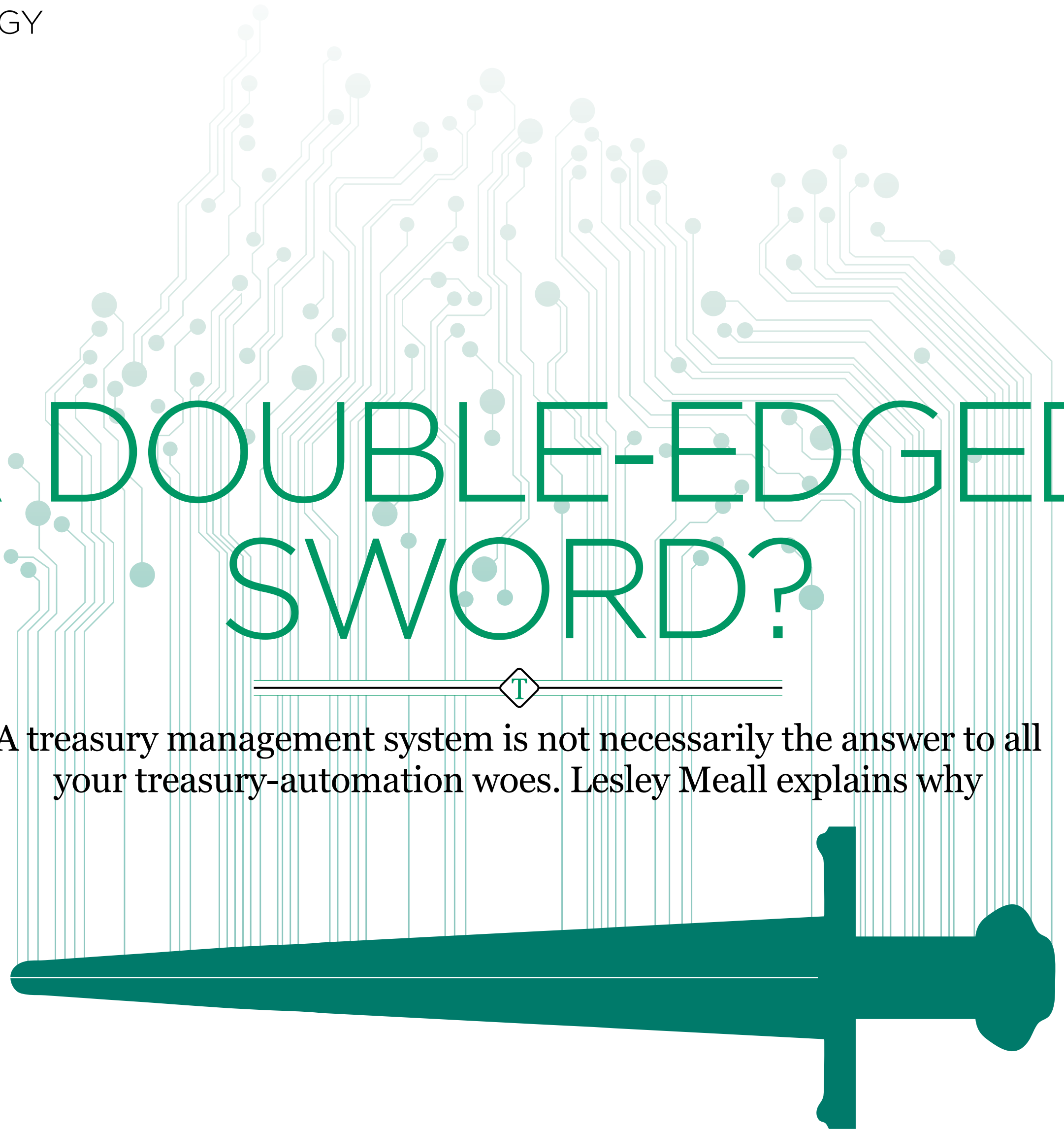

A DOUBLE-EDGED SWORD?

A treasury management system is not necessarily the answer to all your treasury-automation woes. Lesley Meall explains why

"The responsibilities of treasury beyond the departmental walls have been transformed since the financial crisis of 2008," says Sebastian de Paola, global corporate treasury leader at PwC. "Today, we see a corporate treasury profession that's maturing and consolidating in its role as the custodian of financial and liquidity risk management." Best practices are spreading through procedures in the treasury department and out into its wider business-partnering role.

This transformation has its challenges, particularly in relation to technology. "Technology has become the backbone of effective treasury management and treasury applications have become indispensable to most treasurers, but this dependency is a double-edged sword," finds the latest PwC *Global Treasury Survey*. Despite the many benefits of a treasury management system (TMS) or the treasury functionality in an enterprise resource planning (ERP) system, they won't always rise to the occasion.

Spreadsheets still rule

In the PwC survey, 70% of respondents cited new and changing external regulations as the biggest challenge to their processes and IT systems – and recent experiences do suggest some cause for concern. Witness Chris Fell, an interim treasurer who has worked in sectors where product transactions tend to be high value and low volume, such as real estate and mining. In such environments, a dedicated TMS can be overkill, but Fell favours the spreadsheet for other reasons, too.

"Microsoft Excel is an incredibly powerful tool. I don't think an ERP or a TMS can match the flexibility," he says.

Fell believes it was easier to make the fair value (FV) adjustments required by IFRS 13, *Fair Value Measurement*, using a spreadsheet than it would have been with a TMS – and even then it remains complex. "You still have to take the data from the ERP and enter it into a well-designed spreadsheet to calculate the FV adjustments," he notes.

This helps to explain why so many finance professionals have chosen to outsource this job to a third-party provider of derivative and financial instrument valuation, hedge accounting and compliance reporting services. So does a poll (taken towards the 2013 year end), which found 86% of European finance professionals struggling to understand IFRS 13, to implement the new definition of FV and to make the complex calculations for credit value adjustment (CVA) and debt value adjustment.

Around this time, BSkyB decided to upgrade its legacy treasury system with a TMS that would enable the broadcaster to update to new financial reporting requirements such as IFRS 13 and IFRS 9, *Financial*

TMS TRANSFORMATION AT TOSHIBA

New regulations and standards are not the only reason why corporate treasuries feel the need to upgrade their existing TMSs or implement new ones. Other drivers include centralising treasury, streamlining bank relationships, achieving straight-through processing, establishing shared service centres (SSCs), global expansion, lack of integration with ERP and other systems (inside and outside the company), and improved reporting outside treasury.

When Toshiba restructured its treasury operation, all of these drivers were factors, since it moved all of its European treasury functions to a central SSC and standardised on one TMS that could best meet its needs. "The subsidiaries had been using different ERP and TMS systems, with varying levels of support for cash management," says Olaf Schimanski, the senior treasury process specialist responsible for liquidity, bank and risk management at Toshiba's SSC.

Schimanski believes that it is necessary to have one mandatory system for all companies in a group in order to standardise and align processes. He detailed the transition process and shared lessons learned in an article in *The Treasurer* (June 2014, page 38), emphasising the need for all of the associated data to converge in a single database.

"It is absolutely essential to have data consistency and transparency, or you will have double data entry processes," he says – with all of the inherent problems.

Instruments. "We took the opportunity to review our manual processes and to incorporate the new IFRS 13 requirements for CVA adjustments into our financial reporting," says Simon Morley, group treasurer at BSkyB, which opted for a cloud-based TMS from Reval.

"In addition to supporting the new standards, it enables us to improve the efficiency in risk management processes, to provide more accurate mark-to-market valuations, and to benefit from its integrated capabilities for hedge accounting," explains Morley. Hedge accounting under IFRS 9 can enable companies to smooth out profit and loss volatility and better reflect their risk management strategies in their financial statements. So the appeal of a TMS that supports this is not hard to understand.

Visibility and transparency

If your TMS is not fully integrated with your ERP, and the data isn't unified, there can be all sorts of costly consequences. As Martijn van de Graaf, associate treasurer with Perfetti Van Melle (a global producer and distributor of candies and chewing gums), can testify, these can range from delays to urgent payments and financial transactions to limited cash forecasting capabilities.

Perfetti used to have a treasury system that couldn't provide daily cash visibility across the group, which limited its ability to forecast cash and to optimise treasury transactions. Meanwhile, a lack of integration between the system and the SAP ERP meant that data had to be input into both the ERP and the treasury system, wasting time and increasing the risk of errors. Also, this disconnect combined with a lack of remote access to delay payments and other transactions, and to slow down authorisations when the signatory was away from the office.

Perfetti decided to implement FinanceSuite Treasury Management, from Hanse Orga. "The greatest advantage of an SAP integrated treasury solution is that we can follow the entire process of a transaction, from when it is entered into with a counterparty, via registering, posting, settling and final reconciliation of the statement," says van de Graaf. All of the transactions can be viewed in a single screen, providing the treasurer with greater clarity and control.

"We have harmonised processes for authorisation as well as for cash reporting, including cash positions, intercompany positions, key performance indicators and limit management, to name but a few," says van de Graaf.

This delivers detailed counterparty risk analysis with central and harmonised reporting across the group. "The integrated system provides lean and efficient treasury features," he adds, "and having a more holistic view significantly helps us in our business decisions."

"Having a more holistic view helps us in our business decisions"

Over the wall

Van de Graaf's view is echoed by the packaging company Amcor, which recently replaced the multiple TMSs that were in use at four of its regional treasury centres with one single system. "With our global treasury team working together on a common system, we will have better control and transparency," says Graeme Vavasseur, VP and group treasurer at Amcor. There were also other areas where its previous treasury systems were found wanting.

Amcor wanted a TMS that could deliver integrated global cash, risk management and hedge accounting functionality – something other treasurers are also looking for. The PwC survey found that, as a way of reducing operational risk, 80% of respondents had integrated their TMS with other systems (a list that includes sources of market data, systems for bank balance reporting and settlement, electronic confirmation and matching, and electronic dealing as well as risk and general ledger/ERP systems).

"Seamless workflow is particularly important for our liquidity planning and hedge accounting," says Vavasseur. Like other treasury operations, Amcor wants to move from delivering data to providing intelligence for decision-making. "What I like best about the TMS is its reporting analytics and dashboards," notes Vavasseur, because these will drive value out into the business. So even if you can't get all that you want from your TMS, you might find you can get all that you need.

Lesley Meall is a freelance journalist specialising in finance and technology