

# A sound core



**PETER MATZA** REPORTS FROM THE *TALKINGTREASURY* CONFERENCE IN THE MIDDLE EAST.

Whereas previous *talkingtreasury* events – held across Europe and in Hong Kong – were almost completely comprised of treasurers and corporate finance professionals from non-financial corporates, the delegates in Dubai also encompassed a wide range of governmental and government-owned organisations and enterprises reflecting local and regional business culture. What remained uniform, though, was the enthusiasm of delegates for the sharing of professional knowledge and experience.

The opening session of the conference set the tone for the day with a comprehensive argument from Matthew Hurn, group treasurer of Mubadala Development Company, in favour of a wide-ranging, proactive role for the treasurer and corporate treasury. Mubadala manages a multibillion-dollar portfolio of local, regional, and international investments, which is a reflection of Abu Dhabi's drive for economic diversification.

**FUNDAMENTAL QUESTIONS** The presentation raised some fundamental questions about treasury which, in turn, will reflect the DNA of an organisation and its approach to business and risk.

- What constitutes the essence of treasury?
- Who is the treasurer?
- What or who defines their areas of expertise and responsibility?

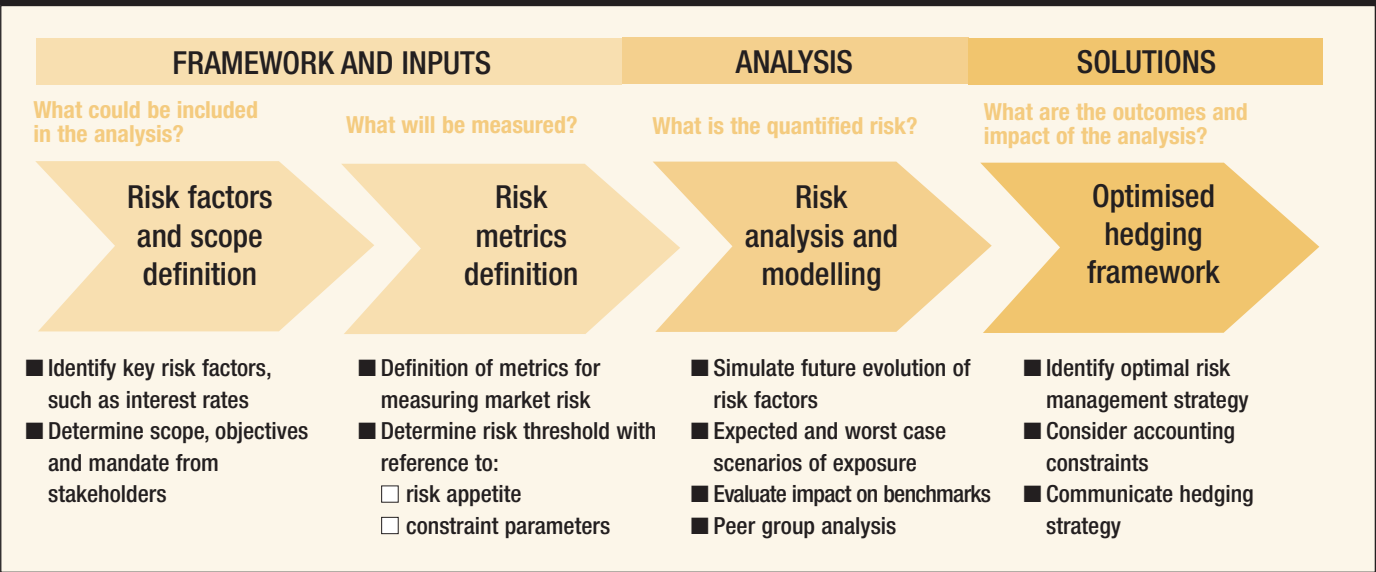
## Executive summary

- The ninth *talkingtreasury* forum made its debut in the Middle East in the spectacular surroundings of the Madinat Jumeirah resort in Dubai. The event, which was sponsored by Emirates NBD and HSBC, saw more than 100 delegates meeting to discuss and debate financial management topics of common interest from a regional and global perspective.

The premise of the argument is that the treasurer must build a management structure in which operational (or core) treasury functions are the base for a broad relationship between centralised financial management and the activities of the organisation, leading to the creation and protection of shareholder value. More importantly, the education, experience and skills of a treasurer make him or her the most suitably placed business executive to create a comprehensive risk management approach to financial and business management – to become, in other words, the risk champion of the business.

The panel discussion that followed was lively, with a number of delegates offering differing views on how they saw the role of the treasurer both in terms of specific functions as well as strategic

Figure 1: Components of a risk management strategy



responsibilities. One particular example focused on whether economic or accounting outcomes should drive treasury actions, but all agreed that the treasurer should be at the heart of those debates, with one delegate saying: "The value for money proposition will always get an audience from a CFO!"

The second lead presentation was from Andrew McMichael, group treasurer at Agility. This Kuwait-based logistics and government services provider has grown revenues over 100-fold in the past six years to \$5.9bn (£4.1bn) and the case study highlighted the need for the treasury function to be built on secure foundations in terms of security, controls, systems and strategic policies.

The presentation offered some evidence that growing pains in fast-developing organisations are usually reflected in working practices being far ahead of any existing policies.

In addition, where there are traditional elements of cultural or business sector practice within a business, the approach to addressing these issues and creating a contemporary management structure needs to be clear, robust and have executive leadership. Given these principles, staff will quickly see the benefits in implementing processes which will enhance treasury's role in supporting the wider business.

The presentation prompted a wide-ranging discussion which included both detailed examples as well as some broad outlines of policy. In general, however, the consensus in this area was that treasurers faced with implementing new policies and procedures should concentrate on three key messages:

- resources: people and systems;
- training; and
- management commitment.

An overlooked benefit of a comprehensive reworking of treasury is the confidence that executive management will gain in a department based on successful internal and external audit review. This in turn will allow the treasury to increase its presence within the business by demonstrating effective and efficient financial management.

**CASE STUDY** The debate concerning policy and process led neatly to the first case study of the afternoon. Daniele Vecchi, senior vice

president of group treasury at Majid Al Futtaim, presented a comprehensive approach to selecting a treasury management system (TMS) to complement the development of treasury activity with the business. Majid Al Futtaim is an AED28.4bn (£5.5bn) food retail, hotel and shopping mall business in the Middle East and North Africa; the group's assets include the remarkable Mall of the Emirates in Dubai with its indoor ski slope!

The initial element of the presentation contained some interesting comment on treasury structure. There is, of course, no set paradigm for any given organisation, and treasury literature offers no specific guidance on whether, for example, a business and its financial management should be more, or less, centralised. Majid Al Futtaim's approach is that treasury acts as an in-house bank and is the exclusive interface between financial markets (investors, lenders and other related parties) and the group's operating companies. Embedded in these relationships is the need for treasury to add value. Ultimately, the treasury goal is to ensure the long-term financial sustainability of the organisation and to offer the efficient and effective treasury services implicit in the role of the treasurer.

These services include operational treasury processes such as transaction banking, financial risk management (interest rates, foreign exchange) as well as strategic corporate aims such as EVA (earnings value added) management as well as the risk management approach discussed earlier during the conference.

For example, this would mean that treasury has responsibility for ensuring that banks provide cash and financial risk management services across the business where and when required but under centralised direction. In the case of lenders/debt investors, the treasury role is to ensure a secure funding infrastructure with available liquidity in place.

The key for Majid Al Futtaim to draw all these strands together was the implementation of a TMS.

Majid Al Futtaim invited TMS suppliers to submit proposals for a system. Two particularly key elements for the company were:

- weighting the relative importance of required outputs against the underlying functionality of the system, with the treasury closely examining the importance and relevance of its reporting; and
- highlighting the costs of each element of implementation.

The subsequent panel discussion illustrated the various approaches taken by differing organisations in addressing the need for relevant, affordable and scalable technologies. The effective management of financial flows – payments, receivables, liabilities and assets – requires more than simply the treasury delivering its processes. A spirit of co-operation – between systems, people, management approaches – is required; this represents for treasurers the opportunity to develop and utilise professional skills in project management.

The final session of a fascinating day was led by Alastair Fiddes, head of asset and liability management for Abu Dhabi Investment Company (ADIC). The company is one of the leading financial services firms in the Middle East and North Africa. Owned by Abu Dhabi Investment Council, ADIC was the first investment company to be set up in the United Arab Emirates, and has been investing in the region for over 30 years. Fiddes' theme was a return to some of the earlier comments on risk made by Matthew Hurn when discussing the role of the treasurer. In particular, the focus was on financial risks, defined as market, interest rate, exchange rate, credit and liquidity (with refinancing risk included). It must be accepted that interdependencies with other corporate disciplines will affect the treasurer's freedom of manoeuvre with the risk management strategy and opening up and maintaining dialogue with the business is essential for success. Broadly, however, good practice will recognise the key steps required to create and embed an effective financial risk management framework that interlinks with other risk management capabilities of the company. These include:

- understanding the appetite for risk in the business;
- identifying the risks;
- measuring possible impact; and
- undertaking necessary response: accept, transfer, mitigate or avoid.

This risk management approach is widely quoted, although anecdotal evidence from speakers and delegates would suggest it is not as widely implemented in the Middle East region. In particular, there was considerable discussion as to how exactly a business or organisation goes about the self-appraisal required to determine its risk appetite. The advice from the panellists of this session was that treasurers can bring their experience to this exercise by not only using a variety of financial tools to simulate a range of financial outcomes but also through their broad knowledge of a business and its drivers.

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## Figure 2: Treasury management: why change?

- Standardisation and automation
- Reduced error rate
- Lower fraud risk
- Best practice
- Improved management information/reporting
- Cost savings:
  - Ability to scale
  - Better deal execution
  - Improved deal rates
  - Lower interest costs

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### Dates for your diary

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5 March 2009

*"A good overview for newcomers to treasury."*

Gwen Armstrong, Treasury Operations Executive, Lloyds of London

This course develops knowledge of the core elements of the corporate treasury function. It outlines the key issues and uses practical examples and non-technical language to aid understanding.

#### The Nuts and Bolts of Cash Management – Bestseller

31 March 2009

*"Excellent coverage of all cash management topics... My attention was kept throughout due to a very knowledgeable and enthusiastic trainer."*

Daniel Mitchelmore, Tax and Pensions Manager,  
Channel 4 Television Corporation

This course provides a broad understanding of the basic principles and practices of cash and liquidity management. It enables you to evaluate where value may be lost through poor cash management, the benefits that arise through good practice and where to focus your attention to increase value.

#### Payments Services Directive – **\*\*New course\*\***

30 June 2009 (Morning)

The Payment Services Directive comes into force in November 2009. This essential update will enable you to understand and prepare for the impact of this change in legislation on your business and on your bank relationships. This course provides an overview of what PSD means to corporates, the opportunities it offers for efficiencies and greater transparency, and the threats to realising those opportunities.

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