SUMMER/FALL 2014

Treasury Update

Anticipations For Global Expansion

Going Global | 2
Technology Solutions | 6
FBAR | 12
Counterparty Risk | 34

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.

Strategic Treasurer
Consultants in Treasury

Contents.

2 Going Global

6 Technology Solutions

12 FBAR

18 Supply Chain Finance

26 Treasury Technology Column

34 Counterparty Risk

Going Global Entering New Countries

As U.S. companies enter new markets, they face the challenge of establishing the Treasury requirements of the local environment. Before companies build banking partnerships, open accounts, and establish credit, there are several things they should consider. These considerations will vary from country to country, with countries in Asia-Pacific and parts of Latin and South America displaying the biggest business-cultural differences.

This article outlines various hurdles the treasury department will face when a company expands into a new country. This list is not meant to be exhaustive. Rather it provides a sample of the types of areas to be mindful and prepared for ahead of time.

Language Barriers

One of the primary obstacles companies may face when taking their business global is language barriers. However, as English is considered the international business language in many countries, language barriers are not encountered as frequently for U.S. companies. Most commonly, these barriers are found in South America, Central America and parts of Europe. Systems and documentation language requirements can also prove to be a challenge depending on the local regulations.

As anyone in Treasury can tell you, most banks require a healthy amount of paperwork to begin a new project, make changes to existing accounts, change signers, etc. In many countries, however, companies are required to complete banking forms in both English and the local or official language. This introduces an additional layer of complexity, as companies must ensure that the translated documents reflect the same meaning in both languages before signing. In Macau for example, the official language is Portuguese and all bank forms must be executed in Portuguese with some requiring an in-person completion. This requires either an in-country treasury person or a trip to Macau . Fortunately, the banks will typically provide an English translation of required forms, but the final official form must be completed in the official language of the country.

Additionally, local wire transfer systems are often required to be completed in the local language. Countries such as China and Taiwan require domestic wire transfers to be completed in Mandarin. This causes complications for companies that create wire transfer files in their ERP or treasury management systems if these systems only process in English. Also in some Asian countries, a chop as well as a signature are required to sign legal documents. A chop is personal seal and some Asian banks require a company seal.

Local Customs and Culture

Another important aspect of global relations is local customs and culture. Countries have differing business practices which may create challenges for companies attempting to set up banking arrangements in a new country. Taking your affected Treasury staff through a cultural sensitivity training course may prove useful, as challenges with communication extend beyond the obvious barrier of language. Whereas U.S. businessmen are known for being very direct, in many countries responding in the negative or simply saying “no” to a request is considered disrespectful and rude. In the same way, following up on an outstanding task may be seen as inappropriate and discourteous. These are common scenarios in which U.S. companies do not respond according to the culture of the country, which can create tensions, or even worse, delay implementation and negatively affect a working relationship. As we will discuss later, maintaining close relationships with local banking partners is essential to successfully taking your business global.

An example which you may be more familiar with relates to restricted currency. Companies who are expanding into a country with a restricted currency, such as China, India, Argentina, or Venezuela, will face multiple challenges, which are not always anticipated upfront. Because the local currency can only be exchanged onshore in these countries, it can be extremely difficult when funding an entity from a different currency. Many companies find using foreign exchange instruments such as non-deliverable forwards to hedge recurring operating expenses helpful in minimizing FX volatility risk. Researching these options thoroughly and developing a detailed plan for funding local entities will prove invaluable.

In countries with restricted currencies, there are additional formalities for moving funds in and out of the country. For instance when paying an entity in China, the invoice has to match the wire as well as be registered with the local governing authority. When there is a match, the bank can process the incoming wire to the local account. The process varies by country but the same principal holds true. In the UK, banks are subject to greater liability than in the US. Therefore, the resolution naming authorized individuals must designate who will be on the electronic banking wire platform.

"When taking your business global, the first and, in some ways, most important decision Treasurers face is choosing banks with whom to partner. As you already know from your domestic experience, banks have different organizational structures that will impact your partnership."

Opening bank accounts for foreign currency accounts (not the currency of the country in which the account is held) can be challenging. For example, in Sri Lanka you must receive government approval to open a bank account in any currency other than the Sri Lankan Rupee. This process can be tedious and costly if you do not have a local treasury presence and legal representation to assist in the documentation requirements. As always, a good banking partner can assist with unfamiliar local requirements.

Choosing a Banking Partner

When taking your business global, the first and, in some ways, most important decision Treasurers face is choosing banks with whom to partner. As you already know from your domestic experience, banks have different organizational structures that will impact your partnership. This becomes uniquely important globally as you consider their management of clients with global operations. Your company's specific preferences will determine which bank will most fully suit your requirements. There are five major organizational structures to consider as you determine the best fit for your organization.

Local Bank

The first option is a local bank provider — a resident bank that will be familiar with the local requirements and customs. Some countries require that companies employ a local bank for certain tasks, such as tax payments. If your treasury department is accustomed to using local banks around the globe or if Treasury will be managed locally, this will be familiar territory for you. However if Corporate Treasury will be managing operations for global oversight, this may not be the best option. Local banking does not always offer services required for corporations who want ease of access to accounts and global cash visibility.

Global Bank, Local Presence

Another approach is to use a global bank with a local presence—a bank that has brick and mortar in many countries around the globe. Such banks are organized in two main ways. The first is a silo organization in which each country is managed separately. This is similar to the first option of a local bank but with a globally recognizable name. In many countries, the bank's name will appear just as it does globally, but each country's bank is run independently. This can be frustrating when you are trying to award business by bank and the bank itself does not view global business as part of its portfolio. The benefit to this is having local contacts that are familiar with the country's banking environment and requirements. The downside is you will have many contacts across the globe instead of a single relationship team.

Global Bank, Flat Organization

The second type of global bank has a flat organizational structure based out of the country where it is headquartered. In this scenario, you do not feel like you are dealing with multiple banks with a single name, but rather with one bank that operates as a team. Depending on the country, a foreign bank with a local presence may be considered either a resident or foreign bank, and there may be limitations on what the bank can provide if it is considered a foreign bank. Even though it is convenient having a single team service your accounts worldwide, the downside to this option is not having a local contact with experience of the country's regulations and customs. Some banks headquartered out of the country do manage to provide local expertise even though it is challenging.

Domestic Bank, Corresponding Relationship

A U.S. domestic bank with a corresponding bank relationship in a foreign country is similar to a global bank. The difference here is that your accounts are not held with your bank but with their partners. The U.S. bank will coordinate account openings and serve as your primary contact. The downside is that implementations and research can take a bit longer and fees are typically higher than a direct relationship. When choosing a partner, you will need to weigh the costs externally and internally to determine the best option for your company.

Domestic Bank, Local Presence

A U.S. domestic bank with a local presence can be a good option if your banking partner's footprint matches your current and future footprint worldwide. But such a bank's offerings can be limited depending on the length of the bank's experience in the country.

These five choices provide you with a variety of options from which to select. No matter which banking option you choose, meet personally with your bankers if the opportunity ever arises. Most Treasurers meet regularly with their domestic banking partners and it is even more critical to build that relationship internationally. You are likely to depend more heavily on your international bankers since your experience in the country may be limited. Incorporating travel into your budget is important if you are doing any type of global acquisitions, organic expansion, or joint ventures.

Before you enter a new country, take all these items into consideration. What type of banking partner will best suit your company's needs moving forward? Rather than considering what is easiest at the moment, have a strategic, long-term perspective. Take time to research cultural and communication differences. This will save you time and heartache later. Be sure to establish and foster your relationship with your local contacts. They will be indescribably valuable to you. "Managing relationships is a foundational activity both for individuals and organizations, and it is reasonable and appropriate to be thoughtful and proactive when network building," (Jeffery, 31). Communicate often and positively to enhance your working relationship. Taking your business global is an exciting step—enjoy the journey! (To be continued)

As Timothy Hart, Senior Vice President and Treasurer of First National Bank of Nebraska, states, "You can't wait to develop relationships when you have to have them. You need to begin developing those relationships earlier." ■

MANAGING OPERATIONAL HEADACHES:

TRENDS IN TECHNOLOGY SOLUTIONS

Beginning in 2013, Strategic Treasurer moved to fill a long-standing gap in the Treasury Management System/Treasury Risk Management System landscape with their *TMS/TRMS Summary Analyst Report* which highlights market trends and profiles various players within the treasury landscape. A large share of the report focuses on current, significant findings and trends in the treasury technology market including several "as a service" offerings and the importance of analytics and visualization. Until now, no analyst firms have provided either adequate or ongoing coverage of the treasury technology market for corporations. Strategic Treasurer seeks to gather information from various TMS/TRMS vendors on a regular basis to stay abreast of Treasury technology offerings.

Major Developments and Emergent Trends

Major developments and emergent trends include two services Strategic Treasurer calls 'Data as a Service' (or DaaS) and 'Connectivity as a Service' (CaaS). These represent, in some measure, the outsourcing of operational headaches as well as key enablers in the quest to better visibility and resiliency. Risk visualization is an emergent trend that is a logical extension of several increased expectations that have been placed on Treasury groups. Another logical extension of increased expectations is that more Treasurers will invest more heavily in technology.

Data as a Service (DaaS)

Data as a service (DaaS) outsources the process of pulling in the data a corporate treasury needs and ensuring that it is complete and clean. For example, a data aggregation service might pull in a company's daily bank data and check to ensure that all of its banks reported, that they included all of the company's bank accounts, and that detailed debits and credits match the summary information. Data as a service could also involve the information that companies pull in about interest rates, foreign exchange rates and commodity prices.

Data as a service is now integrated into a number of TMS offerings, and can also include bank BIC codes, ABA numbers or holiday calendar data. This service is either provided by the vendor directly or offered via a special arrangement with holiday data providers.

The ability of treasury technology systems to validate different types of interest-rate curves and other pieces of data is growing at an extremely rapid rate. If the TMS market is expanding at an annual rate of 10% to 15%, data as a service is probably growing at a pace that's four to five times faster.

Some of the data involves banks directly, or a SWIFT service bureau (SSB) or specialized treasury aggregator that make connections and aggregates data on behalf of the company. Before using a data aggregator, a company may have connected with only eight banks that reported via direct connections managed by the company. Now, with the efficiency of a data aggregator, the company may have 50 banks reporting, all managed by a third party, either the service bureau or the TMS provider. This type of functionality has played a significant role in increasing the percentage of firms that have achieved total or near total visibility to their global cash positions on a daily basis.

Data as a Service (DaaS)

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Connectivity as a Service (CaaS)

- *Connectivity as a Service (CaaS)* outsources to a vendor the management of treasury technology's connections to a company's banks or it's internal systems.

Risk Analytics and Visualization

- The movement to risk visualization has accelerated and will continue to see significant growth and attention over the next five years.

Industry Acceleration – Capacity Constraints

- The ongoing growth in the use of TMS by more companies, combined with organizations upgrading legacy TMS vendor systems has the vendor community operating near the limits of their capacity.

Connectivity as a Service (CaaS)

Connectivity as a service (CaaS) outsources to a vendor the management of treasury technology's connections to a company's banks or its internal systems. Interest in CaaS is driven by the level of resources and staffing required for a company to maintain this connectivity on its own. Treasuries are trying to provide more analysis for their companies, and can't afford the distraction of spending time dealing with system plumbing problems.

Such connectivity is one component of the integration that fully supported systems offer treasuries. There are a number of different levels of integration. For example, in file-based integration, the lowest level of integration, a treasury that is executing an FX trade would do so by interchanging a file with a FX trading platform such as FXall or 360T. Conceptually, once it got a file back from FXall saying the trade had been executed, the treasury would send a file to support the confirmation process to Misys for example. Settlement instructions and the actual payment to cover the trade would also be processed and executed.

A connection that offers an API interface supported by the corporation, a higher level of integration, would be able to do the FX trade in the treasury system, relying on FX data fed into the system from FXall or 360T. The treasury system would communicate on its own with FXall or 360T and Misys, and the company wouldn't have to worry about the connectivity between its system and those of FXall, 360T or Misys.

An example of the highest level of integration between different systems would involve an API interface that's supported by the vendor, rather than the client. Such fully supported integration provides treasury staffers with a seamless experience within the TMS and frees treasury from having to support the various systems that are now connected to its TMS or TRMS.

The drive to visibility of cash and other exposures really started in the cash space. Companies' achieving visibility to their cash passed the inflection point in 2011, when approximately 60% of large to midsize companies had achieved near or total visibility to their cash on a global basis, according to the 2012 Cash Forecasting Survey compiled by Strategic Treasurer and Bottomline Technologies. That represents a significant achievement, although there are still roughly 40% of companies that have yet to achieve that level of visibility. Connectivity as a service has played a major role in moving that important statistic. This is good progress considering that the standards of good corporate conduct for bank account management include monthly bank account reconciliation for each account separately and having daily visibility to the cash in every operating bank account.

Risk Analytics and Visualization

Another aspect of the change in the TMS market is the increasing importance of risk analytics and risk visualization, a trend that was kicked into higher gear during the recent financial crisis. This movement to risk visualization has accelerated and will continue to see significant growth and attention over the next five years.

Companies focused first on increasing their visibility into their cash—not only how much they had, but where it was located and in which currencies, as noted earlier. Concurrent with this increase in cash visibility, treasury departments are pushing for a greater understanding of risk, including what exposures they face and how to model those risks. This effort includes exposure management, pre-trade analytics, hedge execution, analytics and reporting, and scenario modeling. This push also includes the ability to both model and visualize different scenarios that could unfold and what they would mean for the balance sheet (liquidity, cash flows) and the overall income statement. This has led to developments in the dashboarding capabilities within TMS/TRMS systems themselves as well as the capability of pushing data out to a data store or database

where it can be consumed, interrogated and analyzed using other tools including traditional and more modern business intelligence toolsets.

Strategic Treasurer predicts that over the next three to five years, treasury departments' emphasis on risk analytics and visualization tools will remain elevated and continue to grow as they improve the education they provide to board members and as companies continue to face financial crises that expose them to foreign exchange and interest rate risk, country risk and counterparty risk. The recent financial crisis increased both the understanding of the risk environment and expectations for the proper management of financial risks. The recognition that risks arise in unexpected combinations from various sources (natural, regulatory, counterparty) requires a nimble treasury group with a toolset to help it see, understand, analyze and model its risks and alternate ways of managing those risks.

Industry Acceleration – Capacity Constraints

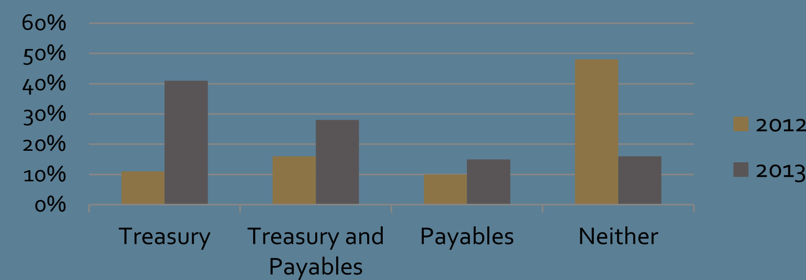
The ongoing growth in the use of TMS by more companies, combined with organizations upgrading legacy TMS vendor systems has the vendor community operating near the limits of their capacity. Scaling professional service groups takes significant time and effort. And, there is typically a service quality dip as organizations adapt to what is perceived as an ongoing shift in demand.

Strategic Treasurer believes that this demand has already been elevated over the past year and a half due to two primary reasons in North America. Firstly, we see the increased demand and expectation that Treasury achieve visibility and better manage risks across the enterprise. Secondly, we see a controlled exodus from primarily one solution set that is widely viewed as non-supported. This belief is supported by the number of new TMS and TRMS sales in North America, primarily centered with a select number of vendors and product sets.

This elevated demand will now accelerate dramatically. We have seen this increase anecdotally through many different conversations and the volume of contacts. In our annual fall survey we saw a dramatic upward shift in firms looking to make a significant investment in their Treasury technology (treasury, treasury & payables) to nearly 70% of firms (vs. only 27% in 2012).

Technology Investment Changes Expected

Fall 2012 vs Fall 2013



Significant Technology Investment Expectations. From Strategic Treasurer and Bottomline Technologies 2013 Visibility & Cash Forecasting Survey (Fall 2013).

Implications: This increased demand will result in multiple years of healthy sales for the better TMS/TRMS vendors. At the same time this shift will stretch, stress and strain their installation teams. Firms that have made the commitment to make the investment in a new or better TMS/TRMS and have the budget now should move quickly to get ahead of the coming multi-year crunch. And, some additional measure of patience will surely be required as we move through 2014. Bringing on new implementation staff and having them trained properly takes multiple quarters, not months.

As TMS/TRMS vendors become aware of capabilities needed and desired by Treasury professionals, their offerings and product updates should adapt and evolve to meet market demands. Strategic Treasurer thoroughly outlines these treasury market trends and patterns in their annual *TMS/TRMS Analyst Report.* ■

FBAR: THE COST OF WAITING

The Treasury Department recently delayed a new federal requirement that was scheduled to descend on employees of corporate treasury and finance departments

The Treasury Department recently delayed a new federal requirement that was scheduled to descend on employees of corporate treasury and finance departments starting this year. Individuals who are signers on companies' foreign bank accounts now have until June 30, 2015, to file a form with the Treasury Department's Financial Crimes Enforcement Network (FinCEN). Such individuals have to file even if they don't have a financial interest in the account.

Although the deadline has been pushed back, companies and individuals should take the opportunity to get a handle on the new requirement. Many companies don't seem to be aware of it, and individuals are subject to steep penalties if they fail to file.

Corporate tax managers at U.S. companies with foreign subsidiaries have been filing the Report of Foreign Bank and Financial Accounts (FBAR) with the Internal Revenue Service for a number of years. Now U.S. citizens and registered aliens who are signers or have other authority over such accounts must file as well. Because the individual reporting requirement has been postponed repeatedly, employees who are subject to the requirement will have to file next year not only for 2014, but also for 2010, 2011, 2012 and 2013. However, many corporations have not been providing employees with the data about bank accounts that they need to fill out the FBAR form.

So what exactly is FBAR?

The FBAR filing on foreign bank accounts is required by the FinCEN, a bureau of the Treasury Department that maintains financial transactions data and analyzes and disseminates that data for law enforcement purposes.

Up until this year, the IRS collected the FBAR data, but it is important to remember that this is not an IRS regulation. FBAR is a requirement overseen by the Department of Treasury, which utilizes the data collected.

Employees required to file FBAR reports are those with "signatory authority" over foreign accounts whose aggregate value exceeded $10,000 at any point during the year. "Signatory authority" means anyone who can control the disposition of money or other assets, whether in writing or otherwise. In addition to signers on bank accounts, it includes employees with the authority to sign resolutions to open and close bank accounts if they also have the ability to disburse the funds by direct communication with the bank, and those who have authority over wire transfers, even if they are responsible for just one part of the process of executing a wire transfer, such as initiating or approving the wire. So an analyst who initiates wires is going to have to file an FBAR report.

Even if an employee was only a signer for a part of the year—even just one day—he or she must file an FBAR report. So companies have to capture every employee who was a signer or had wire authority at any time during the year whether they exercised that authority or not.

The information that individuals must report on each foreign bank account includes the name of the bank and its full address, the account number, the entity that owns the bank account and the highest daily balance in the account during the year.

While the deadline for filing the FBAR form, FinCEN Form 114, formerly known as TDF 90-22.1, is June 30, 2015, individuals who are responsible for filing the form must note that on their federal income tax filing due April 15. They are required to complete Part III—Foreign Trusts and Accounts—of Schedule B, by checking a box and listing the countries in which there are accounts on which they're signers.

If individuals subject to FBAR requirements were planning to file their taxes using a 1040-EZ form, which doesn't include Schedule B, they should consult a tax adviser on how to handle the situation.

The April 15 deadline for individuals to file their Form 1040 suggests that companies should let employees know before then if they are required to file an FBAR report and if so, what countries they should list.

If employees fail to file an FBAR report, the penalties are steep: individuals could be fined $100,000 or more for each account they fail to report, and there can also be criminal penalties.

Why Are Companies Behind on FBAR?

Why haven't companies provided the required reporting? There are a number of reasons.

First, corporate managers are not attuned to individual tax obligations and were unaware that individual reporting required information supplied by the company. In fact a Strategic Treasurer survey of finance executives showed only 56.1% of those surveyed were aware of the reporting requirement.

"If employees fail to file an FBAR report, the penalties are steep: individuals could be fined $100,000 or more for each account they fail to report, and there can also be criminal penalties."

Second, the IRS website lists a number of exceptions to the requirement but provides very little explanation about those exceptions. Companies may incorrectly assume that one of the exceptions applies to them. Here are several of the most commonly cited exceptions:

• Publicly traded companies governed by the SEC are excluded.

While this is true, it applies only to the parent company, which is the company that is publicly traded. It does not apply to its subsidiaries. So if there is a foreign account specifically in the parent's name that has U.S. signers, the only reporting required is the consolidated FBAR of the company; the U.S. signers would not be required to file as individuals.

• United States persons who are included in a consolidated FBAR are excluded.

This exception applies only to U.S. subsidiaries that are consolidated into the U.S. entity's FBAR reporting. It doesn't apply to foreign subsidiaries.

• Certain individuals with signature authority over, but no financial interest in a foreign financial account are excluded.

The full FinCEN regulation makes it clear that this exception applies only to individuals who are officers or employees of a bank that is examined by any one of the federal banking agencies or by the SEC or CFTC.

Third, some companies have taken the stance that this is an individual requirement and is not the company's responsibility.

While it is an individual requirement, FinCEN has ruled that individual employees are not responsible for maintaining the records of their employers' accounts. This responsibility lies with the employers. Therefore, it is incumbent on the company to provide employees with the information they need for the filing.

Since there are steep fines if an individual does not file, if the company has not properly provided the records to the employee, it faces the risk of a lawsuit if a fine is assessed against the employee for failure to file when the employee was not provided the required information.

Complicating matters, employees are often unaware of the requirement to file and do not contact their company to obtain the information.

Fourth, when a company files its FBAR, if it has more than 25 accounts, it does not have to file the information about each account and its highest balance that year. Companies are only required to maintain the records on all the bank account data and produce them if requested. As a result, many companies have not put in place a process to collect the balance and signer information, particularly those that don't have a centralized global treasury. Individuals, however, must report information for all accounts on which they are signers, including balance information.

"Depending on whether a company's structure is centralized, regionalized, or decentralized by division or by entity, collecting the data on all of its bank accounts can be a large and time-consuming task."

Gathering the Data

Depending on whether a company's structure is centralized, regionalized, or decentralized by division or by entity, collecting the data on all of its bank accounts can be a large and time-consuming task. That's true for both the information about signers and balances.

Many companies aren't that good at keeping track of such information about their bank accounts.

Often companies have no record of who's a signer on what account. Assembling that information entails polling every business unit for a list of its accounts, the addresses of the banks it uses, and a list of the signers on each account. It takes a good while to do this. If a company is big and it has many accounts, it needs to start gathering data as soon as possible to assemble it in time.

If a company does not have a good bank account management system (BAMS), the process will likely be manual.

Even companies that have a good BAMS and a treasury workstation may find that they have to do a manual search of some bank statements to establish the highest balance on each account in the course of that year.

Practicalities of Filing

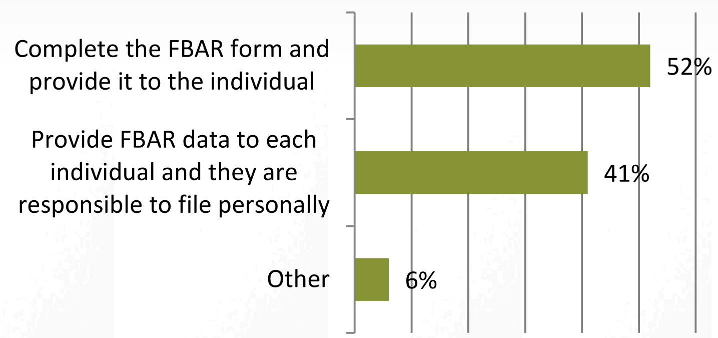
This year for the first time, FBAR reports must be filed electronically on the FinCEN website, instead of filling out the form and providing it to the IRS. The FinCEN website doesn't allow the cutting and pasting data, so all of the information has to be keyed in if the individual files the report.

It is possible for institutions to do batch filing on the website. Companies can also delegate the filing responsibility, but it can only be handed off to Supervisory User who is a lawyer, a CPA or an enrolled IRS agent. If the individual is internal to the Company, the individual must be appointed and approved by the Chief Compliance Officer of the company.

If companies decide to file on behalf of their employees, they must consider the likelihood that employees who are working overseas have foreign bank accounts of their own that will have to be reported as well. For example, a U.S. citizen who is working in Germany probably has a German bank account. A company can choose to file these personal accounts for the individual as well. However, FinCEN has recently released guidance that separate filings are permissible. So the individual may file their FBAR on their personal accounts and the company can file FBAR on behalf of the employee for accounts on which they have signatory authority, but no financial interest. This FinCEN guidance has paved the way for companies to more easily file electronically for employees. ■

"The Strategic Treasurer survey shows 54% of companies plan to complete the FBAR form and provide it to individuals, while 42.6% plan to provide the FBAR data to individuals, leaving them with the filing responsibility."

How do you provide the FBAR data to individuals?



2014 Strategic Treasurer FBAR Survey

Annual FBAR To-Do List

1. In January, companies should have notified employees of their FBAR obligations, emphasizing the requirement to check the box in Part III of Schedule B of their federal tax filing. Also let employees know the countries in which they're signers.

2. Collect data on all the signers on foreign accounts during each of the years 2010 through 2013, as well as the highest balance in each foreign account in each of those years.

3. Determine how the company is going to handle filing its FBAR reports now that FinCEN requires them to be filed electronically on its website. Does the company plan to do the filing itself? Is it going to arrange for a third party to do the filing? Does the company plan to offer to put together and file employees' FBAR reports, or will it leave that to employees?

4. If the company is going to file FBAR reports for its employees, it must decide how it chooses to handle employees personal foreign bank accounts - whether to use the separate filing option or not.

SURVEY RESULTS

Supply Chain Finance

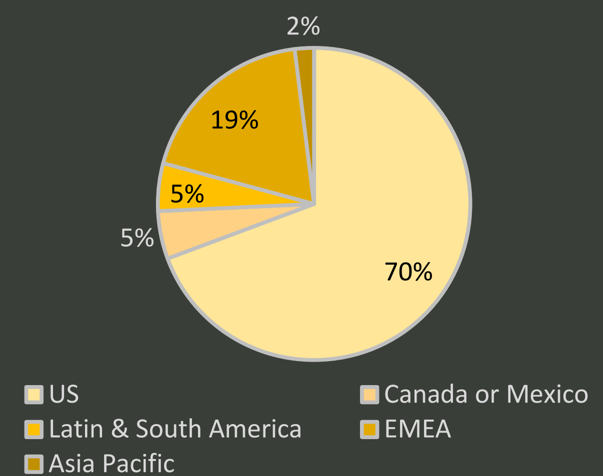
The Market is Ready for a New Model

This year, Strategic Treasurer introduced their annual Supply Chain Finance Survey. The goal of this survey is to shed light on the emerging assumptions and existing realities of the working capital movements between companies and their suppliers. The survey results indicate that the current models do not fully meet the needs of the market. As this is an annual survey, we will be able to demonstrate macro-trends that emerge over time.

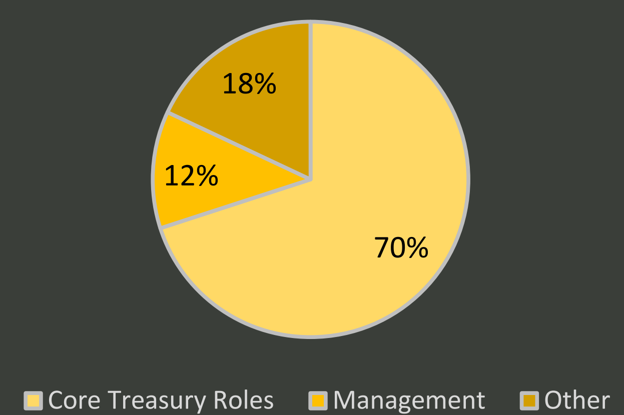
Survey Demographics

The survey included over 100 companies headquartered in the United States and internationally. 70% of respondents are US and 30% are international (Figure 1). Because the majority of respondents were from within the US, we will primarily display graphs and charts with US data. In general, US companies answered similarly to global respondents throughout the survey questions. However, there were a few areas where their answers diverged significantly.

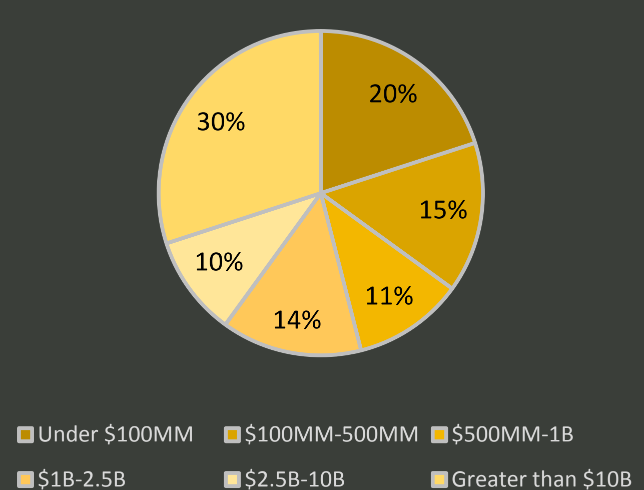
Headquarter Locations
Fig 1.



Role of Survey Participant
Fig 2.



Annual Revenue
Fig 3.



Considering the roles of the respondents within their companies and departments, a full 70% of our respondents are from core Treasury roles (figure 2).

Our survey population shows strong representation across a broad range of revenue levels indicating a fairly balanced sample between smaller and larger companies (figure 3). Notably, firms with revenues greater than $10B represent a larger (30%) portion of respondents than any other size grouping. This overweighting of large multi-national corporations is similar to Strategic Treasurer's other annual surveys and is reflective of our contact lists and subscribers.

Results

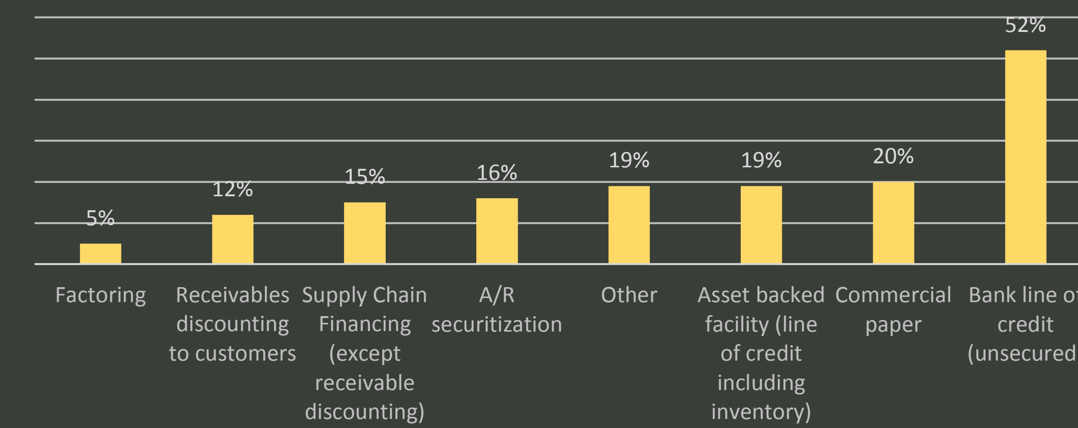
The overall theme that emerges from the 2014 data is that entities are not always able to access cash as readily as they need, given the limitations of their current financing, supply chain finance and cash conversion cycle realities.

Because companies need readily accessible financing, the majority of companies use an unsecured line of credit to finance their working capital. However, other forms of A/R and SCF options are used heavily as well (figure 4).

Reported US payment behavior confirms that the majority of organizations delay payments intentionally. While only 14% reported delaying payments always or often, the number increases to 70% of organizations when 'sometimes' is included (figure 5). This flexibility of payments can work well for the paying entity but can represent a significant challenge to partners and vendors who do not get paid on time and in an inconsistent manner. Credit Management and Treasury often resort to providing discounts to influence more timely payment.

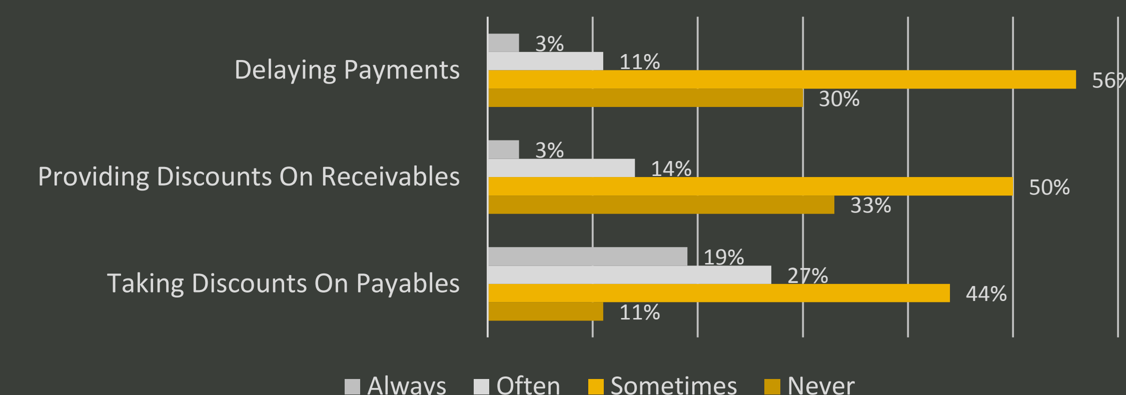
Among other interesting findings, this survey demonstrates that providers and receivers of trade credit do not dichotomize so easily into distinct categories. Rather, a significant minority of respondents move between the spheres of receiver and supplier at different times given their working capital needs and business cycles (figure 6).

Current Method Used to Finance Working Capital
Fig 4.

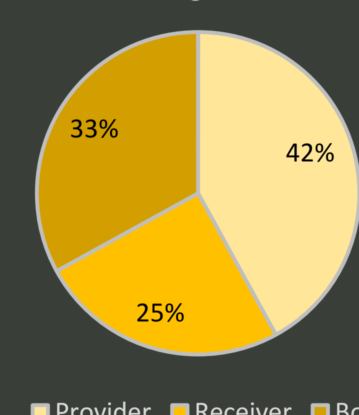


Many of the models for supply chain financing either have a bank provider or seller/ buyer acting in the capacity of a provider or receiver. These companies tend to be universally one-direction—always a provider or always a receiver. According to our survey data, however, many organizations may be in excess liquidity for a time and then flip throughout their business cycle to become a user of liquidity, based on their business and seasonality components. Therefore, current supply chain model offerings are insufficient for the needs of about a third of companies for at least part of the year. As we looked more narrowly at small versus large companies, smaller companies are more often either receivers or both receivers and providers, rather than simply providers and just over half of large companies end up being a net provider and a third are both.

Payment Flexibility and Behavior
Fig 5.



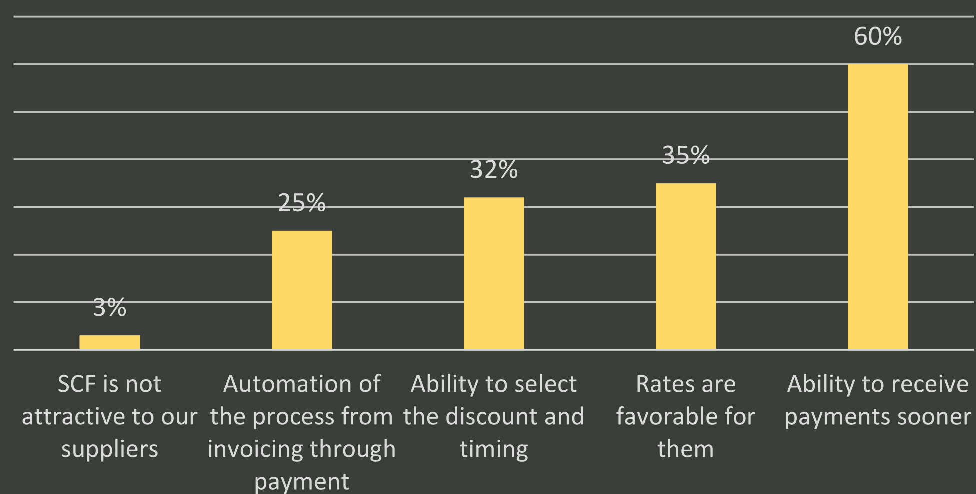
Provider or Reciever of Liquidity
Fig 6.



When ranking supply chain finance features for suppliers in the US (Figure 7), the ability to pay sooner is the runaway leader as companies want to be able to get cash quickly in an easy, flexible way. Favorable rates and the ability to select the discount timing are flexibility factors that interest a third of companies. A quarter of respondents find automation to be a significant feature for them.

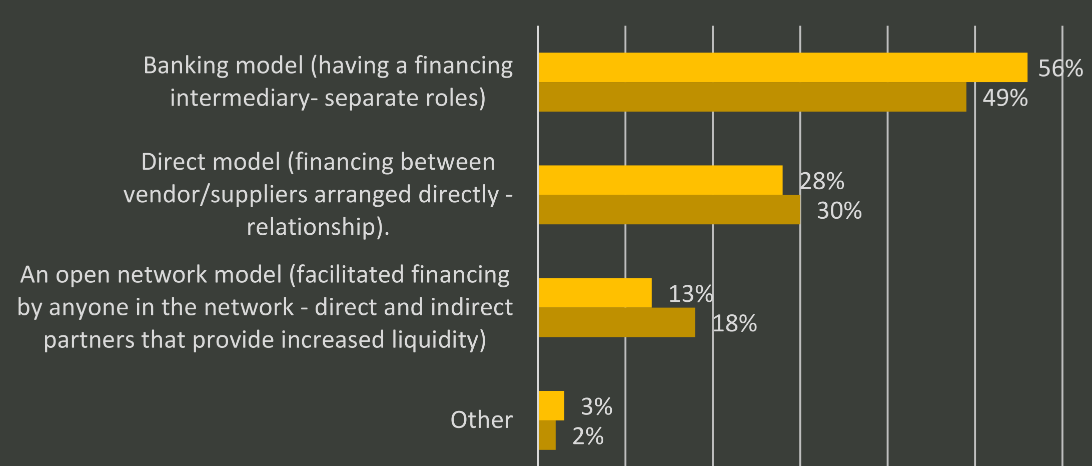
A company can have numerous direct finance relationships. Therefore entities need to intentionally select a supply chain finance model that works for their unique relationships and supply chain needs (Figure 8). The first model, which half the respondents find to be the most attractive model, is the banking model where a bank or a finance company usually acts as an intermediary and they provide financing when there is a buyer, seller, supplier, or customer in the model. Almost a third of organizations find the second model, the direct model between vendors and suppliers, to be the most attractive method. An example of this model would be a large supplier with excess cash who is able to leverage their balance sheet to assist their distributors or customers who might not be as financially strong. Notably, there are not too many organizations that can leverage their balance sheet in this manner to assist their suppliers and customers.

Attractive Supply Chain Finance Features:
For Suppliers
Fig 7.



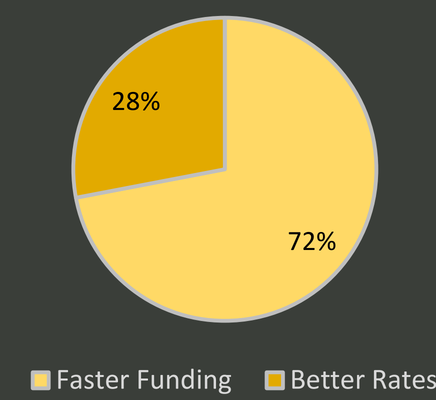
The majority of currently-offered supply chain offerings require entities to choose between a one-way broad banking model, and a narrower, direct model. However, with an open-network model (facilitated financing by anyone in the network- direct and indirect partners that provide increased liquidity), any company is able to directly connect to their suppliers or providers. For example, with an open network model, entities would be able to 'connect' with an immediate trading partner, a partner's partner, a supplier's supplier, or even a bank or multiple banks.

Most Attractive SCF Model
Figure 8.



And, this type of model would allow organizations that move between being a supplier or user of capital to leverage this network during all cycles. The survey responses demonstrate a significant willingness to accept or even request this type of model within the supply chain finance arena.

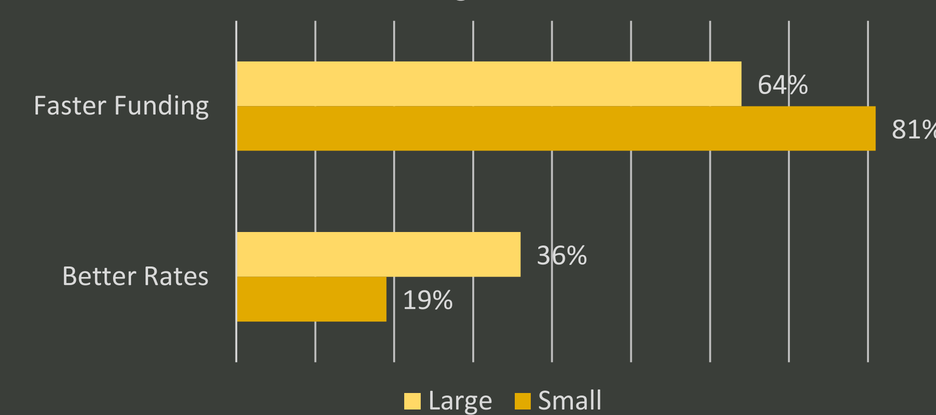
Receivables
Fig 9.



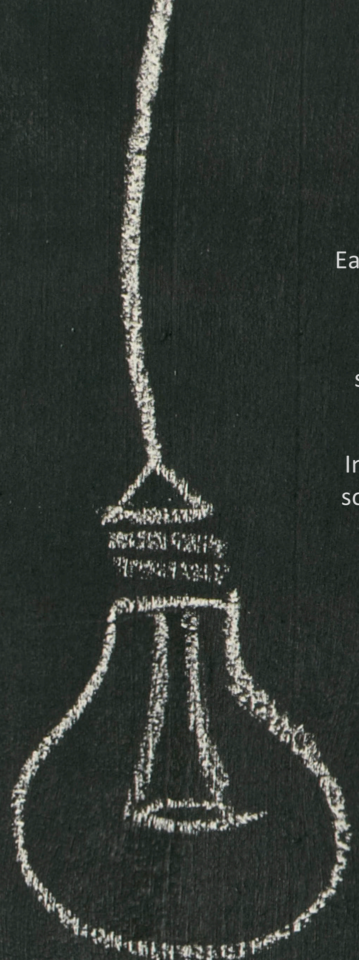
The overall US chart demonstrates that faster funding is more important than better rates to 72% of companies (Figure 9). However, key differences emerge in the response breakdown of large versus small companies (Figure 10). Large companies, by a significant majority (2-1), want faster funding over better rates. In small companies, that ratio is slightly above 4-1, which is a marked difference between these organizations. Clearly, a majority of companies prefer faster funding over better rates.

The goal of this question is to see how the survey population was stratified by an organization's willingness to adopt new technology (Figure 11). Approximately 1 in 5 organizations globally viewed themselves as early adopters. Almost half of organizations in the US would participate if the solution was used by a significant number of organizations or companies. The industry majority responses demonstrate how many organizations would participate if a technology was used by others in their industry. About 1 in 6 use technology that is being used in their current industry and probably by their competitors.

Small Vs. Large Companies
Figure 10.

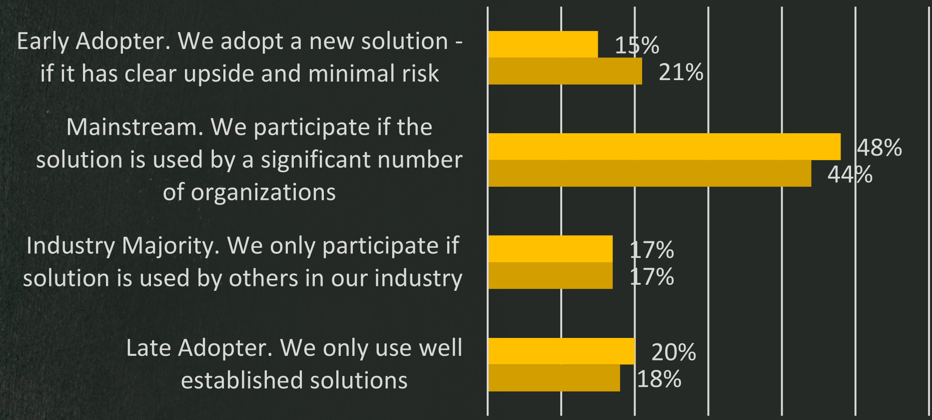


This survey demonstrates that the overall need for companies in 2014 is to get cash faster and more securely. Companies have been delaying payments which adversely affects all of the entities involved in financing as many are forced to utilize unsecured lines of credit



Approach to Technology

Fig 11.



Overall we found that in 2014, over half of companies are utilizing an unsecured bank line of credit to finance their working capital and 70% delay payments to their business partners. While many companies operate solely as a provider or receiver, a full third find themselves in both roles throughout the year given their fiscal needs. 60% of suppliers responded that the best supply chain feature is the ability to receive payments sooner and companies largely prefer faster funding over better rates, which is unfortunate as so many entities are slow to pay. Around half of entities take a mainstream approach to technology, meaning they participate if the solution is already utilized by many organizations, and just over half find the banking model for supply chain finance to be best. The market appears open to additional models for financing to address some existing gaps. The market has demonstrated the desire for more flexible financing and facilitating faster payments.

We look forward to repeating this survey each year to determine what other trends are emerging or becoming established in supply chain finance. ■

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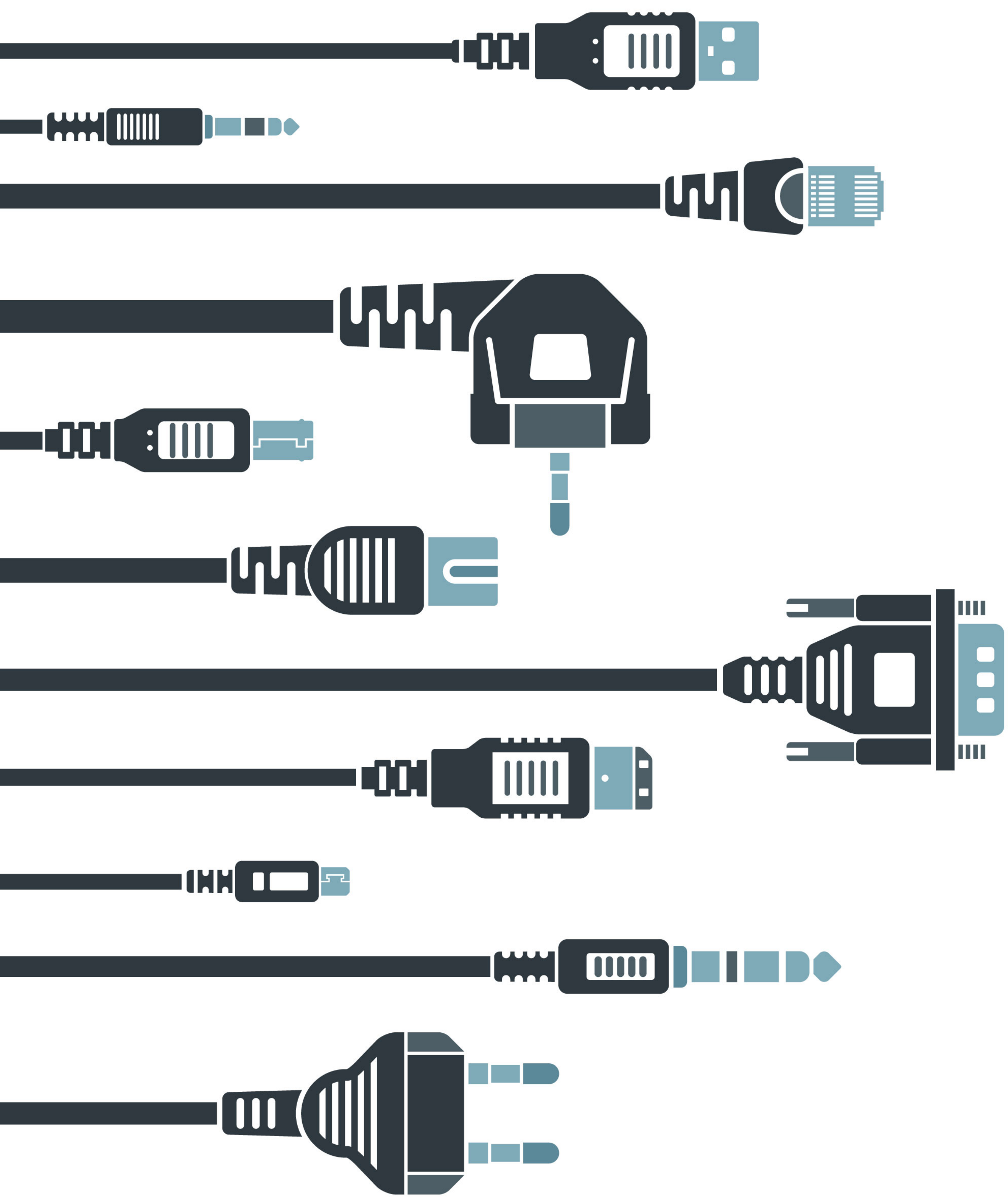


Developments in Treasury Technology

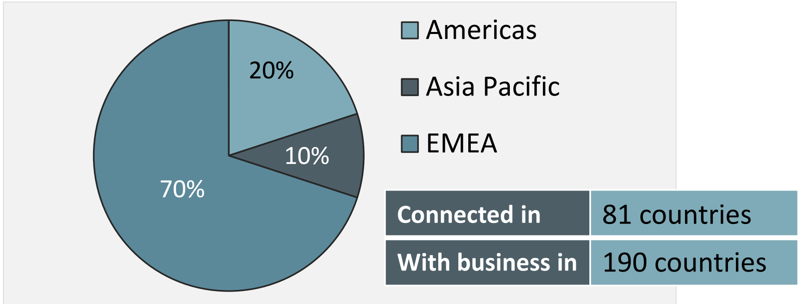
SWIFT Growth

Our technology column highlights a number of facts and trends across the connectivity and treasury system environment that we think will be of interest to treasury professionals. We begin this issue's column with some statistics on SWIFT. SWIFT, a cooperative owned by many of the world's largest banks, opened up their messaging services to corporates some years back after starting as a bank to bank communication platform.

This cooperative acts both as a hub for communication for financial messages. It also helps establish standards for those financial messages. For corporate treasury groups, SWIFT has become increasingly important as they seek to achieve complete visibility to and efficiency of all financial transactions and communication. This recognition of SWIFT's usefulness has translated into growth of activity flowing through SWIFT and the adoption of new and enriched formats.

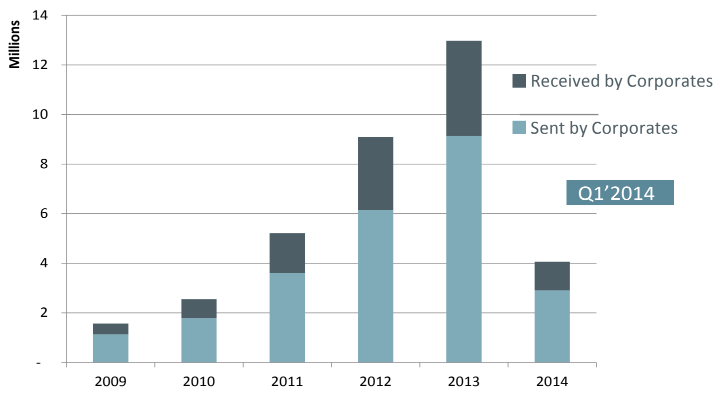
The number of North American corporations connecting to their banks through SWIFT shows an increase in share of the rapidly growing pie.

Corporate connectivity
Per region/country (cumulative Q1' 2014)



SWIFT for Corporates - Adoption report Q1' 2014

Traffic Overview
FileAct live files sent vs. received by corporates per year



SWIFT for Corporates - Adoption report Q1' 2014

This traffic overview histogram reflects very strong growth in the number of proprieatryfiles that are passed through SWIFT with corporate members. FileAct message delivery allows organizations to send files of any format through the SWIFT network. This includes proprietary formats and non-SWIFT standard formats such as CPA and ACH.

Traffic overview

Top 25 message types (FIN, sent/received live) - 2013 vs. 2012

Message type	2012	2013	Growth
940	20,424,874	26,148,950	28%
942	10,715,036	14,715,363	37%
101	3,349,725	4,473,263	34%

SWIFT for Corporates - Adoption report Q1' 2014

Older Treasury Message Types. SWIFT continues to report very strong growth of the older primary treasury message types is evident in information reporting (940, 942) and wire payments (101). These formats are the legacy Message Types (MT).

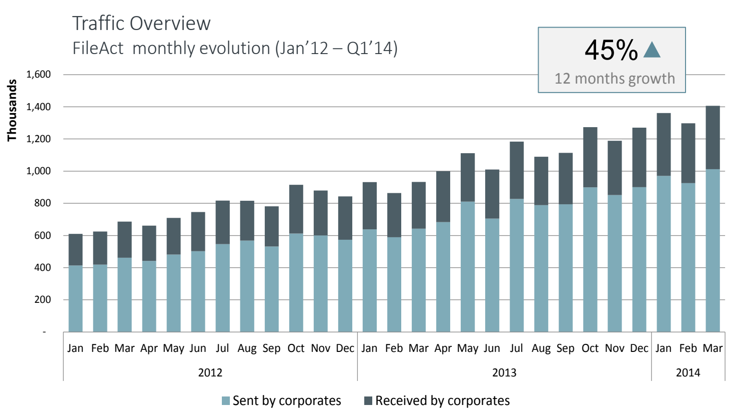
Newer Treasury Message Types. New treasury message types show very strong growth for information reporting (CAMT), Payments (PAIN) and for the relatively new 'locked down, audit approved' electronic bank statements (eStatementS). The CAMT and PAIN formats are ISO20022/XML based formats.

Traffic overview

Top request types (FileAct, sent/received live) - 2013 vs. 2012

Request type	2012	2013	Growth
CAMT	4,116,984	5,622,284	37%
PAIN	3,861,368	5,601,592	45%
eStatements	91	2,736	2907%

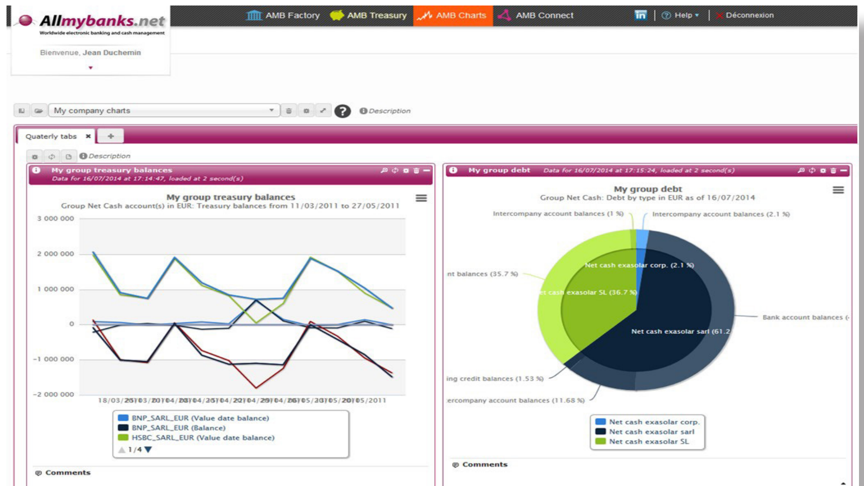
SWIFT for Corporates - Adoption report Q1' 2014



SWIFT for Corporates - Adoption report Q1' 2014

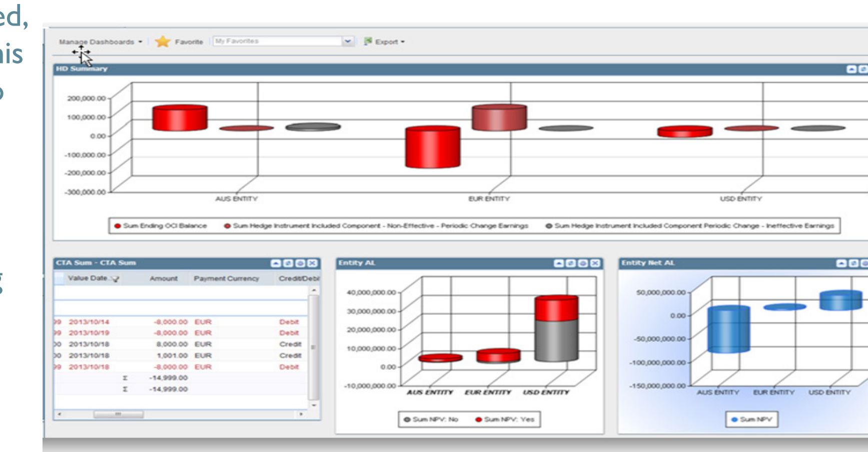
This chart shows the monthly growth in the use of the FileAct service of SWIFT. The annual growth rate of this message type reached 45%. FileAct service of SWIFT allows organizations to pass electronic files in any format (not simply the standard SWIFT formats) with their banking partners. This consistently strong year over year growth in amount of data passed through this channel shows the value of this messaging network and reflects the continued onboarding of corporations, through various connection options, into this messaging network. As an example of FileAct usage: a company choses to send their vendor payments in an ACH formatted file (a US batch payment format which is not a SWIFT format) could use the FileAct service to deliver this file to their bank instead of supporting and managing a direct connection.

This next section of the technology column provides the reader with a very brief overview of the company and a key product they offer. The description is accompanied by a screenshot of the system, workflow, cash position screen or dashboard with the intent to provide an introduction of the firm with a glimpse of the system from at least one angle. Strategic Treasurer also provides analyst reports with more details. To request a copy, please contact TUanalyst@strategictreasurer.com

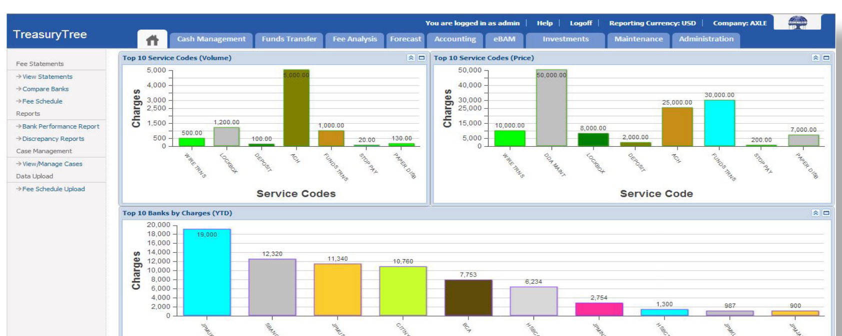


Exalog - This SaaS Treasury Management System (TMS) provider originated in 1984 and is headquartered in France. Exalog has 8,000 corporate clients in nearly 60 countries. A few of Exalog's notable features include automated forecasting and bank reconciliation, advanced intercompany loan administration, and bank account administration functionality. These are delivered via Allmybanks.net, which features straight-through-processing for payments and user-configurable cash reporting.

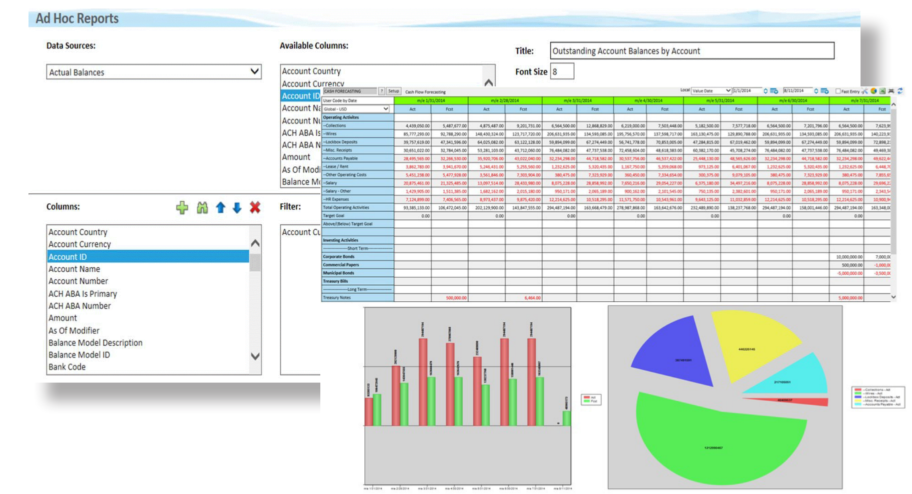
Reval - This fully SaaS Treasury Risk Management Systems (TRMS) launched in 2011 after integrating its cash and risk platforms. Reval's advanced risk management system features capabilities across FX, IR and Commodities. In recent updates, Reval has added expanding functionality across several of its modules. CFaR Optimization and global Hedge Accounting have both been added, as well as Regulatory Compliance Support. This support includes Dodd-Frank and EMIR. Also featured is an option for Overnight Indexed Swap (OIS) discounting for corporates as an alternative benchmark to LIBOR. Reval has a built in Connectivity as a Service (CaaS) Community, which includes FXAll (FX trading and settlement), ICD (money market portal), and Atlas FX Risk Advisory. Other recent developments include support for enriched formats, specifically the ISO2022 XML Cash Management messages.



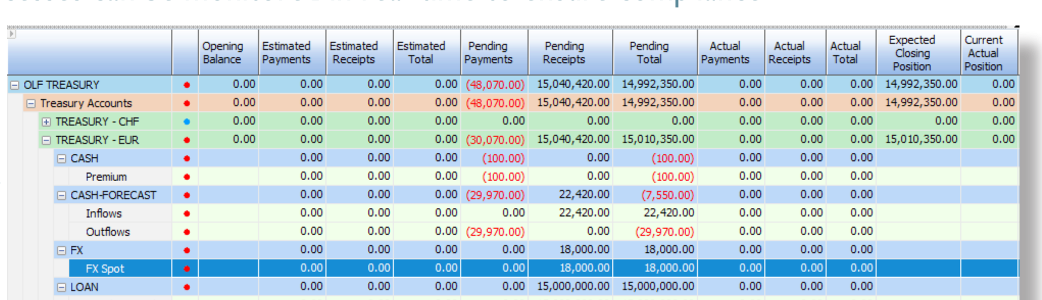
Axletree - TreasurYtree, Axletree's Treasury Management System (TMS), offers global visibility and transaction management via a SaaS delivery model. With a long-standing pedigree in financial messaging as a SWIFT Service Bureau, TreasurYtree streamlines the connectivity process with banks. The various modules of TreasurYtree provide services that support liquidity management, treasury reconciliation, forecast and cash position management, wire transfers, bank fee management, and bank account management including eBAM. New features include integrated support for Foreign Bank Account Reporting (FBAR).



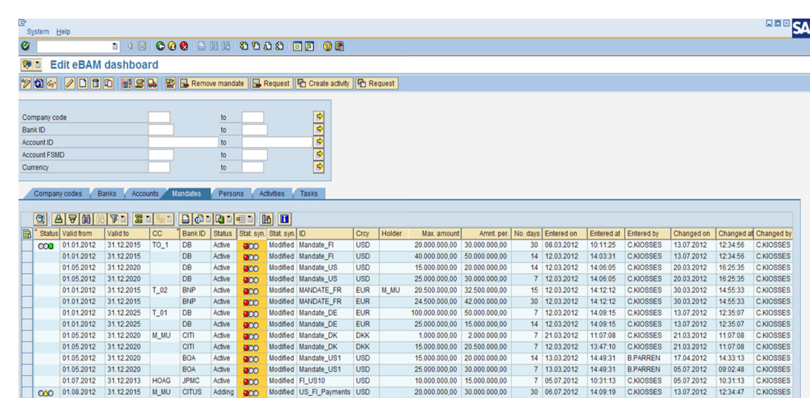
GTreasury - Operating since1986, this Treasury Management System (TMS) provider offers both stand-alone and a fully-hosted software model for their solution set. Their system functionality covers multiple areas, such as: cash and liquidity, management for exposures and risk, and automation and streamlining of all repetitive treasury processes. Notably, GTreasury's worksheet view option allows users great flexibility for visualizing and working on cash across various dimensions. GTreasury also supports eStatement reporting and archiving.



Openlink- Openlink, formed in 1992, and with revenues in excess of $300mm, offers their Treasury Management solutions globally. OpenLink Treasury Management solution integrates cash management, FX & Commodity risk management, capital markets & funding as well as financial management. Some clients have hundreds and thousands of users. Business process and systems can be automated using a visual mapping tool. Once mapped, processes can be monitored in real-time to ensure compliance and demonstrate strong governance. OpenLink's functionality across the financial and commodity markets covers both plain and sophisticated derivative products. The work processes are supported with straight through processing (STP) and extensive Risk Visualization & Analytics functionality.



	Opening Balance	Estimated Payments	Estimated Receipts	Estimated Total	Pending Payments	Pending Receipts	Pending Total	Actual Payments	Actual Receipts	Actual Total	Expected Closing Position	Current Actual Position
OLF TREASURY	0.00	0.00	0.00	0.00	(48,070.00)	15,040,420.00	14,992,350.00	0.00	0.00	0.00	14,992,350.00	0.00
Treasury Accounts	0.00	0.00	0.00	0.00	(48,070.00)	15,040,420.00	14,992,350.00	0.00	0.00	0.00	14,992,350.00	0.00
TREASURY - CHF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TREASURY - EUR	0.00	0.00	0.00	0.00	(30,070.00)	15,040,420.00	15,010,350.00	0.00	0.00	0.00	15,010,350.00	0.00
CASH		0.00	0.00	0.00	(100.00)	0.00	(100.00)	0.00	0.00	0.00		
Premium		0.00	0.00	0.00	(100.00)	0.00	(100.00)	0.00	0.00	0.00		
CASH-FORECAST		0.00	0.00	0.00	(29,970.00)	22,420.00	(7,550.00)	0.00	0.00	0.00		
Inflows		0.00	0.00	0.00	0.00	22,420.00	22,420.00	0.00	0.00	0.00		
Outflows		0.00	0.00	0.00	(29,970.00)	0.00	(29,970.00)	0.00	0.00	0.00		
FX		0.00	0.00	0.00	0.00	18,000.00	18,000.00	0.00	0.00	0.00		
FX Spot		0.00	0.00	0.00	0.00	18,000.00	18,000.00	0.00	0.00	0.00		
LOAN		0.00	0.00	0.00	0.00	15,000,000.00	15,000,000.00	0.00	0.00	0.00		
Initial Principal		0.00	0.00	0.00	0.00	15,000,000.00	15,000,000.00	0.00	0.00	0.00		



Hanse Orga - Established in 1994 with Global Headquarters in Germany, Hanse Orga added a physical North American presence in 2011 which now offices out of Chicago. The Hanse Orga FinanceSuite is a software package integrated at the transaction level within SAP®, and is certified by SAP® as "FinanceSuite 5.1." The five modules of FinanceSuite cover the following functions: cash, liquidity, treasury management, payments, bank account management, bank fee analysis, and account reconciliation.

TMS|TRMS RELEASE WATCH 2014

The Release Watch has been a staple of the Treasury Update newsletter for a number of years. It shows various upgrades and enhancements by various treasury technology vendors. In this issue, the release watch section focuses on treasury management systems and treasury risk management systems (TMS/TRMS). Future issues will include other sectors of the treasury technology landscape. Upgrade or new release by the various vendors - either fixes bugs, enhancement to features, or entirely new capabilities - are featured in the Release Watch. The information provided details some of the high points of these recenly issued releases or provides the reader with a sneak peak at soon to be released functionality on a vendor and product basis.

GTreasury
10.7
January 2014

PRESENTATION: On demand dashboard reports are available with drill-down capabilities. • Ad-Hoc reports with drag and drop capabilities. • Continued improvement to the worksheet views for managing and viewing cash.
SECURITY & RISK: GTreasury is now a certified PCI compliant organization.
COMPLIANCE: Anti-money laundering and OFAC checking functionality.
COVERAGE: Continued development of BAM and eBAM.
CONNECTIVITY: Supported integration with SWIFT AL2.

Kyriba
14.1
2014

FORMAT: More XML Support. • Added CAMT054 (XML intra-day reporting)
INTEGRATION: FX Trading Platform Integration. • 360T Integration into the FX module of Kyriba. • Netsuite Integration. • Back and forth integration added.

Reval
14.0
April 2014

PRESENTATION: Dashboards, Interactive and Custom Reporting - Flexible and dynamic dashboards with strategic and operational interactive views. • Real-time access to multiple data sources including: cash, debt, investments, risk, derivatives.
REGULATORY: Dodd-Frank and EMIR trade data capture and reporting.
FORMAT: New payment formats for global BAM reporting (ISO CAMT).
CASH: Enhancements to global payment scheduling (local time zones and bank cut-off times).
RISK: OIS Valuation is available.

Exalog
Allmybanks.net
6.2
July 2014

CASH: Interfaced with risk management modules.
PAYMENT FACTORY: Added payment on behalf (POB) module.
PRESENTATION: New reporting editor with customizable parameters for charts and graphs.
CONNECTIVITY: Compliance with SWIFT Alliance LITE 2.
MOBILE APPLICATION: Bank statements, alerts, validation workflow.

SunGard
AvantGard
Quantum 5.0.4
2014

HEDGE ACCOUNTING: Enhancements to hedge accounting functionality.
RISK: New set of features and important new functionality around swap valuations.
FUNCTIONALITY: Improvements around accounting, cash management and settlement, front office and the general system.
REGULATORY: The addition of many new fields and settings designed to streamline clearing and reporting as required by several regulatory authorities setup under Dodd-Frank and EMIR (European Market Infrastructure Regulation).
INTEGRATION: Enhancements to integrated Bank Fee Analysis, eBAM with FBAR reporting and Bank Connectivity.

SunGard
AvantGard
Integrity 8.4
2014

FUNCTIONALITY: Improvements around accounting, cash management, treasury dealing, back office and the general system.
CASH: Extended complex Intercompany accounts, improved cash management.
COVERAGE: Enhancements to integrated Bank Fee Analysis, eBAM with FBAR reporting, Bank Connectivity.

Hanse Orga
FinanceSuite
5.1
AutoBank
Automatic Cash Application
February 2014

FUNCTIONALITY: Lockbox processing has been linked to remittance advice processing to enable posting of both in one step to expedite posting. • Expansion of deduction management for remittance advices to cover multiple posting rules per deduction type. • Performance enhancements for the processing of mass data through paralleling numerous transactions to accelerate processing. • Automatic completion of key data such as bank number, account number, and IBAN.
NEW FEATURE- JULY, 2014: Enhancement package for the straight through processing of emailed and scanned remittance advice data.
NEW FEATURE - SEPTEMBER, 2014: The processing of intraday bank statements in MT942 and XML (CAMT052) formats.

Hanse Orga
FinanceSuite
4.3.4
Treasury Management
March 2014

REGULATORY: EMIR reporting features for NFC- class companies. • Processing of financial instruments for accounting according to the local standards HGB, US-GAAP and DAS as well as IFRS.
FUNCTIONALITY: Enhancement of the Money Market module to include variable rate instruments.
NEW FEATURE - FALL, 2014: Enhancements to structuring portfolio management.

Hanse Orga
FinanceSuite
4.3.4
Cash & Liquidity Management
March 2014

INTEGRATION: Enhancements to importing account statements directly from external SAP® clients. • Extension cash management reporting
LIQUIDITY MANAGEMENT: New plan group type "opening balance changes" to simplify the plan/actual reports.
NEW FEATURE - FALL, 2014: Will include cash management across clients and systems covering import routines, master data reconciliation, and FI research.

OpenLink
14
July 2014

REPORTING: Real-time point & click reporting functionality across trading and treasury activities. • Self-service report builder for ad-hoc, batch/scheduled reporting.
RISK: Management of multi-dimensional risks across diverse asset classes, from financially settling derivatives and securities to physically-settling commodities.
COVERAGE: Complete cross-asset instrument coverage, Cash Management, In-house banking, Regulatory compliance.
CONNECTIVITY: Market Data providers, SWIFT, Execution venues (ex. FXAll, 360T) DTCC, ERP systems.
WORKFLOW: Visual workflow designer to implement and manage in real-time, the firm's business processes and workflows.

Financial Sciences Corporation
ATOM
8.8
October 2014

PRESENTATION: Improved business intelligence and dashboarding tools including mapping.
RISK: Hedge accounting for foreign exchange and interest rate derivatives.
RISK: Added foreign exchange options.
FUNCTIONALITY: Added bank fee reporting and analysis.
CONNECTIVITY: Established SWIFT connectivity partnership with Akshay.

COUNTERPARTY RISK CONCERNS TODAY'S TREASURERS

CFOs, treasurers, analysts, and other financial management decision-makers have made in-roads in mitigating risk by increasing restrictions on which banks can hold their uninsured deposits and updating their investment policies frequently. But despite progress in both understanding and managing counterparty risk, many organizations still do not appear to have formal counterparty risk exposure policies or frameworks in place, nor do they appear to be able to adequately aggregate, analyze, and monitor their counterparty exposures.

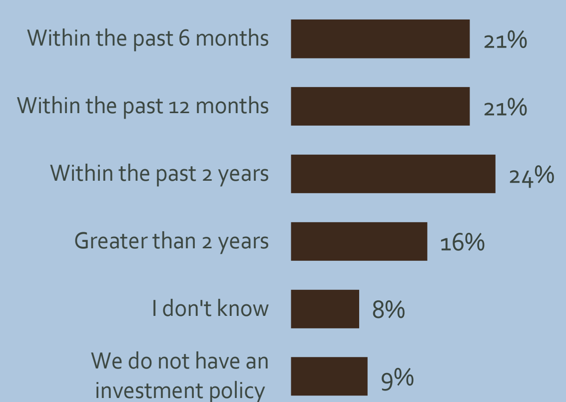
These were two of the major findings revealed in the fourth annual Liquidity Risk Survey, a study of short-term investment, debt, and forecasting practices conducted by Capital Advisors Group, Inc. and Strategic Treasurer LLC. The 2014 survey, the results of which were released in May, elicited responses from 112 treasury and finance professionals, including CFOs, treasurers, assistant treasurers, vice presidents of finance/treasury, managers or directors of cash investments, treasury/cash managers, and treasury/cash analysts. Respondents spanned companies ranging in size from over $10 billion in annual revenue (21 percent) to those with less than $500 million (29 percent).

Progress in Some Areas of Risk Mitigation

Bank ratings have declined significantly since the financial crisis. In 2008, 60 percent of the top 20 U.S. banks received Moody's ratings of Aa3 or better. This year, only 25 percent rank that high. Similarly, in 2008 Moody's didn't rate any of the top U.S. banks at A3 or below, whereas today 40 percent fall into that range.

Perhaps in response, treasury and finance professionals appear to have continued the practice of paying close attention to risk in their investment portfolio. A half-decade after the peak of the financial crisis, survey respondents in 2014 report that their company is regularly reviewing and revising its investment policy. Forty-two percent said they have updated their corporate investment policies during the past year—half of those within the six months prior to the survey—and two-thirds said they've updated their policies within the past two years.

When Did You Last Update Your Corporate investment Policy?



The content of those policies reflects heightened counterparty concerns. One-third of respondents said their company requires a minimum credit rating of AA- or better on uninsured bank deposits, up 9 percentage points (38 percent) in just the past year. Interestingly, the proportion of companies in which investment policies do not specify a minimum counterparty credit rating for banks holding uninsured deposits—or set a minimum credit rating of BBB+ or below—also increased 9 percentage points, from 26 percent in 2013 to 35 percent in 2014. This sub-trend bears monitoring in future surveys. Ongoing concerns about the health of the global banking and financial system underscore the wisdom of taking measures to mitigate counterparty risks. Companies face exposures from multiple sources, including (but not limited to) bank deposit balances, money market fund holdings, separately managed account holdings, lines of credit, foreign exchange contracts, and vendor and customer accounts. Some businesses seem to be implementing strategies to mitigate risks across counterparties in a comprehensive way. Unfortunately, few organizations appear to have yet reached that level of sophistication in their risk management practices.

Major Hurdles Remain

Counterparty risk management and mitigation appear to continue to pose major challenges for the average corporation's treasury and finance teams. Results of our 2014 survey indicate that many companies lack formal policies for managing counterparty risk, and they lack techniques for accurately calibrating that risk.

For one thing, organizations seem to be having difficulty compiling a companywide view of risks. When survey respondents were asked to identify their company's most urgent need in the realm of counterparty risk management, 19 percent selected aggregation of risk exposures. Another 18 percent identified knowledge, transparency, and visibility as their most crucial concern.

Another problem may be that there are critical gaps in many companies' processes for formally monitoring counterparty risk. For example, only 36 percent of companies surveyed said that they formally monitor credit counterparties with respect to debt. Moreover, only 14 percent view counterparty risk as a significant factor in their debt decisions, which represents a sharp contrast to the pervasive implementation and ongoing revision of their investment policies.

The techniques companies are using to calibrate counterparty risk raise yet another issue: Survey respondents appear to be using a limited set of variables to calculate the risks they face. More than three-quarters of respondents use data from nationally recognized statistical ratings organizations (NRSRO) like Moody's, Fitch Ratings, and Standard & Poor's to calibrate counterparty risks. Some also use industry ratings and market data, such as credit default swap (CDS) levels, in assessing counterparty risk—but those proportions are much lower. Given the conflict of interest that arises because issuers pay the ratings agencies, using ratings data alone may be insufficient for gauging risk. It's important to pull together data from multiple sources and internally generate credit risk ratings. Independent multifactorial models that incorporate qualitative and quantitative variables may provide a clearer and more holistic view of risk, allowing finance and treasury professionals to more effectively limit and manage counterparty risk.

A Buyer's Market in Debt

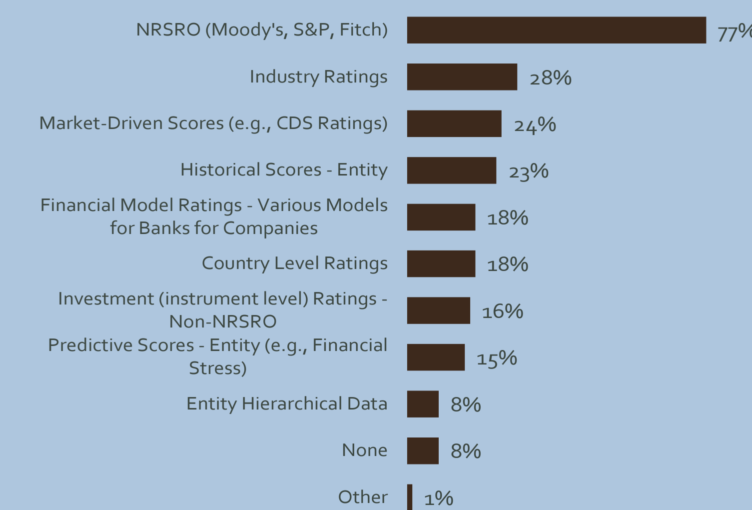
The survey also revealed ways in which companies are shifting their approach to debt management, likely with the goal of minimizing their exposure to possible changes in debt markets. A reduction in the number of loan covenants, along with the possibility that interest rates will increase in the near future, may help to explain why 64 percent of survey respondents said their company has negotiated or renegotiated credit facilities in the past year, up from 56 percent in last year's survey. Twenty-eight percent of organizations had fewer loan covenants than the last time they negotiated debt agreements.

Additionally, 75 percent of organizations reported that their debt has more than one maturity date or that they have intentionally tried to stagger debt maturity dates, compared with just 58 percent in 2013. This shift suggests that organizations may be using multiple maturity dates to guard against unfavorable terms at the time of refinancing or to reduce the impact on their business if the debt markets freeze up at an inopportune time. The strong pace of credit facility negotiation and renegotiation is likely to continue as long as loans have fewer covenants and interest rates stay low. However, looming interest rate increases may impact the current buyer's market for debt by the time we conduct our 2015 survey.

This year's Liquidity Risk Survey shows a clear trend toward improvement in certain risk mitigation practices, and we expect that trend to continue into 2015. Last year, our survey indicated a complacency toward bank exposures, while this year's survey revealed that over the past year companies have taken meaningful steps to mitigate risk, including placing limits on uninsured bank deposits.

Yet this year's survey suggests that companies remain complacent toward counterparty risk management. Many practitioners appear to still lack appropriate frameworks for aggregating, assessing, and monitoring counterparty risk. They seem to be relying on limited data and credit ratings that may not enable them to truly grasp risk trends. We're hopeful that our 2015 survey provides better news about the adoption and maturation of corporate counterparty risk management metrics and tools. ■

What Types of Data Do You Use to Calibrate Counterparty Risks?



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