

At the cutting edge



Over the decades, the responsibilities of the treasury department have changed markedly. The role of the treasurer has been reinvented and re-invigorated in recent years. Treasurers now strive to adopt a holistic approach to their roles within their organisations. The so-called silo mentality – if indeed it ever existed – is simply not an option. Cash management had traditionally been the focal point of most treasurers and most responsibilities did not deviate from this remit.

However, the driving forces of globalisation and the unstoppable development of technology have made treasury far more complex and detailed, and involve many more aspects of business related to risk management.

"Treasury has got very technical over the last twenty years – and it is clear you need technical experts in the treasury group," says David Blackwood, Group Treasurer at ICI.

At the cutting edge of treasury, those involved must have their fingers on the pulse of new technology, which can be deployed to improve and streamline treasury processes. Having access to up-to-date information in order to manage the company balance sheet should be at the top of the priority list.

POLICY AND STRATEGY The challenges presented by the pension deficit are increasingly important and should be taken seriously, as should the wider issues that affect the business in which they work.

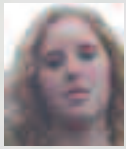
Executive summary

- Treasurers need to take a holistic view of their role and of the risk, finance and operations of the organisation.
- A vital element of treasury practice is identifying the key stakeholders and their risk appetite.
- Communication and networking both internally and externally are vital tasks for the modern-day treasurer.
- Treasurers have to look to adapt to new roles and new responsibilities.

So how does a treasurer ensure the treasury department is run as efficiently as possible while keeping up to speed on all the latest trends and technology?

David Swann, Group Treasurer of BAT, says that the balance between equity and bondholders is of vital importance to a treasurer. Getting to grips with this early on will define how a treasury department operates in terms of funding policy and strategy.

"You have to work out who your key stakeholders are and what their risk appetite is," he advises. "The role of the board is



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links, the treasurer can use a network of people to contribute to the daily processes.

Swann puts emphasis on risk and how this is best dealt with and viewed in a treasury department. “The core skill of the treasurer is the ability to identify and manage risk,” he says. “A treasurer will be good at thinking about risk as a strategic thinker able to assess the group risk appetite. This allows you to fully take on board the bigger picture of the company.”

Blackwood supports Swann's view of the impact of understanding risk and it being a key skill for treasurers. “For me, the main articulation of risk for any company is the chosen position for the credit rating,” he says. “That is ultimately entirely down to management judgement. However, once this key decision of where you should be is made, the rest of your policies and operational structure should pretty much flow from it.”

GLOBALISATION AND CENTRALISATION Centralisation of treasury functions has made possible some key changes to the role of the treasury, enabling the department to become more streamlined, efficient and generally cost-effective.

More and more organisations have repurposed their company-wide treasury structure and have amalgamated the global treasury processes with the objective of operating with the whole company's interests in mind.

“I think globalisation has presented us with fantastic opportunities to properly concentrate and manage risk,” says Blackwood. “Technology has been the major facilitator of both risk concentration and risk management.”

Centralisation has brought together many different elements of a business and encouraged treasurers to look at their role in a company in a different way. Treasurers are now encouraged to take on a more contemporary, holistic approach to their position and duties in the overall business.

Realising how the business is structured and how treasury processes affect the wider operations of the business is being viewed as a positive step forward in the profession and a key determinant in the centralisation trend.

A HOLISTIC VIEW “Treasurers need to have a holistic view of risks, financial and operational, to the extent to which they affect business values and future cashflows,” says Blackwood. “You don't have to be really knowledgeable about the business, although it helps, but you do need to have a good sense of what could happen to business cashflow and value volatility.”

representing the requirements of the key stakeholders, shareholders and bond investors.

“The risk associated with the financing and balance sheet issues will be a function of the risk appetite in the organisation. The extent to which risk may be retained by an organisation is usually a function of its profit.”

Defining risk appetite and understanding key balance sheet issues requires a specific skill set that shapes the treasury function and responsibility in the company.

Matthew Hurn, Group Treasurer of DSG International, says that a sound knowledge of the business and a strong understanding of the company perspective and goals are important to a treasurer and should have a big impact on the overall treasury policy.

Working closely with other parts of the business, including finance directors and managers from overseas subsidiaries, is important to Hurn. “I work very closely with the finance managers from other locations to ensure that the underlying exposures are understood and reported to me regularly,” he says. “From a centralised treasury responsibility I can do the transaction execution but I am limited in determining and quantifying where and what the exposures are. So I do rely on these managers to pull them together and liaise with my team.”

Hurn argues that the key to this is communication, and this is true of all other areas of treasury. By maintaining strong communication

"The point is that the real balance sheet is not just about debt and foreign currency, but also the operating business that generates the cashflow. Business cashflows can be volatile, and their enterprise value can vary over time. You need to be aware of this and have financial policies in place that recognise this and supports your credit rating target."

Swann emphasises the importance of a sound holistic strategy for the company as a whole and how this should be considered from all perspectives of the business. "It is important to work out what the target balance sheet is and from that what the likely rating would be," he says. "The idea of a strategy is to decide on it, implement it and then follow it consistently. Investors need to be wary of those companies that chop and change their strategy all of the time."

Having a sound understanding of the whole business and ensuring that the treasury department fits into the goals of the company has become increasingly emphasised in recent years.

Hurn says that isolating the treasury department from the rest of the business is not healthy and can work against you. Working closely with operational parts of the business can improve your ability to do your job by providing a broader knowledge and understanding. "I think it is true that you make better business decisions with sound financial acumen. Therefore you make better decisions understanding the commercial business as well."

BRIEFING THE BOARD Getting to grips with the overarching business themes and objectives can be influenced by communication with other divisions and the board.

Maintaining good links with the board throughout the year ensures that all parties are aware of any key developments that could affect the day-to-day running of the company.

"I think briefing the board on issues that impact every day is very important," says Swann. "The board as a whole must understand the policies. On an individual basis, the board members must understand what treasury is and does for the company. As a minimum guideline, the treasury should be reporting to the board at least twice a year."

Swann explains that reports to the board and the audit committee should include details on the strategy and how it is going to be delivered. The board expects the treasurer to be able to provide detail on the risks that could affect the business in the future.

"The board should expect the treasurer to advise on funding strategy in the first instance," he says. "Once it has been agreed, it has to be implemented in a controlled way. A treasurer must always be keeping an eye on the strategy, the controls, and making sure everything is being well managed."

Blackwood agrees that the board should understand and sign off on all aspects of risk management – financial and operational.

"The reality, of course, is that most of the communication with the board takes place via the finance director. I don't think a board would typically have any particular strong view on the detail of what treasury is doing. The board will have a view on key policies, agreed via the finance director, which filters down to the treasury department for expansion and putting into operation."

Dealing with credit rating and being able to influence assigned rating from one of the agencies has become an increasingly important part of the treasurer's role. Assigned ratings have been an increasingly influential aspect of the investment world for many years and can make a big difference to the way the treasurer and the team operate.

Credit rating is a contentious issue that relies completely on the judgement of analysts on the basis of public and (often confidential)

At the leading edge

Adopting a holistic approach to treasury and aligning the strategy with wider business goals is now a top priority.

The increasing importance of technology is changing the perception of treasury and related functions both from treasurers and others. A treasury department that can connect with the rest of the business makes a big difference to how the team operates and the success it will have.

Ensuring the board is aware of treasury policies and what impact they will have on the business keeps communication links strong and stops the treasury department becoming an isolated entity separated from the business as a whole.

The world of treasury has moved from being predominantly about cash management to encompassing a vast range of topics, including pension deficit and optimisation of capital structure.

Continuing professional development is therefore very important to the treasurer and those joining the industry. Treasury teams should always be up to date with industry developments, ranging from regulatory changes to investor trends.

Sticking to the treasury strategy once implemented means all other key decisions made are more easily implemented.

private information.

Maintaining good communication with the analysts at the agencies and being aware of how and why the rating could change is essential. The rating and how the treasurer plans to improve the rating should be a part of the overarching treasury strategy.

"After defining risk appetite, the type of funding policy you adopt should fall into place quite naturally," says Swann. "You may have to think in terms of what rating you are seeking and the cost benefit."

Treasury best practice is a far-reaching and broad topic, which varies from company to company and treasurer to treasurer. Balance sheet issues and risk management methods will be different for each company.

The themes of best practice in treasury encompass the changing shape of the role and how the treasurer can best adapt to these new responsibilities in an efficient way. Responding to regulatory issues and the increasing demands these put on the treasury department is something that affects treasurers worldwide.

The trend to centralise and streamline the treasury function has been a challenge and a positive modern development that most departments have taken on and in many ways have benefited from.

And new issues are arising all the time. A key example of this where the treasury profession has to formulate best practice is the new demands of the pension deficit. How the treasurer can influence this particular issue is becoming an important part of the treasurer's workload. As the years pass, the challenges facing business will change – and so the response of the treasury profession will also have to change.

All these issues will continue to present fresh challenges over the coming years. Discovering new ways to influence and negotiate them will be the topic up for discussion at The Treasurers' Conference in May. Risk management, the impact of international accounting standards, business risk and opportunities, the future of pensions and key developments in treasury will all be issues discussed at The Treasurers' Conference 2006.



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