Developments in treasury management systems and the processes that complement them are providing more opportunities for treasurers.

Setting higher standards

THE LATEST GENERATION of treasury management systems (TMS) can offer treasurers more flexibility and scope for automation than ever before. Although current systems all meet the basic needs of a treasury function, there can still be major differences of functionality and technology between them.

Suppliers are continually striving to keep their systems technically up to date, while at the same time having to respond to new requirements arising from changes in regulations, market initiatives and their clients' needs. This article looks at the current issues affecting the TMS market and considers the opportunities for the corporate treasurer.

Changes in technology

Over the past few years, there have been rapid changes in the technology used to develop and support corporate systems. Systems have progressed from client/server and N-tier architecture through to the most recent technology, such as Microsoft's .NET Framework using Smart Client technology. Suppliers that are able to keep up with these changes can benefit from faster development and greater flexibility to provide clients with a system that can keep pace with a fast-changing environment, while keeping costs down.

Treasurers can benefit from the changes in technology in two ways: first, treasury systems are easily scaleable and can be rolled out to remote locations from the centre; second, commonly available systems tools can make enhancements and local applications easier to develop in-house and remove the need for the supplier to make changes to the core system.

The internet has also opened up new possibilities, enabling suppliers to provide treasurers with a greater choice of system delivery. Systems can be bought outright and installed on the client's premises or be provided by an application service provider (ASP), which will deploy and host the system and provide access to the client through the internet. In addition, web-based systems are used to support the provision of treasury outsourcing services, providing further opportunities for companies. The internet/intranet also enables online communication across an organisation and with its banks and online service providers.

Regulatory changes

TMS suppliers not only have to keep abreast with changing technology, but also have to respond to changes in the regulatory environment affecting the way treasuries operate. The introduction of International Accounting Standard 39 Financial Instruments: Recognition and Measurement (IAS 39) will have a significant impact on many treasury operations and on the systems used to manage treasury activity. Over the past year, system suppliers have worked closely with clients

Peter Barnes
Manager, Treasury Services, KPMG LLP (UK).
peter.barnes@kpmg.co.uk

to understand the full impact of IAS 39 on treasury processes and the system functionality needed to support implementation and compliance with the standard.

The Sarbanes-Oxley Act of 2002 makes far-reaching demands on the financial reporting systems used by companies subject to Securities and Exchange Commission (SEC) reporting requirements, including improved internal controls, increased transparency and greater capability to drill down to the underlying transactions. As the TMS is the primary information system in the corporate treasury, treasurers are already discussing the additional reporting and functional requirements that will result from implementing Sarbanes-Oxley. Although the Act currently only applies to SEC-registered companies, other jurisdictions may decide to implement similar legislation in response to a growing demand for improved corporate governance.

Market initiatives

Financial institutions and market service providers are continually developing new services to support the financial markets, many of which can also offer significant benefits to companies. The introduction of Continuous Linked Settlement (CLS) is one such example. With CLS, both sides of a foreign currency transaction are linked and settled simultaneously on a payment versus payment (PVP) basis. This has the benefit of eliminating settlement risk and is particularly relevant for cross-currency settlements across different time zones.

Other potential advantages include lower operational costs through the reduction of processing time and improved operational efficiency. Initial feedback provided to CLS from companies reveals that, even if the volumes of foreign currency dealt makes the use of CLS a marginal proposition, businesses are enthusiastic about the operational standards required for participation as a settlement member in CLS.

This covers the concern that they need to be able to report on operational capabilities as well as pricing for their counterparty banks. Even if they do not participate, companies have indicated that they would expect their counterparty banks to be CLS participants. In addition, real-time information on individual deals and net cash positions, which is an inherent part of the service, provide companies with an insight to the full settlement process. Coupling this information flow with the elimination of settlement risk provides a significant improvement in the transparency of the entire foreign exchange (FX) chain from deal to settlement.

The services provided by SWIFT are another example of how strategies for the banking sector can provide benefits to companies. Until recently, companies could only connect to SWIFT as a Treasury Counterparty in order to send and receive confirmations. However, the introduction of SWIFTNet (SWIFT's IP-based messaging solution) and the establishment of member administered closed user groups (MA-CUG) can provide more potential opportunities for companies.

SWIFT enables banks to make payments and exchange financial information using standard SWIFT message formats across a secure network, which is maintained by SWIFT. In response to increasing demands from larger companies for access to its network, it has worked to allow entry for companies through a MA-CUG.

A MA-CUG enables a bank to enter into a relationship with its customers and form a closed network through which the banks can provide services to these companies. Although SWIFT FIN messages are designed for bank-to-bank communication, its cash management messages cater for the exchange of information between banks and companies. In addition, the MA-CUG also allows bulk files in domestic format (eg disbursements and collections) to be exchanged through the use of File Act, the secure transfer service which is now available on SWIFTNet.

Over the past few years, there has been a push from the corporate sector to promote its requirements for open standards and message formats to support corporate transactions. For example, RosettaNet aims to create and implement global industry-wide open e-business processing standards between supply chain partners.

TWIST, meanwhile, is working to develop standards to enable financial and corporate participants to communicate with each other in the process of preparation, negotiation, execution, settlement and reporting of transactions.

In November 2003, TWIST signed a memorandum of understanding with three other leading industry standards organisations, IFX, OAGi and SWIFT, which represents a key step towards harmonising payment standards. The objective of the memorandum is to "drive a single Core

'There have been rapid changes in the technology used to develop and support corporate systems'

'The internet has enabled suppliers to provide treasurers with a greater choice of system delivery'

Payment XML Kernel that can be used globally by any company, irrespective of size and sector, and by any servicing bank, regardless of location". The initiative identifies the benefits for companies as supporting straight-through processing (STP), providing a means for reconciliation and improving visibility of payments. TWIST is also driving for similar harmonisation of FX standards and expects to make progress in this respect in the near future.

Exciting prospects

The current generation of treasury systems offer treasurers a powerful and flexible set of tools to support treasury activities. These systems can enable the treasurer to automate treasury processes, to obtain a real-time view of an organisation's risk management position, and to add value to the business. The current market initiatives for open standards and improved corporate-to-corporate communications offer some exciting prospects for gaining future benefits from STP and improved working capital management.

However, to get the most benefit from the available technology, the treasurer may need to bring in new system skills and develop a closer working relationship with the IT department. ■

WHAT ARE THE POTENTIAL BENEFITS FOR THE CORPORATE TREASURER?

Today's treasury management systems (TMS) offer treasurers a higher degree of flexibility and provide a solid base for the future. Web-based strategies enable them to reach out into the business to collect and distribute information, and to provide value-added services. The flexibility of current systems enables suppliers to provide new functionality for their clients, such as that being developed to meet the requirements of IAS 39 and Sarbanes-Oxley.

Currently, corporate access to Continuous Linked Settlement (CLS) and SWIFT can really only benefit large organisations with high volumes of transactions and multiple banking relationships. These banking relationships may be maintained to support an active treasury function or a centralised payment factory operation.

Although CLS and SWIFT can provide potential benefits to a wider range of companies, their services will need to be seen as more accessible and cost-effective which, coupled with an increase in market awareness, may encourage more corporate interest.

Straight-through processing (STP) offers the prospect of simple automated processing of transactions between banks and, potentially, between corporates. However, despite the obvious advantages of STP, there have remained a number of barriers, such as connectivity and security issues, particularly with corporate-to-corporate communication.

Connecting the different systems and technologies used by banks and companies to exchange information has proved difficult because of the large number of system file mappings that would need to be developed and maintained, which would be time-consuming and expensive. These file mappings would need to be bespoke for each connection, as the technology, coding and configuration will be different in every case.

The development of open standards for messaging formats that can contain relevant information for companies would be a huge step towards addressing the problem of connectivity. Some organisations already provide access for clients to a secure private network to enter into transactions and exchange information with financial institutions that also have access to the network. However, combine open standards with secure delivery by a more readily accessible means and STP becomes a viable proposition for a wider range of businesses. A key potential benefit to companies of the implementation of open standards is the concept of 'plug and play' technology, whereby firms can change systems and/or service providers without having to incur the expense of developing new interfaces to support different file formats.

Another area that can benefit from more development is working capital management. One of the main barriers to collecting working capital information has been the variety of enterprise resource planning (ERP) systems that are installed within a group of companies, and the various versions and configurations of the systems. This makes collating data in a standard format directly from the source systems difficult and is why many companies assemble cashflow forecast information using spreadsheets.

Systems today can be designed to accept multiple file formats or mine data directly from source systems to receive data, and then standardise the data to provide a central database or data warehouse, which the treasurer can interrogate at will. This functionality, combined with the corporate standards initiatives of RosettaNet and TWIST, offer the prospect of real-time information and transparency of working capital data for companies.