TAKING CONTROL

Despite its increasing importance, there is limited information available to treasurers in the area of performance measurement. Oceanus defines performance measurement as the "measurement of treasury objectives", which is a subset of management reporting as opposed to treasury operations' reporting (eg trading, accounting, and control reporting). Treasury system providers tend not to be able to provide much support as most performance measurement reports are often company-specific. Reports tend to be either custom built by companies or end up being developed as a suite of excel spreadsheets outside of the core systems.

Oceanus has read a lot in the press recently about concerns over the ability of certain asset management houses to effectively run their own in-house funds as the performance measurement will shift from measuring a relative return (against a specific benchmark) to an absolute return (real gain or loss). Yet treasurers continue to search for the optimal methods to report the performance of their treasury objectives to management and shareholders.

If we take a simple example of measuring the performance of a foreign exchange ('FX') hedging strategy as an illustration, a few alternatives might be to measure:

- absolute return versus internal budget/planning benchmark (eg, a one-time annual budget rate);
- relative return versus internal management reporting benchmark (eg, a monthly or quarterly rolling estimate rate);
- absolute return versus internal treasury benchmark (eg, a target rate which is neither an accounting, management reporting or market rate);
- relative return versus external benchmark (eg, forward rates ie mark-to-market); or
- relative return versus internal accounting benchmark (eg, monthly accounting rates).

There are so many alternatives partly due to different treasury policies adopted by companies, but mainly due to the different approaches taken to hedging strategies and the degree of influence that the accounting standards impose on its hedging strategies.

However, getting the right performance measurement reports in place to track the effectiveness of hedging strategies from an economic, a market and an accounting perspective could be more standardised, and it is an area where we need much more best-practice sharing. If treasurers could adopt a standard framework for performance reporting not only would it make treasurers' lives easier, but it would help curtail the increasing volume of 'meaningless' reports that needs to be developed for disclosure externally. Such a framework would in turn provide shareholders with consistent disclosure on financial instruments that is understandable and comparable across companies. The increasing disclosure on financial instruments is forcing companies to focus their financial and people resources on accounting rather than meaningful performance reporting. The risk is that we will all spend less time and spend more of our budgets on the development of 'accounting' performance measurement reports which doesn't necessarily explain to management or shareholders how effective our treasury objectives actually are in creating shareholder value.

Maybe this will trigger sufficient support from members for the ACT's Technical Committee to drive this initiative and facilitate best practice sharing in this increasingly important area.

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