Creating a treasury function from scratch

What would you do if you had to set up a completely new treasury department? Independent treasury consultant Valerie Hawkes looks at what this could entail.

Taking on any new job normally involves an element of compromise, and a job as a corporate treasurer is no different. Obviously the new treasurer wants the role, otherwise they would not have accepted the position, but there are always a few things they would like to change.

Treasurers sometimes join new companies only to find that problems they had sorted out previously arise again. It seems to be quite common in a new job to find that the lead clearing bank is the one that lost the competitive tender at the treasurer's previous company or that the treasury management system is one the treasurer had previously reviewed and rejected. Over time it is possible to resolve all these things, but it takes a good deal of effort.

Have you ever considered what it would be like to start a completely new job – one that nobody has ever done before? The proverbial 'clean sheet of paper'? Rather like the feeling you get when you buy a new house – there is no sense of history, but you don't have to put up with anyone else's rubbish!

Sometimes such positions do arise. Many treasury professionals worked in the utility companies during privatisation, either in permanent roles or as consultants. That was a golden era as far as job creation for treasurers was concerned! Even now there is a steady trickle of new treasury departments being formed, often through management buyouts or demergers.

It can be extremely exciting setting up a new treasury department, with all the various tasks that this involves. It can also be very challenging working in such a fluid environment and trying to make far-reaching decisions when so much else is still undecided.

Getting started

How do you start a treasury department from scratch? The first thing to do is to work out what type of treasury it is going to be. Normally this involves an assessment of what sort of business the company will have. Often an interim treasurer – usually an experienced consultant – will be involved in deciding the scope of the department's work. From this the permanent treasurer's own job description will evolve. Issues that must be resolved include:

- will the department be responsible for all the treasury operations, or should the business units retain some control?;
- to what extent will the treasury be centralised?;
- will the department have responsibility for insurance?;
- to what extent will the department be responsible for trade finance, corporate finance and investor relations?; and
- how will tax fit into the organisation chart? Should the treasurer have responsibility for this?

Such decisions must be based on factors including the expected nature of the business and the likely size of the head office team. It is often quite difficult to estimate the ongoing level of treasury transactions for a new company. Detailed and reliable cash forecasts are normally available to back up the offer document, but some serious 'guesstimates' may be required to translate these into an estimate of the number, type and value of treasury transactions.

Valerie Hawkes

Policies and procedures

All aspects of treasury work stem from the treasury policy, and this is particularly true of a start-up situation. It is not easy setting up a treasury policy when the policy for the whole business is still quite sketchy, but it is an essential first step. There is no point, for example, aiming for a centralised treasury in a group that has a policy of decentralisation. Even an embryonic treasury policy statement will eventually become a document requiring board approval, and for this reason it is not possible to set policy in isolation. More than one new fully functioning treasury department has been set up before a finance director has been appointed. In such situations another senior executive board member – the chairman or chief executive – has agreed the policy so that treasury can begin to develop.

Once policies are agreed, it is possible to document procedures to operate within the new treasury department. Some procedures will have to be extremely high level. It is not possible to be prescriptive in certain areas until permanent staff have been recruited and have had the opportunity to formulate their opinions, or until the level and type of work becomes more stabilised. However, procedures relating to essential areas of work such as dealing, settlement, payments, bank accounts, hedging and risk management, will need to be prepared in final form.

The procedures and an estimate of the likely deal volumes and workload in this new treasury should together give an idea of a suitable organisational structure for the department. When the treasury department is small, it is often difficult to juggle the requirements to have segregation of responsibilities and the ability to provide an understudy for each role. However, once the structure is agreed, it is possible to draft job descriptions for each role and to begin the recruitment process.

Banking

Quite often the major funding for a 'new' company has been sorted out by the time a treasurer (and even sometimes a finance director) has been appointed. It can be quite upsetting to see the terms that have been agreed as a result of having non-specialist personnel negotiating on behalf of the company, and it may be that one of the first tasks of the new treasurer is to renegotiate the core debt!

The most interesting treasury positions are those where the treasurer can begin by negotiating all the funding and banking facilities for the company. A new treasurer has to be prepared to spend literally days in bank meetings negotiating terms on all the necessary facilities, from loans and trade finance to the clearing bank's tariff of charges.

Some bank relationships are likely to be given at the outset, either because the company has significant borrowings to support a float, or because there are already banking services being provided that do not require changing. Even if the relationship banks are fixed, it is normally necessary to assign limits to each bank for the relevant instrument types, to devise a procedure to monitor the credit ratings of banks and to implement an exception reporting system for both limit breaches and credit rating changes.

Bank account and dealing mandates will be required for all banks, including existing relationships where updates will need to take account of changes to legal entities, personnel and limits.

Before the first day as an independent company, the treasury team will need to put a certain amount of time into ensuring that all the different levels of bank communication are working correctly. It is necessary to speak to the main dealers in all the approved dealing banks to make sure they understand that the company is about to become a customer of theirs, and they know who will be calling them. Equally, the company needs to put together a list of the bank dealers and their telephone numbers. It will also be necessary to let the settlement department in each bank have a list of standard settlement instructions (SSIs) for the company, and to ensure that the company has SSIs for each bank.

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Technology

Most treasury departments cannot function even in the short term without a considerable investment in technology. Normally it is necessary at a minimum to purchase an information service for rates and prices, electronic banking terminal and software and a treasury workstation. It is usually the treasurer's job to specify the number and type of terminals and telephones required for the department.

Selecting a treasury system for a treasury department that does not yet exist is an interesting and challenging task. In a 'steady state' treasury function, the usual constraints when choosing treasury systems tend to be: budget, required scope of the functionality and the volume of transactions. In a new treasury the constraints are not so well-defined.

In a new treasury there is often no budget for items such as treasury systems, and cost is not often a constraining factor since the need to make the department work properly is normally paramount. The scope of required functionality depends on the organisation of the department itself – do we want treasury to do accounting for its own transactions? Or do we think that internal control is better served by having all accounting done in the finance function? In the absence of a finance director it can be tricky to make these decisions, but the answer is to some extent driven by the size of the treasury department (a two-person treasury would not be able to guarantee the separation of responsibilities required to handle an end-to-end process that includes accounting). Deal volumes can usually be estimated with some degree of certainty, as can the types of transactions that the company will wish to record and analyse.

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Whatever system is selected it is likely to be one that has a proven track record and a strong user base. A new treasury is the last place where one would wish to be taking on a treasury workstation that is not fully developed or is in any way experimental or risky.

As soon as the banking software has been installed, it should be carefully tested in conjunction with the bank to ensure that it is possible to receive balance information and to make payments. It will also be necessary to agree contingency plans with the bank in case of system failure. If senior managers from outside the treasury department will be required to release electronic payments then they must be briefed and trained in this new task.

Brave and flexible

Not many people would turn down the opportunity to create their own treasury department from scratch – either on a permanent or an interim basis. Taking on the task of being a new treasurer is one of the most interesting and challenging roles there is. Nevertheless, the person who does this must be brave and (above all) flexible. In the early days of the project the work can be extremely diverse. On the one hand, there is an opportunity to negotiate the entire group debt – often without a finance director on board – on the other hand, treasurers tell tales of having to clean their own offices. ■

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