INTEGRATION AND INTERFACES

PAUL GILMARTIN OF EMAP DESCRIBES HOW THEIR TREASURY MANAGEMENT SYSTEM IS IMPROVING COMMUNICATION THROUGHOUT THE ENTIRE MEDIA GROUP.

Before the 'revolution' I guess we used to be a fairly regular four-person treasury team in a medium-sized company. By some standards, Emap may not be particularly complicated from a treasury perspective; transactional foreign exchange is minimal and the majority of the treasury transactions entered into are loans. But we do manage a portfolio of swap and option contracts that hedges interest rates and converts the currency of debt.

Last year, we had a treasury management system (TMS) that helped us with our administration, but we could hardly be described as being a good reference site for the vendor. The rapid growth of the Emap business placed demands upon the small and recently enlarged team and meant we never seemed to have enough time to invest in our systems and processes. One consequence was that we were completely reliant upon the TMS provider to develop and deliver reports to specification, but this ultimately proved problematic for both parties. Many of the reports were not delivering the desired information, and we were therefore making extensive use of Microsoft Excel to produce the output required. We also found the recording and modification of complex transactions within the system to be a troublesome exercise. We encountered further difficulties in trying to emulate our sophisticated structure of intercompany loans (international tax planning) within that system. As a consequence, our contract database was partial and we were therefore using Excel for daily position analysis, with all the re-keying that entails. That position analysis spreadsheet was religiously updated with the new treasury transactions and bank balances in order to pull together a daily net debt status report (again in Excel). The cash books and accounting records were maintained by the treasury accountant, also using Excel. Each month, after discussion and review with front office, journals were manually keyed into the Plc ledger system.

You can imagine the re-keying, cross-referencing and reconciliation that had to be performed in such an environment. Even something as simple as a monthly foreign exchange rate would have to be entered in numerous different spreadsheets to produce the regular departmental output. The workflow processes were functional but not optimal and we had little scope for further

Emap is a broad-based media business. Its operations comprise consumer magazines businesses in the UK (no.2) and France (no.3), a portfolio of business-to-business activities in the UK (no.1), UK radio (no.2) and further overseas operations in Australia, USA, Singapore and others.

Recognisable UK brands include FHM, Heat, New Woman, Empire, Motorcycle News, Today's Golfer, Smash Hits, Q, Kiss 100, Magic, Nursing Times and Spring Fair.

Emap recently disposed of its US businesses, with the notable exception of FHM USA, for a consideration of approximately $515m. After adjusting for this disposal, group turnover for the last reported full year was £945m and operating profit was £206m (profit margin of 21.8%). A constituent of the volatile media sector, Emap's market capitalisation on 12 October was £1.630 bn. □

integration with our operating divisions.

To cut what could become a very long story short, we recognised our shortfalls and embarked upon a project to re-design our processes and controls with guidance and support from PricewaterhouseCooper. Last autumn, we purchased a new TMS (integra-T) and commenced the configuring and population of the system. As you will appreciate from the above, there were many benefits and improvements that we could achieve.

AFTER THE 'REVOLUTION'. The TMS enabled us to build a controlled environment where we all now use the same source of

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of payments to the EFT application.

We wanted to have some quick successes from the first phase of our system implementation and, for this reason, we prioritised the interface to CrossMar for electronic confirmation matching. This was the easiest of the interfaces to install and arguably the most valuable. We opted to subscribe to the web-based CrossMar service and pay a relatively low per-item cost for the significant improvement this introduction has brought about. We now send files of confirmations for loans, deposits and foreign exchange to the website and the matching process is swiftly completed on-screen.

FIGURE 1
AUTOMATED INTERFACES AT EMAP PLC.

FIGURE 2
CURRENT USAGE OF INTERFACES.
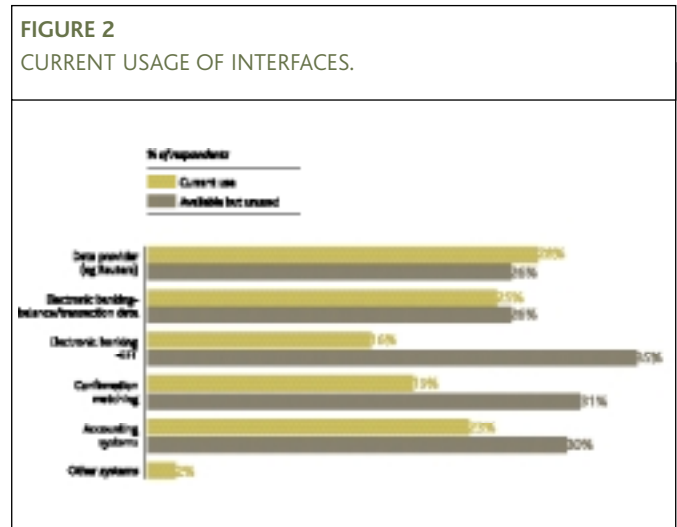
data to prepare our analyses. Given our starting point, this is a considerable advance. Improvements have been seen most notably in the following areas:

- straight-through data processing – we used to re-key deals in four or more different places;
- single version of the truth – no need for front office and finance to compare calculations;
- segregation of duties – we used the introduction of our new TMS to drive the changeover of roles and responsibilities. The integrated system enabled us to segregate the roles with confidence; and
- enhanced control environment – counterparty, bank account and other static data now centrally recorded and maintained.

As you can see from *Figure 1*, Emap has established automated interfaces for bank balances and transactions, market data provision and confirmation matching. An interface from integra-T to our electronic funds transfer (EFT) application is currently under development. Until then, the back office will continue to generate paper payment instruction letters from their queues within integra-T and to use these as supporting documentation for the manual entry

The London Code of Conduct currently governs dealings between participants in the wholesale markets and states that confirmations should be dispatched, received and matched within a few hours of the deal being struck[1]. We have certainly observed that many counterparties are extremely fast at providing the details to CrossMar, in some cases within minutes. The predecessor for the CrossMar matching service was FX Match, but the latest offering also enables confirmations for money market loans and deposits, discounted bills and a wide array of instruments to be electronically matched[2]. By removing the requirement for manual signatures on paper confirmations, senior management was made aware of the swift and tangible improvement in our control environment. The back office has now ceased preparing confirmation paperwork, gathering documentary supporting evidence, chasing signatories, faxing banks, filing all of the paperwork and manually matching our confirmations line-by-line against incoming faxes.

The interface of exchange rates, interest rates and volatilities from Reuters was always in our plans, although perhaps not considered to be the most urgent. In the end, as integra-T was constantly striving to value all of our contracts, we decided to save ourselves from numerous alerts and error messages during our system configuration and installed this interface sooner rather than later! We didn't quite provide the right interest rates at first (some of our interest rate swap valuations were decidedly peculiar) but this was easily rectified later when we had time to consider how integra-T was interpreting our input.

With this interface now fully operational, we are able to revalue any/all our outstanding contracts directly from integra-T. This is a considerable benefit that may become even more useful in the near future, given the preference for fair value accounting shown by the

various international accounting bodies. We are also making use of this functionality in our internal assessment of counterparty exposure.

The most difficult interfaces to establish were for our bank account balances and transactions. It is probably fair to say that Emap are guilty of having too many bank accounts – the consequence of a decentralised business unit structure and an acquisitive history (a bank account closure programme is underway). Fortunately, we can now control and manage these accounts and pools much more easily and reliably using the cash worksheet and liquidity management screens within the cash management module of the TMS.

These screens are populated with the cashflows arising from all of the recorded treasury contracts, trade flows (or business-related forecast cash inflows/outflows) and updated bank balances and transactions. Drill down and a wide choice of viewing formats make this functionality one of the most significant advances that the front office has introduced.

The religiously updated position analysis spreadsheet mentioned earlier is now redundant. The back office have benefited from the interface through its use of the cash books and automated bank reconciliation functionality within integra-T. A further advantage from the interfaces of the bank data is that we can search for particular transactions in a more flexible way than was previously possible. For example, by using Crystal reports (or ISQL) we can search for particular receipts/payments across all our bank accounts within a specified date range[3]. As a result, we can now be less concerned with the on-screen functionality offered by a bank balance reporting application itself, so long as the export capabilities are strong and tested.

We currently have no plans to interface the accounting journals from integra-T to our general ledger. Our intention is to use integra-T to prepare and maintain the accounting entries for the treasury transactions and for it to prepare a monthly summary journal report from which the back office will re-key journals into the general ledger. We propose to retain all of the detail in the accounting module of integra-T and to re-key only the very high-level summary output each month. The small transfer volume prevents this interface proposition from being a worthwhile investment.

INTERFACES AT OTHER TREASURIES. Deloitte & Touche undertook a survey of 250 UK corporate treasuries last year[4]. *Figure 2* displays the surprising conclusion that very few treasuries have created interfaces between their TMS and other systems.

I am genuinely surprised that the most popular interface was for market rates, particularly given that one of the key conclusions from the survey was that systems were being used primarily for deal administration and control, as opposed to arguably more value-adding functionality such as risk management. Risk management activities would require updated rates, but the logic is less persuasive for deal administration and control.

It is disappointing that each response in the table accounts for only a 50% of respondents. I imagine the other 50% were either too lazy to answer or felt that their system could not offer such an interface, or any combination thereof. In any case, it would appear that the take-up remains low, therefore suggesting that opportunities exist for greater efficiency within treasury departments.

INTEGRATION IN A WIDER SENSE. Emap does not have regional treasury centres around the globe. The group does, however, have some personnel based both in the UK, Europe and other more distant locations that manage local cash balances and intercompany loans and perhaps have exposure to limited foreign exchange dealing with treasury. The next version of integra-T will be fully web-enabled, so permitting such remote users to access the TMS directly. Emap is not blessed with a worldwide wide area network (WAN) so the use of internet-based applications can be particularly attractive. In advance of this great leap into the future, we have been struggling with trying to export and distribute our new Crystal reports – the printed report looks great, but when the recipient is not a user of Crystal Reporting the various alternative export formats can generate perplexing results[5]. We were delighted when we recently came upon the idea of using Adobe Acrobat PDFs (portable document format) instead of trying to master Crystal exports. I readily admit that this is not exactly rocket science (economists have been sending me the usual collection of fascinating material through PDFs for many months) but we were genuinely pleased with the result and the pure simplicity of the process. For a handful of software licenses (£180 per person) we are now emailing TMS-produced reports to our readers in full colour, complete with logos and perfect formatting – the IT department was not even involved. If the recipient does not have Adobe Acrobat Reader on their computer, they can be directed to a website from where they can download it for free. We are now distributing more accurate, detailed and timely information to our internal customers. In the bad, old days, a request from a business unit for an analysis of the interest owing/accrued on an intercompany loan would have involved us preparing another spreadsheet and lots of cross-referencing. The businesses will now simply receive their own treasury activity report on a regular basis. Ad hoc information requests can then be met with the response 'with pleasure', as we run the necessary report, print it to Adobe and send the document as an email attachment. I fully expect this introduction to enhance the profile of treasury around the group.

In short, treasury systems integration has enabled Emap to establish a successfully segregated environment at the centre and is now bringing information and users together across the group.

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Notes

[1] Obligation per Section 91 of the current code. A new code for inter-professional conduct of business is expected to replace the London Code from December, although it is unlikely that this will result in significant changes in operating procedures for confirmations.

[2] CrossMar confirmation matching cannot be used for all derivatives contracts. Clearly, internal contracts will also still generate the usual paperwork until further systems integration amongst group-wide users is operational.

[3] Barclays Business Master 2 (version 7.0) does not provide this useful functionality. By virtue of having the data recorded in the TMS database, reporting products can be used to enhance the search capabilities.

[4] Deloitte & Touche Global Treasury & Capital Markets – Treasury Management Systems Survey published March 2000. **www.deloitte.co.uk**

[5] We are currently using version 7.0 of Seagate Crystal Reporting. It is possible to use Crystal to export into MS Excel and Word, but we have now opted not to use this functionality. Before using pdfs, we had abandoned electronic distributors for many reports, as we found we were investing too much time in trying to correct poorly formatted output.