

# GAINING A GREATER INSIGHT



THE ACT AND ERNST & YOUNG TEAMED UP FOR THE TREASURY OPERATIONS AND FINANCIAL RISK MANAGEMENT SURVEY, TO PROVIDE A BROAD PICTURE OF TODAY'S PRACTICE. **DANIEL MOORE** REVEALS ALL.

In the current economic environment, every part of every organisation needs to assess its performance, and treasury is no exception to this. The type of questions which need to be posed about treasury operations are:

- Is it operating efficiently, given the requirements of the organisation?
- Could the efficiency be improved by increased use of technology, by re-engineering the processes or by outsourcing some aspects of the function?
- Is it delivering value to the bottom line?
- Could it enhance the competitive position of the company by improving its financial risk management strategies?

The answers to these questions come from a critical assessment of how the function operates. But a useful contribution to this assessment is to compare treasury operations with those in other organisations. With this in mind, Ernst & Young and the Association of Corporate Treasurers (ACT) have decided to carry out a survey of practice and anticipated future trends in treasury operations.

We anticipate that the results of the Treasury Operations and Financial Risk Management Survey will prove invaluable in helping treasurers to assess their own position and understand how others are dealing with the issues.

## WHAT IS THE SURVEY OUTPUT?

As well providing a broad picture of the industry, there is the possibility of free, individual benchmarking for those who participate in the survey. Depending on the nature of the question asked, the most valuable benchmark data may be treasuries in the same industry, treasuries of a similar size or the entire sample. We will endeavour to use the data that will be most useful for each question.

## HOW DO I COMPLETE THE SURVEY?

The survey can be found on the ACT's website, [www.treasurers.org](http://www.treasurers.org). All ACT members will also receive a reminder and a link to this in the

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February ACT email. The survey can either be completed online and returned by email, or you can print it out and return it to us by mail or fax. The survey can also be found on the Ernst & Young website [www.ey.com/uk](http://www.ey.com/uk).

Please ensure all completed responses are with us before the end of February. All replies will be treated with the utmost confidentiality and no information will be passed on to third parties.

Ernst & Young will then analyse the responses and provide the results in time for the UK Treasurer's Conference in April, in Brighton. The final report will be made available on the ACT's website at [www.treasurers.org](http://www.treasurers.org) and Ernst & Young's site at [www.ey.com/uk](http://www.ey.com/uk). In addition, the May edition of *The Treasurer* will include a summary of the main findings of the survey. If you request it, your individual benchmarking report will be with you in May.

## WHAT WILL COME OUT OF THE SURVEY?

We don't know what the outcome will be – which is why we are carrying out the survey – but it will definitely be interesting and hopefully provide some insight into what treasury operations of the future will look like. The key issues are:

- Will all deals be automatically transacted through online dealing systems?
- Will treasurers spend more time on strategic and commercial issues?
- Will they be managing a broader spectrum of risks?

In short, we aim to paint a clear picture of treasury operations today. This picture will be a snapshot of different sized operations, owned in different jurisdictions, operating within the full range of commercial, not for profit and public sectors.

The insights we are looking to achieve into treasury operations come under six broad headings:

- structure, staffing and reporting;
- financing risk management;
- control of the treasury function;
- treasury performance; and
- current and expected direction of treasury.

Some of the questions we hope to answer under each heading are outlined below.

**STRUCTURE, STAFFING AND REPORTING.** Most organisations have a dedicated treasury operations and FRM function. But how many people do they employ? Do they have a divide between the front and the back office? Are they risk-averse or risk-assuming?

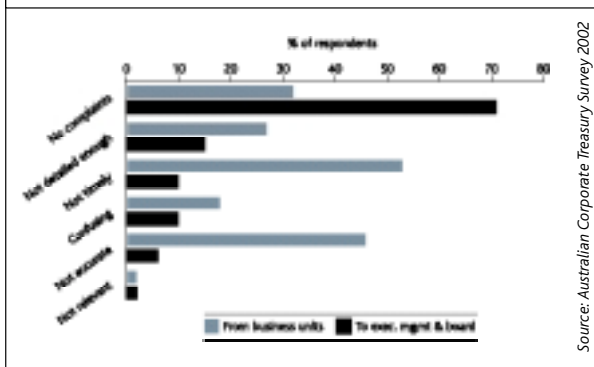
Reporting is an important activity for many treasuries. Consequently, the relationship with the Board (where policy is approved and where information is reported) and the business (where much information comes from) are both vital.

A similar survey by the Finance and Treasury Association in Australia (FTA) late last year gave the results on satisfaction with these flows illustrated in *Figure 1*.

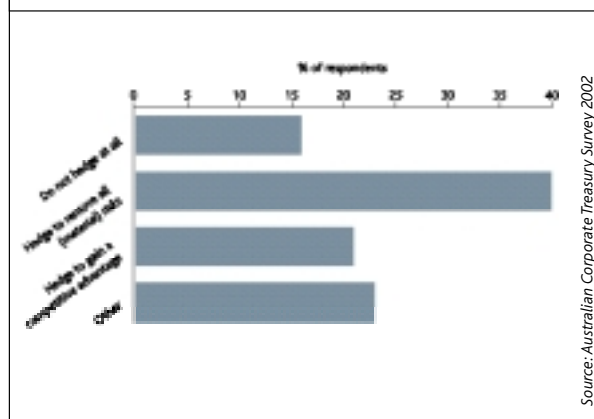
**FINANCIAL RISK MANAGEMENT.** What is the most important risk to your treasury? Is it cash and liquidity management? Have you considered the impact of IAS 39/FAS 133? Will it cause you to rethink your hedging activity? How do you manage these risks? Do you hedge and if so why and to what extent? Some of the answers from the FTA survey are illustrated in *Figure 2*.

**FUNDING AND INVESTMENTS.** Effective liquidity management is enhanced by a robust and meaningful cashflow forecast. Over what time frame do you perform cashflow forecasting, and are you satisfied with the forecasts? How does the mix of funding vary between companies? We would expect that committed facilities >>

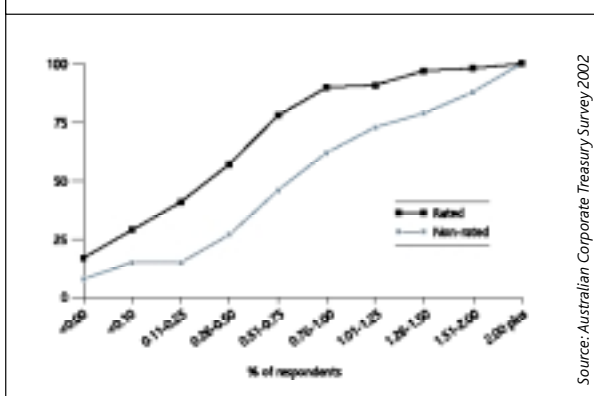
**FIGURE 1**  
SATISFACTION WITH INFORMATION FROM BUSINESS UNITS AND PROVIDED TO EXECUTIVE MANAGEMENT & THE BOARD.



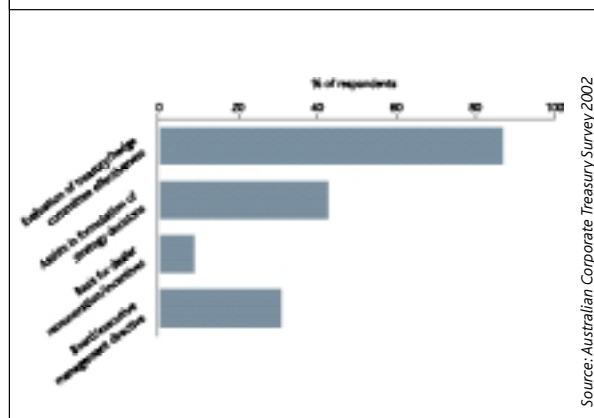
**FIGURE 2**  
RISK MANAGEMENT APPROACH.



**FIGURE 3**  
AVERAGE CREDIT MARGIN FOR RATED AND NON-RATED RESPONDENTS.



**FIGURE 4**  
REASONS FOR MEASURING PERFORMANCE.



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**'EVERY FIRM THAT HAS AN EXPOSURE TO FINANCIAL RISK SHOULD HAVE A POLICY THAT COVERS THE IDENTIFICATION, MEASUREMENT, MANAGEMENT, MONITORING AND CONTROL OF FINANCIAL RISK'**

<< are the most common form of liquidity support across members' companies as a whole. How much margin do you pay for these facilities? The results from our Australian counterparts appear in *Figure 3*.

**CONTROL OF OPERATIONS AND FRM.** Every firm that has an exposure to financial risk should have a policy that covers the identification, measurement, management, monitoring and control of financial risk. What does your policy look like? Other key controls are segregation of duties, Standard Settlement Instructions and confirmations. Some organisations we see perform well in these areas; others have significant room for improvement.

**TREASURY OPERATIONS AND FRM PERFORMANCE.** Within your regular reports to the Board or its Treasury Committee, how much information is included on comparing performance with the original plan? What are the possible reasons why treasurers measure treasury performance? (See *Figure 4*.)

**CURRENT AND EXPECTED DIRECTION OF TREASURY OPERATIONS.** What are the drivers and impact of change in your treasury operations and financial risk management? For example, if you looked into the future, would you anticipate greater involvement in energy risk management or overall business risk management?

## ESTABLISHING BENCHMARKS

Whatever the results of the survey, I feel that everyone who participates will learn a great deal more about their colleagues. Hopefully, this will give them assurance that they are on the right track; maybe it will give them food for thought. Only by completing the survey will you know. The more people who respond to the survey, the more powerful it will be.

Please be assured, again, that your individual survey response is strictly confidential and will not be disclosed to any other party. The investment of your time will enable us to continue to establish the benchmarks for the profession. If you have any queries about the survey, please do not hesitate to contact Daniel Moore at Ernst & Young on 020 7951 8023 or Mike Henigan at the ACT on 020 7213 0723.

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*The survey is available at [www.treasurers.org](http://www.treasurers.org) or [www.ey.com/uk](http://www.ey.com/uk)*