

DO GOOD, DO WELL

ETHICS Treasurers are often the face of the business and making sure they do the right thing helps to build trust in stakeholders. And that in turn makes business go more smoothly for everybody, writes Rod Newing

■ The treasury function tends to be the final port of call before money goes out of the company bank account. "If final sign-off to releasing monies is by the treasurer, they will be in the dock just as much as anybody else for potentially making a fraudulent payment," says Philippa Foster Back. "Should something untoward happen and they are charged, they must ensure they have a defence based on having adequate procedures in place and that treasury staff have been properly trained."

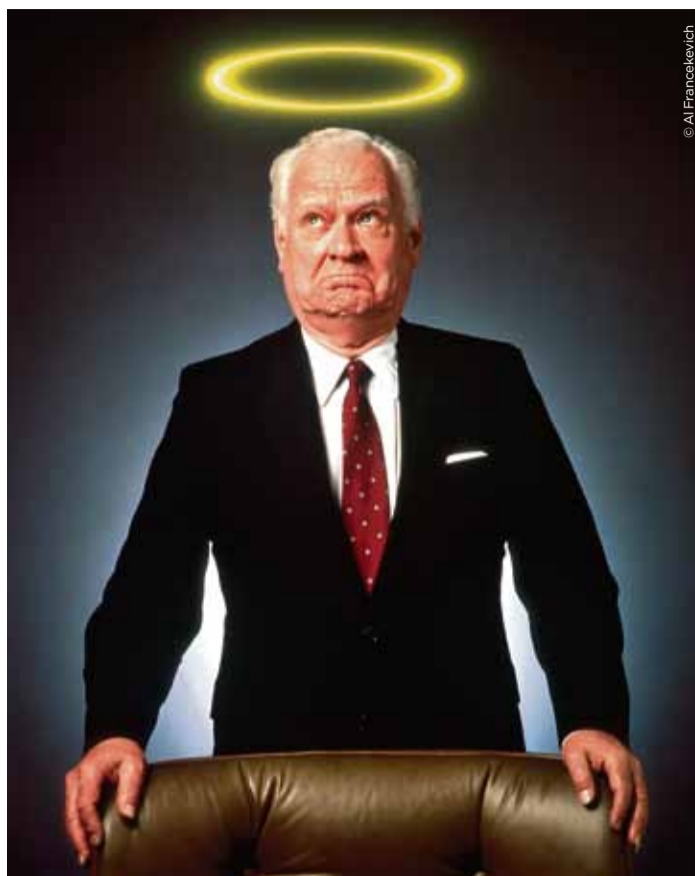
A former corporate treasurer, Philippa Foster Back OBE is director of the Institute of Business Ethics, a charity that encourages high standards of business behaviour based on ethical values. She advises a treasurer moving into a new role or a new company to look out for receipts or payments that are out of

the ordinary, don't look right, lack the right documentation or have not been fully signed off.

"It is very important not just to accept the status quo," she says. "Somebody might say: 'Don't worry, we have always done it that way. It never comes through with the right paperwork and it doesn't matter.' Well actually, it does matter."

There are some simple questions that treasurers need to ask about an unusual transaction. Is it legal? Is it the right thing to do? Is it in accord with the company's code of ethics? How would it look on the front page of tomorrow's newspaper?

The Bribery Act 2010 raises the profile of the whole issue. However, it doesn't just leave ethical problems to the regulators. Just because something is legal under the Act does not mean that it is ethical.



Integrity is just as important as competence

"The act hasn't changed anything, it just reinforces the issue," says Foster Back. "It has given more emphasis on the absolutely crucial need for the treasurer to question all unusual payments to make sure they are bona fide."

She describes ensuring ethical business practice as a journey that companies embark upon. It starts with draw-

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ing up an ethical code. This must then be embedded in the organisation, through communication, training and awareness. It is then reinforced through monitoring and assurance programmes. There are feedback loops between each stage.

As part of this process she would expect the treasurer and the whole treasury team to have been trained on anti-bribery matters, entertainment, potential conflicts of interest and many other issues where members of the treasury team could be at risk. "Boards now recognise that training and treasury controls mitigate the reputational risk that somebody somewhere in the organisation could do the wrong thing," she says. "Once that gets out into the media you are on a slippery slope."

A particularly sensitive issue is payments to third parties, which can be widespread in industries like defence or entertainment. Payments must be fully investigated to ensure that they are correctly made and should be made to the country where the agent is based in the national currency. Payments must not be made to other bank accounts without a great deal of checking!

"Treasury is not just about cash management or the next deal, it is about integrity and personal reputation," says Foster Back. "The treasurer needs to be above reproach, be timely in doing things, be open, not hold back information and give their stakeholders the reports they need. They are the company's public face to the bankers, and if they trust the person across the table then business will go much more smoothly. They will see their effort come back in spades" ●

COMMERCIAL FEATURE



Making corporate-to-bank relationships simpler



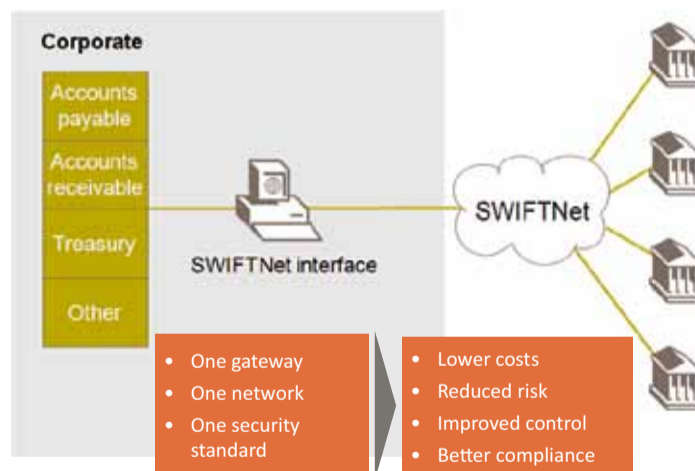
In the wake of the financial crisis, banks and their corporate treasury customers alike agree the need for streamlined and standardized processes and technologies – particularly for those corporates who maintain multi-banking relationships, says **Arun Aggarwal**

Treasurers and finance departments are increasingly required to maintain accounts and services with a range of banks. Often they do so to leverage better terms and secure credit. However, the establishment of a new banking relationship also adds an additional technology burden in the form of another new network, and more hardware and software. SWIFT, the bank-owned co-operative, is extending the scope of its offerings in

order to simplify the day to day Corporate-to-Bank relationship.

SWIFT provides its 9,500 members and their customers with a robust, standardised channel for communications. SWIFT's community includes more than 800 multinational and large corporates. "For a number of years now SWIFT has opened up its secure, highly-resilient network and financial messaging services to corporates who prefer to leverage an industry stand-

SWIFT: Providing a single channel to multiple banks



ard, rather than investing in proprietary channels," says Arun Aggarwal, head of UK, Ireland and the Nordic countries at SWIFT. Corporates can use SWIFT for treasury and cash management as well as to submit trade data for Letters of Credit and to receive advices.

SWIFT's latest innovations include Electronic Bank Account Management (EBAM) standards and the SWIFT Secure Signature Key (3SKey) digital identity solution. SWIFT's EBAM helps automate the typically very manual and paper-based processes of opening, maintaining and closing bank accounts. Paper forms and documents are replaced with a set of standard messages that can be exchanged over

any communications channel between the corporate and its bank – reducing the costs and time involved in bank account management, and increasing efficiency for both corporates and banks.

3SKey is a personal digital identity and security solution. 3SKey eliminates the need for a corporate treasurer or financial controller to manage an unwieldy, risky and costly setup. "Before 3SKey, corporate treasurers maintained separate digital authentication tokens for each banking relationship," said Aggarwal. "3SKey simplifies and improves corporate treasury operations by allowing corporate treasurers to manage multiple banking relationships across multiple business lines with one SWIFT-secured identity token."

Developed in partnership with the banking industry, 3SKey also has significant upside for banks, since they no longer need to maintain the costly security infrastructure required to manage, distribute and store digital certificates. Instead SWIFT becomes the certification manager on the banks' behalf. The risk and cost of dealing with different protocols had become a huge headache for both corporates and banks, says Aggarwal.

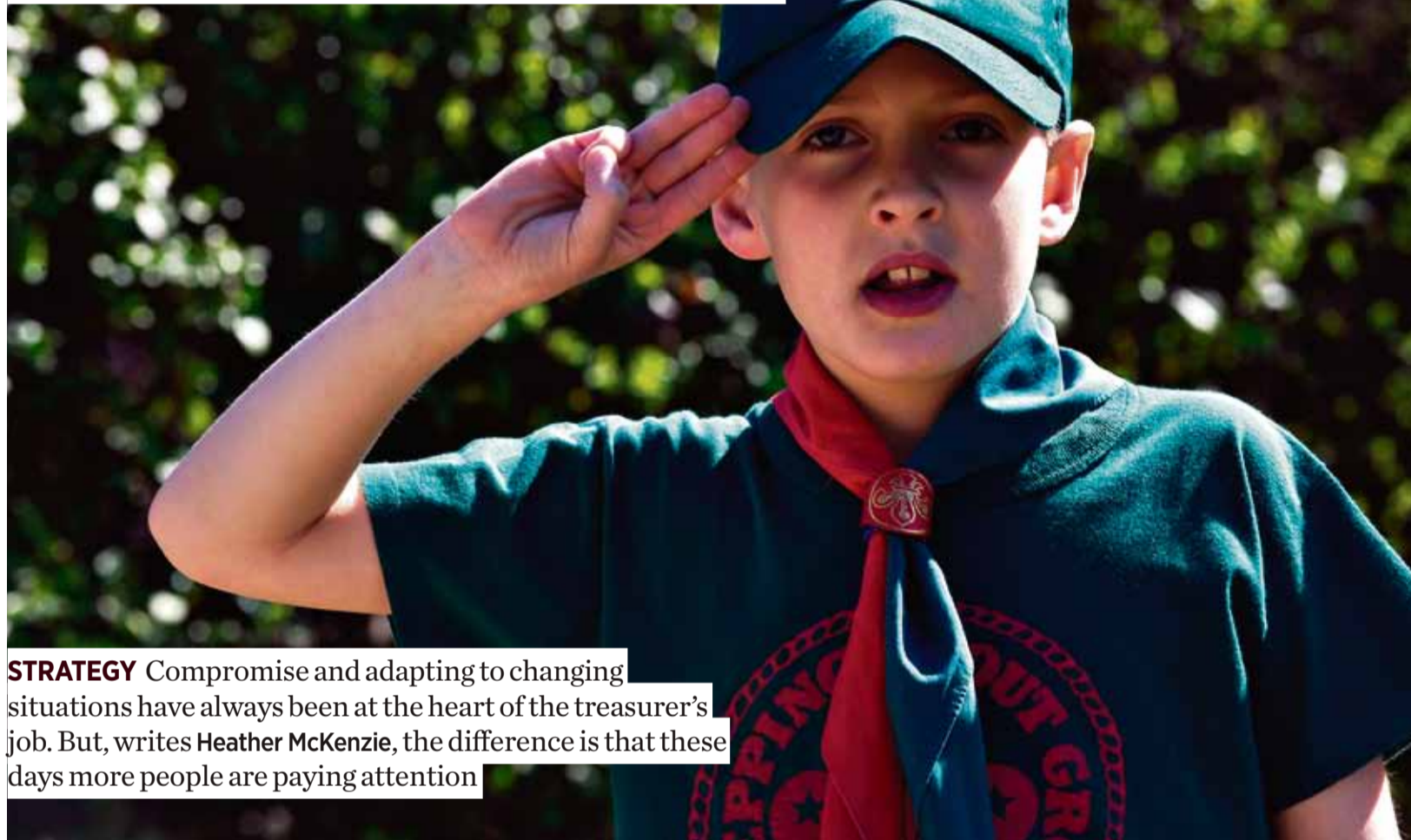
The launch of 3SKey in the UK follows a successful pilot in France, in which banks such as Société Générale, BNP Paribas, Crédit Agricole CIB and HSBC participated, alongside corporates including Danone, France Télécom and Airbus.

Pierre Jalade, VP Treasury, Airbus SAS, said: "I am fully convinced that 3SKey is setting the new industry wide standard for personal signatures. With 3SKey, SWIFT is certainly providing, to corporate treasurers operating in an international environment, the most appropriate answer to authentication requirements."

Aggarwal adds: "3SKey is a good example of an industry-wide collaborative solution that can bring greater business effectiveness, cost efficiency and reduced risk for the entire community. And SWIFT is the ideal industry partner thanks to our unique combination of a highly secure communications platform, messaging standards and industry knowledge."

Arun Aggarwal, FCA MCT, is MD UK, Ireland & Nordics, SWIFT

MANAGING UNCERTAINTY



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STRATEGY Compromise and adapting to changing situations have always been at the heart of the treasurer's job. But, writes Heather McKenzie, the difference is that these days more people are paying attention

■ There are no "right" answers when it comes to financial strategy, says John Grout, policy and technical director at the Association of Corporate Treasurers (ACT), just an endless series of changing compromises as the business and the financial markets change.

As for the questions, there are three fundamental questions for corporate treasurers, says Grout: what to invest in, how money is raised to make such investments and finally how the treasury company controls risk. "You can't consider any of these questions in isolation," he says.

Tim Allison, group treasurer at business and technology service company Logica, reckons treasury strategy documents probably look the same as they did three years ago, before the financial crisis. What has changed, however, is that the board and auditors (both internal and external) are looking more closely at strategy documents.

"Many companies have come out of the financial crisis thinking more closely about what their balance sheet should look like and how much debt they want and where they will fund it from," says Allison. "Articulating the answers to these questions in a clear capital structure policy will tell a lender exactly who you are as a company. The ability for treasurers to clearly communicate that strategy to their banks and other lenders is helpful because it sets the framework in which companies borrow money."

On top of the strategy considerations, a treasurer also has operational responsibilities such as funding, cash management, financial price risk management including foreign exchange, interest rates and commodity prices, and the management of mergers and acquisitions.

In most organisations the treasurer will advise the finance director, who in turn advises the board of directors. The interaction between the treasury and business is becoming stronger. "In terms of overall business strategy, treasury is getting a higher profile through chief financial officers on boards of directors," says David Kelin, London-based partner at Dutch treasury consultancy company Zanders. "Many companies now accept how important the treasury is to the day to day operations of the company and treasury's profile is much higher in companies than it used to be. CFOs and treasurers also tend to be in more direct contact with each other on a daily basis."

Paul Stheeman, an independent treasury consultant based in Germany, says treasury strategy should not be developed by the treasurer or CFO in a standalone manner. "Over the past few years treasury has become a service function – treasury is there to support business and to partner with it. The only way of doing that successfully is for treasury people to regularly meet with the business people in order to understand their concerns, what they are doing

and where the risks lie," he says. Once that is done the treasury will be in a better position to support the business and develop an overall group strategy for managing the business.

At United Arab Emirates-based airline operator Etihad Airways, treasury plays a key role in the management of risk in the business and in the planning and execution of the capital structure and short, medium and long term funding of the airline, says Ricky Thirion, vice-president, treasury. "Treasury is also a key advisor to the CFO and CEO in the planning process and on any strategic actions and major asset acquisitions. The management of the relationship and ongoing communication with the financial markets, investors and bankers is a further key strategic responsibility of the treasury."

Etihad runs a centralised treasury operation in Abu Dhabi, which man-

It's best to always be prepared

ages its liquidity and exposures across the 67 global destinations in 45 countries to which it flies. The treasury operations are responsible for corporate treasury – which includes cash and liquidity management, financial markets risk management (including FX, rates, energy, emissions, credit, operations and administration) corporate and structured finance, including aircraft financing and long term capital structure and funding plans along with insurance.

"Our risk philosophy is focused on managing volatility and the main objective is therefore to create as much certainty around the non-business risks as we can. We do this by, for example, active risk management/reduction and hedging our exposures so that we can focus on our core business of running the airline and associated businesses," says Thirion. "Another important consideration in how we manage risk is ensuring that we have continuity and consistency in our activities and that all stakeholders are aware through frequent reporting and direct discussion of our activities – they should be able to anticipate the outcomes of our activities under different market conditions."

He describes Etihad's investment strategy as "very conservative" focusing on capital conservation and credit risk. "Our borrowing strategies focus on diversification of available funding sources, development of new markets and lender relationships well ahead of our requirements and

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active engagement and communication/education of the markets on our business performance and strategy. Residual value risk management also plays an important role in the types of financing we choose. We try to create broad and deep relationships with our bankers, so those that support us with lending facilities would also get an opportunity to participate in hedging and other business."

The financial criteria for a treasury when it is considering what to invest in boils down to the cost of funds (or how much the investment has to earn), which depends partly on how risky the investment is deemed to be. The investments themselves can be diverse, including tangible items such as property, plant and equipment and intangibles including research and development, staff training and marketing, and finally other businesses via mergers and acquisitions.

Raising the money for financing investment raises a number of issues that have to be addressed. Companies can issue more shares, which will require the treasury to decide when, how and at what price. Similar questions are raised if the company decides to issue debt, along with the type of debt instrument and its terms. Financing can be short-term or long-term or a mix. Treasuries will have to decide what debt service ratios they are comfortable with.

In controlling risk, there are multiple questions a treasury has to address, such as which risks are retained and which avoided, what is the return for keeping risk and the opportunity cost of avoiding a particular risk? Risk arises not only from how a firm is financed but also from the business itself.

In devising a treasury strategy, a corporate treasurer must pay attention to five core elements, says Grout. These are corporate financial management; capital markets and funding; money management; risk management; and treasury operations, controls and systems.

Corporate financial management covers the relationship between the financial activities of a company and its business strategy; capital markets and funding covers all of the techniques and sources for raising funding to finance the business, from bank debt to equity finance; money management monitors a company's cash so that the business can invest efficiently; risk management identifies where risks could damage a company's financial health; and treasury operations, controls and systems balance the aims of the company and its investors, providing an overview of financial processes.

"Changing external influences place corporate treasurers under great pressure," says Grout. "The financial crisis taught treasurers that they cannot rely on the financial markets being open and available at the time of their choice. For that reason, companies need to build robustness into their business and financial strategies. Treasurers need to determine a strategy that is conditioned by the financial markets and also the business the company is in and that acknowledges that the business and market conditions can change." ●