

# Ringling in the changes



**MICHELLE PERRY** TALKS TO RAFFI BASMADJIAN, DEPUTY GROUP TREASURER (LEFT), AND OLIVIER BALENSI, BACK OFFICE TREASURY MANAGER (RIGHT), FRANCE TELECOM ABOUT THE SHIFT TO CENTRALISED TREASURY SYSTEMS.

Raffi Basmadjian has had his work cut out for him over the past few years. What with the evolving role of the treasurer and a flood of new regulations and legislation coming from all corners of the world, Basmadjian, Deputy Group Treasurer of telecoms giant France Telecom, has been facing multifarious challenges.

Besides its acquisitive trail of the last few years, France Telecom, owner of both mobile network provider Orange and internet provider Wanadoo, has had to deal with the fundamental switch to financial reporting currently sweeping the European Union's roughly 8,000 publicly listed companies, Sarbanes-Oxley compliance and treasury centralisation.

Despite the furore over the controversial rules on accounting for derivatives IAS 39, Basmadjian says the treasury department isn't seeing "any commercial impact" of IAS 39 on treasury work. This, says Basmadjian is because the company prefers to use plain risk management techniques.

"We don't like to use too sophisticated instruments," affirms Olivier Balensi, Back Office Treasury Manager, and Basmadjian's right hand man.

and integrated system was probably the most challenging and the most demanding project. The adoption of SWIFTNet is the last and logical result of this trend." France Telecom enlisted the expertise of Trema, global provider of treasury and asset management software, to take them through the large scale project.

Régis Castagné, Regional Vice-President, Trema says: "Between France Telecom and Trema we share a vision of where corporate treasury is going and that is that the whole marketplace is moving towards centralised treasury systems."

The centralised treasury system France Telecom adopted is a web-based technology allowing users to manage subsidiaries in a single system. It's a move that is increasingly vital to France Telecom's ever growing empire; in April, France Telecom announced its increased stake in Orange Romania from 73.27% to 96.63%, to name but one of its recently expanded assets.

Despite the complexity of the shift to centralised treasury systems, Basmadjian and Balensi, who he hired ten years ago, make for an efficient double act to oversee the process. It was after all the Deputy Group Treasurer who managed to entice Balensi, who previously worked at JP Morgan, into the world of corporates.



He adds: "We always have been very cautious on the type of operations we were performing on the markets. For instance, the golden rule has always been to keep our operations as simple as possible. The variety of operations could be large, but we only enter in operations we can easily price and control. We don't perform too complex operations. We are led by simple and basic objectives such as providing the liquidity and the risk management needed to the group. Our objective is not to add risk by entering into financial operations disconnected with the telecom business."

If there was ever a time to move to a new financial reporting regime then France Telecom couldn't have timed things better, from a treasury perspective.

Basmadjian, who has been with France Telecom 14 years, has recently completed a large-scale, fundamental project centralising the treasury systems around the globe for France Telecom.

"The most challenging project I've worked on was to conceive a centralised and modernised treasury management system moving France Telecom treasury from a domestic to a global management system, along with the international expansion of the group," says Basmadjian.

"Technically, a big step to take was to make the move from the workstation world to the client server mode. It was a huge cultural change for the group; to use a shared system as opposed to a fragmented one.

"From a business standpoint, the implementation of a centralised

Treasury developments have kept them busy ever since. "To implement a universal treasury management system based on open systems and to have the various entities of the group using it has been very challenging. The variety of elements to take into account – technical, legal, tax, treasury and cash management – is impressive and succeeding in managing all this is very rewarding in itself," says Balensi.

**ADAPTING SKILLS** Centralisation is a growing trend among treasury departments and does mean some departments are slimming down their treasury teams, however experts believe this is not a trend that will inflict huge jobs losses on treasurers. But treasurers are having to prove their worth and adapt their skills to suit accordingly.

Both Basmadjian and Balensi have embraced the changing face of treasurers. "We are doing more and more things that we previously weren't obliged to do, like accounting, tax and legal considerations. We have become more international, more involved in the accounting operations, and more technical regarding the way to process treasury in various countries," explains Basmadjian.

Advanced technology has however, says Basmadjian, improved their working lives in many ways.

The switch-over to the centralised treasury system was a long and complex process but it offers two key benefits – heightened security and tighter controls – that will only improve a treasurer's life.

Castagné says: "If you have different systems across the group

then there are less controls and security. Now it's much more important in terms of Sarbanes-Oxley."

"The project with France Telecom started three years ago. It took a year to select a system and then a year to implement it and they started using it last June 2004. With the implementation of TremaSuite, now FT has built up a backbone, a true straight through processing (STP) suite; all transactions are in one place within the group. In the first phase with FT we covered everything from front to back office and in the second phase we drilled down further into each functionality," explains Castagné.

**NO IDLE CASH** With controls and accountability the absolute crux of a treasurer's role, Basmadjian says they are very supportive of the new US laws on controls, especially in the wake of high profile scandals in the US and Europe.

"Treasury has been and will stay a domain where control, accountability and procedures are corner stones. The Sarbanes-Oxley Act, for us, is just adding an additional layer of controls we were already performing. But we understand the concerns outlined by Sarbanes-Oxley Act, due to the frauds in the US," says Basmadjian.

The benefits of the new system are however far outweighing the cost and effort. Balensi says IT costs are down because all FT users are sharing one single technical platform provided through the web. Information is also more efficiently transmitted across the group because of the standardisation of the processes.

And of course crucial to the treasurer there is less 'idle cash', better control on bank fees and improved automated audit trails, adds Basmadjian.

Trema's Castagné says: "The first task to a treasurer is to make sure that money is used for the group benefit, to ensure that money in one division is used where it is needed in another division. With a chunk of money you can get cheaper credit in the market place. It's a way of making sure you don't have idle cash anywhere forcing treasurers to go to the market first."

For those wary of centralisation, Castagné counsels that such a move doesn't always mean a centralisation of power in fewer hands.

"It doesn't mean centralising all the power. It just means the flows of information are centralised through the

**"WE ALWAYS HAVE BEEN VERY CAUTIOUS ON THE TYPE OF OPERATIONS WE WERE PERFORMING ON THE MARKETS. FOR INSTANCE, THE GOLDEN RULE HAS ALWAYS BEEN TO KEEP OUR OPERATIONS AS SIMPLE AS POSSIBLE. THE VARIETY OF OPERATIONS COULD BE LARGE, BUT WE ONLY ENTER IN OPERATIONS WE CAN EASILY PRICE AND CONTROL."**

web. You can then share the information and power," he explains.

It is an area where Basmadjian and Balensi have had to allay the concerns of their subsidiaries.

"The main challenges were to implement new processes such as netting, using a central platform as opposed to a local one or to

dematerialised as much as possible all the transactions to increase the STP rate. We very quickly found out that we should provide the subsidiaries with guarantees regarding the services provided by central treasury. To overcome all the concerns, we decided to put in place a very complete documentation for the use of the technical platform over the web. In a sense, the approach was almost as technical as psychological," says Basmadjian.

The challenges are however only just beginning. Looking forward both treasurers are focusing on ensuring compliance with Sarbanes-Oxley, having the best accuracy in forecasting and helping with the smooth implementation of IFRS.

For the meantime they will maintain their 'risk-averse' approach and hope for a single set of internationally accepted accounting rules and governance regulation; that they say would improve a treasurer's lot.

### The cost of IFRS

In an announcement on 14 April, France Telecom said it expected the transition to IFRS added €6bn (\$7.7bn) in net debt. Net debt at the end of December 2004 was €6 billion more at €49.92 billion, compared with the €43.94 billion previously stated under French GAAP.

Operating profit would be €1.5 billion lower under the newly adopted international financial reporting standards that took effect on 1 January 2005.

France Telecom said its operating profit under IFRS stood at €9.312 billion compared to €10.824 billion under national French rules. The lower than expected operating profit figure has surprised some analysts that weren't anticipating the change because the company hadn't communicated any IFRS predictions.

Still the share price inched up on the Paris exchange from €22.73 to close at €23.23.

