. Please note that the two aspects of the third generation are largely complementary.

3rd - Visibility Services. Visibility services have prospered and are offered either through the portal directly or contracting separately. In this example, we include Treasury Curve and Clearwater Analytics®. The need to know what the fund was holding has become a Board of Director's requirement for many firms.

Continued on inside back cover

Dodd-Frank Wall Street Reform and Consumer Protection Act

Now that the Dodd-Frank Act has passed and is being phased in, what might it mean for businesses?

Since banks are publicly traded for-profit entities, there will be pressure from their shareholders to maintain and increase earnings each quarter. So, where will the lost funds from all those consumer fees for overdrafts come from? How will the banks pay for increased FDIC insurance and/or increasing regulatory requirements? Perhaps from business accounts (and government and non-profit accounts)?

Years ago, banks began charging analysis fees on business accounts, based on the account balance, to compensate for FDIC insurance. We predict this will increase. However, this will not make up for lost revenue/profits. What other targets might there be for raising revenue?

- Service charges for bank services on analysis (negotiate multi-year pricing arrangements)?
- Interest rate spreads on lending?
- Fees for loans and investment banking transactions?
- Rebates with higher thresholds or reduced rebate levels on purchasing card programs?
- Interchange rates for traditional credit card purchases (non-debit cards)?
- Spreads on Derivative instruments to account for the increased regulation and associated costs/loss of spread?
- Lower lending capacity due to higher reserve requirements, including derivative positions in those requirements?

What are your thoughts/opinions on unintended consequences of the Dodd-Frank Act to your business? Share them with us at TreasuryUpdate@StrategicTreasurer.com.

Continued from page 20

3rd - Evaluation Services. Third party evaluation services offer a rigorous and independent scoring evaluation for major funds. In this example, we show Capital Advisors Group and their FundIQ™ services. The need for independent 'ratings' became more broadly apparent after the fund troubles of 2008 and in the intervening years with all of the discussions surrounding the new 2a-7 rules.

Investment Changes

Outsourcing. The greatest beneficiaries of a renewed focus on investment management may be outsourced investment managers as well as evaluation and visibility service providers. It is increasingly difficult for all but the largest organizations to support all of the staff and infrastructure necessary to manage an investment portfolio in-house. The historical 'cost-advantage' argument of hiring a few people versus paying an outside firm to do so is less well received.

If a decision is made to outsource a firm's short-term investment, the most common ways to do this are via a:

- **Separately Managed Account.** This allows a firm's securities to be held in an account exclusively for their own use. A mutual account shares assets and accounts. A separately managed account has the advantage of eliminating a 'run on the fund' since securities are held directly.
- **Money Market Mutual Funds (MMMF).** Multiple investors pool their cash; and investments are made in securities, which are held in the same account. A mutual fund has the advantage of being the most liquid while not requiring all of your assets to be held overnight.

Summary

The context in which MMFs have operated has changed due to the financial crisis. This context has highlighted some weaknesses of various short-term investment activities of different firms. Establishing a clear investment framework and using standards of good corporate conduct is now a more pressing expectation on Treasury organizations. And, while handling investments internally has long been a rite of passage, astute Treasurers will re-examine this practice. The examination should cover the investment spectrum as well as processes used within their organization in light of the broader context and 'learning' we have recently acquired.

Money Market Fund portals have been very popular for operational and tactical reasons. The demands of portal users and the desire to aggregate assets on the part of funds has led to several, rapid, generational improvements in a short time frame. Treasury professionals must acquaint themselves with these recent changes so they do not find themselves with the equivalent of the bag-phone.

Treasury Events 2011

TMANE
May 4-6, 2011
Boston

NY Cash Exchange
June 1-3, 2011
New York

SWIFT Corporate Workshop
June 7, 2011
Houston

SIBOS
September 19-23, 2011
Toronto

AFP Annual Conference
November 6-9, 2011
Boston

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