



IN CONTROL

EFFECTIVE USE OF SSIs AND RECONCILIATION CAN PREVENT CASH GOING ASTRAY, ARGUES WILL SPINNEY

This article will look at some of the basic controls inside a modern treasury where lots of transactions are happening, such as FX deals, futures and commodity hedges, physical trades, borrowings and deposits, repos with banks, money market funds, etc.

Many transactions will actually be between group companies, ie the parent to subsidiaries and vice versa, and most of them will involve cash payments. Whenever cash flows, there is a risk that it will flow to the wrong place. If that happens, it can be difficult to recover, and the risk is large because the cash flowing through a treasury department is usually at least an order of magnitude higher than the turnover of the group.

In fact, the payments made by treasuries are almost always to either financial institutions, with which the company has a good relationship, or to subsidiaries over which the company has control. These make the payments less risky than other third-party payments that are not often handled by treasuries anyway. This is because treasury payments made in error are more likely to be recovered. Payments to less well-known third parties by treasury, perhaps to joint-venture parties or solicitors, need extra care. Remittances received by treasuries are arguably even riskier because the counterparty controls them.

Clearly, no treasurer wants something to go wrong here and there are some standard control techniques to address this kind of risk. One of these, the segregation of duties, was explored in the September 2012 edition of *The Treasurer* (see page 61). Here we will look at the ideas of standard settlement instructions (SSIs) and reconciliation.

Standard settlement instructions

Transactions with intercompany counterparties and external parties follow a similar pattern (see diagram below).

Settlement is where the cash can end up in the wrong place. If a company has SSIs and insists on always being paid through the accounts specified on the SSIs, the risk of cash going astray is very small. SSIs might look like this:

- £ > Pay to Barclays, London, sort code, SWIFT address and account number
- € > Pay to Deutsche Bank, Frankfurt, SWIFT address, IBAN address and account number
- \$ > Pay to JPMorgan, New York, CHAPS code, SWIFT address and account number

Commodity transactions, such as gold, might also be included if they are physical. When a bank uses SSIs in this way, those accounts become their 'nostro' accounts.

Any deviation from use of SSIs risks losing money. It might be tempting to change instructions for acquisitions or one-off, large transactions, but the risk then arises of the instructions being given incorrectly or fraudulently. It also may become very difficult to check whether the funds have arrived safely because the chosen account may not be accessible.

The parties to which payments are made should also use SSIs. The SSIs of both your own organisation and of the counterparty should be standing data within the treasury management system (TMS). The organisation's own SSIs are used to inform counterparties, and those of the counterparty are used to generate payment instructions for settlement.

Therefore, the process to enter these SSIs into the TMS, or to inform counterparties

in other ways, or to change them, must be strictly controlled. Equally, any instruction to, or by, a counterparty to pay money anywhere else must also be strictly controlled and validated.

If the correct SSIs are always used for payments, it is hard to envisage circumstances where cash will go anywhere other than where it is intended or recoverable. Similarly, if correct SSIs are always used for collections, then missing cash becomes less likely. They also mean that the next phase of control, reconciliation, becomes simpler.

Reconciliation

Reconciliation checks whether the cash expected to flow agrees with what has actually flowed. If SSI bank accounts are always used, then they are the only place to look for cash receipts. This removes uncertainty from the process. It will also make management of the TMS simpler, since there is less opportunity for exceptions to be used. Most large treasuries reconcile their bank accounts on a daily basis. Missing collections should be followed up rigorously.

Zero tolerance of a breach of procedure in the use of SSIs and of the outstanding reconciling items can be a key approach to control in treasury. It ensures that team members know the exact standards that must be expected.

Other techniques and controls, such as straight-through processing, front/back office separation and approval matrices, will be discussed in future issues of *The Treasurer*. ♦

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