

TMS goes back to Basics

THE TREASURY TECHNOLOGY MARKET HAS SEEN A FLURRY OF ACTIVITY FOLLOWING CHANGES IN REGULATION. MICHELLE PERRY REPORTS ON WHAT TREASURERS SHOULD BE LOOKING OUT FOR.

Executive summary

- Regulatory pressure is forcing treasurers to review their technology needs.
- Corporates are moving away from multiple treasury systems and are predicted to move away from the extensive use of spreadsheets.
- Focus of many treasury products currently is on derivative hedging and risk management with competition increasing in that area.
- Technology suppliers say that treasurers from industries not traditionally seen as active buyers of Treasury Management Systems (TMS) are looking to purchase.

Regulatory and legislative developments in the world of accountancy and financial reporting are inadvertently affecting a host of treasury issues, leading to significant changes in the way that technology is being used and implemented within treasury departments.

Over recent years many corporate treasurers have used a variety of different treasury management solutions to help them do their work. This mish-mash was due to rapid advances in technology and a variety of different providers offering a mixture of solutions. However the latest reforms to financial reporting and accounting rules implemented in the US and Europe – notably the Sarbanes-Oxley Act (SOX) and International Financial Reporting Standards (IFRS) – have resulted in a growing number of companies looking to harmonise their processes.

“Treasurers are looking for highly integrated solutions. Auditing pressures, which are a spin off from SOX, are driving this but also there’s a general push for more control and transparency,” says

Kelvin Walton, principal sales consultant at Richmond Solutions, treasury software provider. (See *Box 1* for client list of technology providers.) “You can feel treasurers under pressure to improve processes through automation,” Walton adds.

US officials drew up SOX following a spate of accounting scandals at US corporates between 2001 and 2003. It requires increased and heightened corporate control environment, greater transparency surrounding internal controls and places much greater personal responsibility for the controls on the company directors. The law also affects any foreign companies listed in the US. Those corporates without a dual-US listing are not escaping from efforts to tighten controls, as European Union officials are currently working on SOX-type law for member states.

Such a fundamental change has required companies to revisit their technology solutions in order to harmonise not only internal processes but also the software solutions they use. Reporting now

has to be right and it has to be timely. But there are myriad obstacles to overcome first. Multi-nationals often use a variety of different providers within the same country, not to mention the use of different systems and providers in the different geographical regions in which they operate.

"Some treasury departments have multiple systems in-house. They have, for example, payments in Enterprise Resource Planning (ERP) and then other Treasury Management Systems (TMS). But they have big problems integrating those systems. Then there's the geographical aspect. Companies in different locations will have different systems and providers," says Thomas Bergqvist, Chief Marketing Officer at Trema, a treasury and asset management software provider.

Set up in 1992, Trema, with 100 corporate, banking and government clients, has seen TMS evolve over the years. With a variety of different solutions on offer for various aspects of treasury, the company says it is now working with many of its existing clients helping them replace different products with one platform.

"With SOX companies need transparency and control, so if the CEO or CFO wants to know the total risk of a certain transaction they will want one amount at one time, not one from Japan and one from Argentina etc," says Bergqvist.

Bergqvist sees the current climate for treasury solutions as a matter of going back to basics, gathering existing systems and arranging them in one platform, rather than designing hugely sophisticated software systems. Others however don't agree, arguing that new developments call for increased sophistication in technology.

One thing all TMS providers do agree on – and that is their distaste for spreadsheets. Indeed most providers argue that spreadsheets – the traditional tool of the treasurer – will soon be a thing of the past.

"Spreadsheets are cumbersome and prone to errors. Building and comparing hundreds of scenarios is difficult to do in spreadsheets," says Nigel Youell, Marketing Director at Hyperian UK and Ireland.

Reval, a US-based financial technology company, has developed HedgeRX, a web-based system solution for derivative hedging and risk management following changes to accounting rules on derivatives in the US.

The product provides front-to-back office processing of foreign exchange, interest rate, energy, metal, and agricultural derivatives and underlying exposures. According to many treasurers, it is one of the most comprehensive tool available to comply with the US accounting standard FAS 133 *Accounting for Derivative Instruments and Hedging Activities* and the International Accounting Standards Board (IASB) standard IAS 39 *Financial Instruments: Recognition and Measurement*. It can be delivered over the internet or on a corporate intranet.

Reval is very bullish about its offering. "TMS vendors have been promising to deliver an IAS 39 solution so that treasurers can comply with the complicated standard but nothing worthwhile has appeared yet. We have a system that is tried and tested," says Peter Reynolds, European Sales Director, Reval. Other technology providers are beginning to market their own solutions in the US but Reval claims that it has stolen a march over competitors in this particular field. The company was set up six years ago and has over 60 clients worldwide. But it isn't deluding itself over competition in the TMS market.

"Some companies have massive cash requirements meaning that we are not looking to replace their current systems. What we are looking to do is show them how we can simply deal with the IAS 39 issues, from inception and ongoing documentation all the way through to the debits and credits, and seamlessly link that into their current cash management systems. As we are an Application Service Provider (ASP) this process is non-intrusive on companies IT infrastructure meaning that implementation is quick and efficient," claims Reynolds.

ARE TREASURERS AWARE OF WHAT TECHNOLOGY CAN DO FOR THEM? Youell says many aren't aware of the sophistication of new treasury solutions. He cites his company's product Strategic Finance, saying: "The biggest problem is that because nothing like this has existed before, people don't know what it can do for them".

As the role of treasurers evolves, Youell argues that they will need more sophisticated technology to be able to take a more strategic, proactive role within the company, especially treasurers. In particular, he suggests treasurers with acquisitive companies need to know how technology can help them with their operations. But it isn't just fast growing companies that are looking carefully at what TMS can offer.

Walton says: "Companies in a range of sizes and industries, such as retail and publishing, that may not have been active buyers are now moving into the market. There's a combination of buying practices at the moment: some companies are getting add-ons to existing systems and others are implementing new systems."

Ultimately, however, whether corporates are going to upgrade their solutions or add new ones, flexibility in technology is vital as rules and regulations in corporate governance and financial reporting continue to evolve.

BOX 1. RECENT TECHNOLOGY DEALS. What's on offer and who's using what

In May Pennon Group Plc became **Reval's** ninth UK client to take up HedgeRX for interest rate risk management and IAS 39 reporting. Pennon Group, owner of both South West Water and Viridor, is a FTSE 250 company. Pennon Group has over £1bn of borrowing, mostly floating, and habitually needs to swap material amounts into fixed rate. Alliance Unichem and National Grid Transco are also Reval customers using HedgeRX.

Richmond Software counts among its new customers Agilent Technologies, German company Bernard Schulte, Foreign Currency Direct, Metzeler Automotive Profile Systems and PNMR. Since October last year Richmond had also signed up British Vita, Grosvenor, Sharp Electronics Corporation, Taylor Nelson Sofres, TI Automotive, Warner Music. Existing clients Bank of Ireland, Chelsea Building Society and RAC have also bought additional products to their existing Richmond solutions.

Hyperion Ashtead Group, one of the world's largest equipment rental groups operating in the US, the UK, Singapore and Canada, recently signed up for Hyperion Strategic Finance.

Summit is offering Summit Transact ASP, a lower cost product. It has just started pushing out this product to the UK corporate market. Veolia Environment, a French utility company, Peugeot and Casino, a French supermarket chain, have all signed up to the technology.

Trema Merck, Sharp & Dohme, Diageo and Travelex figure among Trema's latest clients to take up its suite which includes five integrated modules allowing the user to add functional extensions through a modular approach.

SunGard, one of the larger providers of treasury solutions, offers internet/intranet-based currency and commodity trading and risk management solutions. Its AvantGard range offers different levels of sophistication in treasury management solutions.