A CLEARER VISION

TECHNOLOGY CAN PROVIDE TREASURERS WITH GREATER INSIGHTS INTO THEIR CASH POSITION IN AN UNCERTAIN WORLD. JOHN CAMPBELL OFFERS A PERSONAL VIEW

The current climate for corporate treasury is one of considerable uncertainty. While this uncertainty is manifesting itself in different ways, the outcome of last year's Brexit referendum in the UK has particularly underscored the need for treasurers to be prepared for every eventuality. Unfortunately, this is not always the case – more than half of CFOs had not put in place a Brexit contingency plan before the vote, according to research published by Deloitte in April 2016.

Of the many possible implications of Brexit for companies in the UK and elsewhere, the impact on exchange rates is particularly significant. Immediately following the vote, the pound dropped to a 31-year low, from $1.50 before the results were announced to $1.33 the following day. Further drops followed, and while the currency has strengthened in recent weeks, sterling remains considerably weaker than before the vote, with GBP/USD at $1.29 at the time of writing.

Where GBP/EUR is concerned, the figures tell a similar story. The exchange rate has fallen from €1.31 following the closure of the polls to €1.14 at the time of writing. It is unclear how this will develop over the course of 2017; some have predicted that the pound could dip below parity with the euro, but other scenarios could see the pound rise above current levels.

IMPACT OF FX MOVEMENTS

For multinational corporations, it is inevitable that such significant currency movements will have consequences. These consequences may have been delayed for companies that had taken steps to hedge their foreign currency exposures before the referendum took place. However, this effect was short-lived, and companies that engaged in hedging for a certain period of time are now facing up to the currency implications of Brexit.

At the same time, treasurers are also confronted with other types of uncertainty in light of Brexit. For one thing, people are unsure what the banking landscape will look like after the UK has left the EU and how this will impact their relationships with existing banks. They may also have questions around the implications for funding from foreign banks and for overseas investments.

Uncertainty around the direction that Brexit will take makes it more important than ever for treasurers to get

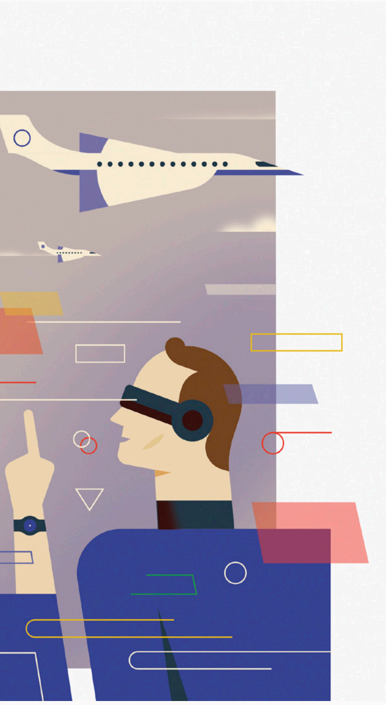

IKON IMAGES

their houses in order where FX is concerned. The good news is that there are plenty of opportunities to achieve this. In the past few years, many treasurers have taken on increasingly strategic roles within their organisations, and the current market arguably brings even more opportunities for treasurers to provide valuable advice to the CFO and the board. First, though, treasurers need to have a clear understanding of their exposures, and they need to be able to react quickly to adverse events or market opportunities.

PAIN POINTS

When it comes to managing FX risk – and other financial risks – treasurers may need to address a number of different pain points, such as the following:

- Inadequate visibility over the company's exposures.



By adopting a sophisticated TMS, treasurers can gain a clearer view over their risk exposures and cash flows

Without sufficient visibility over the risks they face, companies will not be able to make well-informed hedging decisions. Treasurers need to understand what they are hedging before they can put a suitable programme in place – and this means having access to a trusted and complete central repository of information.

- Inadequate cash-flow forecasting. All too often, companies fail because they run out of cash – a situation that can arise even with a full order book. The uncertain trading environment and the potential impact of currency movements on earnings make it more important than ever to be able to predict the company's future flows accurately. However, forecasting can be a challenge, particularly for companies that have a complex operating structure.
- Inadequate visibility following M&A. According to Deloitte, the value of M&A deals between Europe and the rest of the UK has trebled since this time last year. However, companies need to have a clear view of their liquidity positions so that they can leverage opportunities quickly when the moment arises. At the same time, issues can emerge following M&A activity if the acquiring company does not have visibility over the target's banking structure, transactions, cash flows and processes.

TECH-ENABLERS

In this challenging climate, technology can play a greater role in supporting risk management by enabling companies to track their risk exposures around the world – and, ultimately, to make more effective decisions.

Technology can support FX management in a number of ways, starting with providing a clear view over the company's existing bank accounts and cash flows. When treasurers take steps to gain control over this area, it is not unheard of for them to find balances in bank accounts that they didn't know existed.

A sophisticated treasury management system (TMS) can provide a single version of the truth, thereby supporting accurate cash-flow forecasting and giving treasurers the ability to hedge cash flows in foreign currencies. Technology can also enable treasurers to provide CFOs with detailed reports of their companies' risk exposures and align their hedging policies with current market conditions. Cloud-based systems can be accessed from all around the world, enabling people to access information and make informed decisions.

When choosing a TMS, treasurers should consider the future as well as the current needs of the organisation. While cash-flow forecasting and liquidity management may be a company's highest priorities today, it is important to remember that requirements can change over time. Further down the line, the company may need a system that supports payments, hedge accounting or FX management capabilities. The chosen system should therefore have the capability to meet the company's future requirements, as well as provide the necessary levels of security and integration.

CONCLUSION

The post-Brexit FX environment may present considerable challenges, but there are steps that companies can take to overcome some of the hurdles. By leveraging technology, treasurers can gain a clearer view over their risk exposures and cash flows. This, in turn, can enable treasurers to react more quickly to market changes, take advantage of M&A opportunities and make more effective hedging decisions.

John Campbell
is VP channel and sales, northern Europe, at Kyriba