



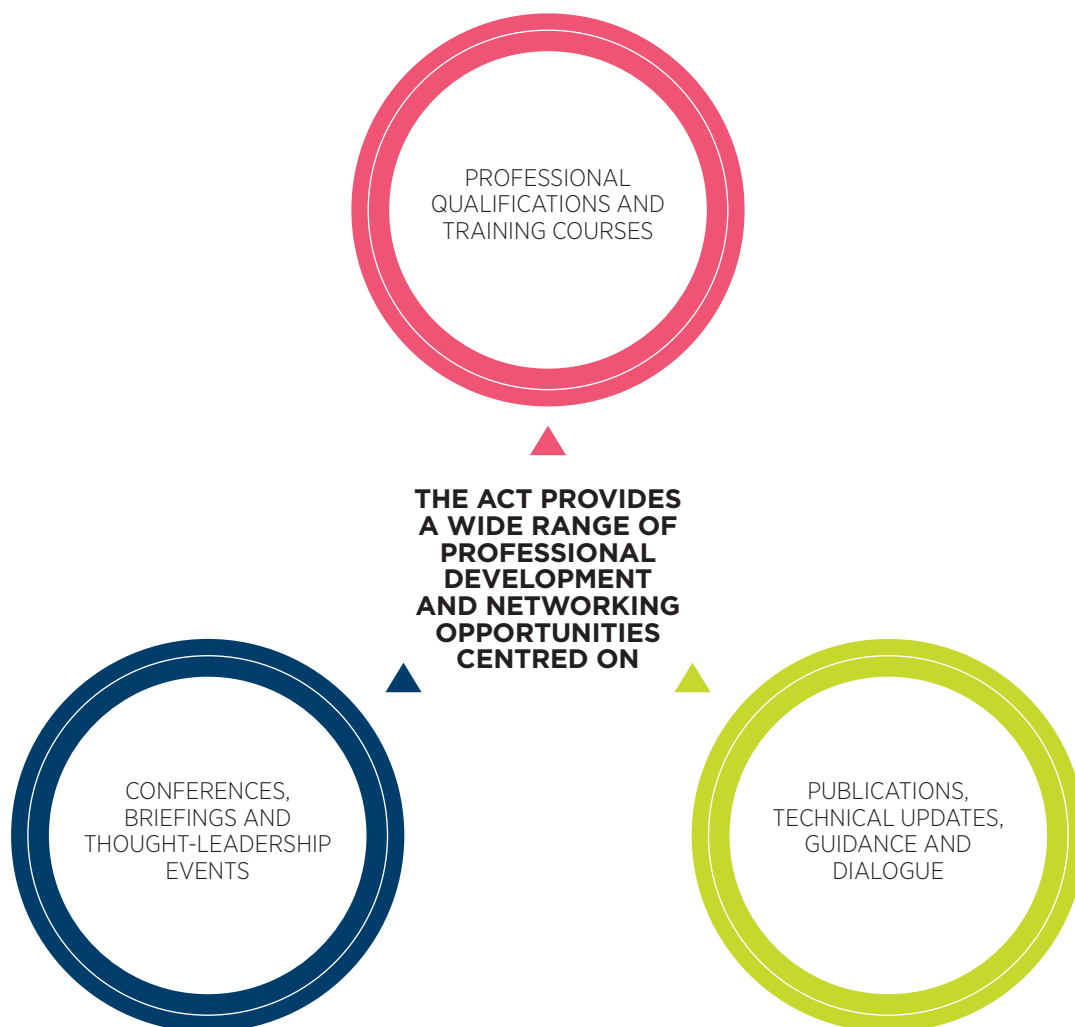
TRENDS IN TREASURY
**THE CONTEMPORARY
TREASURER: 2014**
SHAPING TODAY'S TREASURERS

ACT

LEADING TREASURY
PROFESSIONALS

About the ACT

The Association of Corporate Treasurers (ACT) sets the benchmark for international treasury excellence. As the Chartered body for treasury, we lead the profession through our internationally recognised suite of treasury qualifications, our focus on professional standards and our interactions with regulators and policymakers globally.



Introduction

As a professional body, the ACT has two primary concerns: to advance the interests of its members, students and the wider treasury community; and to enhance the understanding and appreciation of corporate treasury as a discipline in financial and business management.

Corporate treasury is a profession that is founded on five key financial disciplines (see below, left). Not only are these disciplines – or ‘elements’ as they are also known – vital in their own right, they also support and complement each other. Furthermore, treasurers may choose to progress their careers by specialising in any one, or more, of these disciplines.

This is the second year that the ACT has undertaken *The Contemporary Treasurer*, a comprehensive survey of members’ attitudes towards the evolving influence of treasurers on corporate strategy and business growth. We questioned a representative, but random, sample of 122 treasurers from organisations across the UK and in continental Europe, to understand what, where and how contemporary treasurers are contributing to their organisations.

The challenges that have accompanied the post-financial crisis era have emphasised the importance of achieving a wider appreciation of who treasurers are, and how they interact with the outside world. The financial services industry and retail consumers should not exclusively dominate the thinking of governments and regulators; the impact of new rules on industrial and commercial (non-financial) businesses also needs to be considered. Ultimately, by having a higher profile, the treasury profession is able to make life easier for non-financial businesses – and their treasurers. If treasurers can understand and influence legislative and regulatory processes, they are less likely to become innocent victims of them.

The five disciplines are:

- 1 Capital markets and funding;
- 2 Cash and liquidity management;
- 3 Corporate financial management;
- 4 Risk management; and
- 5 Treasury operations and controls.

Executive summary

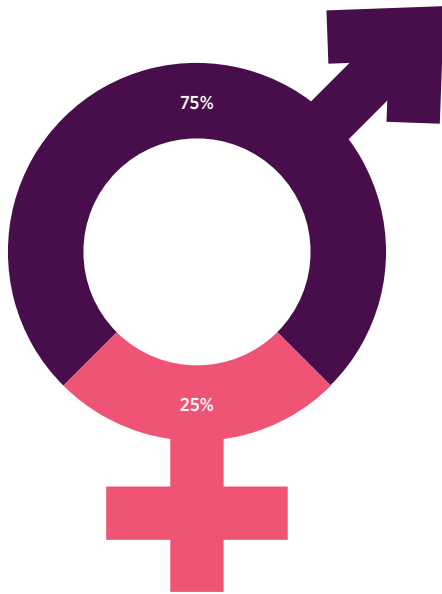
Treasury is increasingly recognised as a critical and multifaceted business function, and that shows in treasurers' higher levels of engagement with their boards.

Our 2014 survey reveals that:

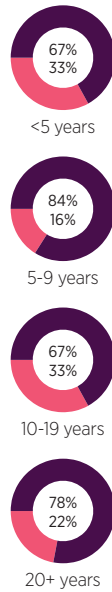
- ◆ Treasury is evolving from being a heavily male-dominated profession into one that is more reflective of the male-female split in society. This year, a quarter of our respondents were female. Nevertheless, treasury leaders are still far more likely to be male, with the proportion in this year's survey standing at 84%.
- ◆ There is substantial depth of experience within the treasury profession, which is reflected across the survey.
- ◆ Treasurers divide their time fairly equally between strategic and functional activities. In the UK, treasurers spend an average of 30% of their day on strategic matters and a further 30% on more functional issues. In the EU, treasurers spend slightly more time on functional issues.
- ◆ Operations and controls (which include systems, reporting, governance and policy management) take up the largest chunk of treasurers' time (29% spend most on this). Capital and liquidity management is the next most time-consuming activity (cited by 25%), followed by risk management (15%).
- ◆ Treasurers with almost all levels of experience find their work increasingly more interesting and varied – although some also find it more frustrating.
- ◆ The most important skill that treasurers should have is an ability to manage risks, according to nearly two-thirds (66%) of respondents.
- ◆ Treasurers continue to have a high profile with the board and are called on to give the board advice. Although that advice tends to be concentrated on making funding recommendations, the blossoming relationship between treasury and the board is becoming increasingly critical to financial and business success.

There is substantial depth of experience within the treasury profession, which is reflected across the survey

TOTAL GENDER SPLIT



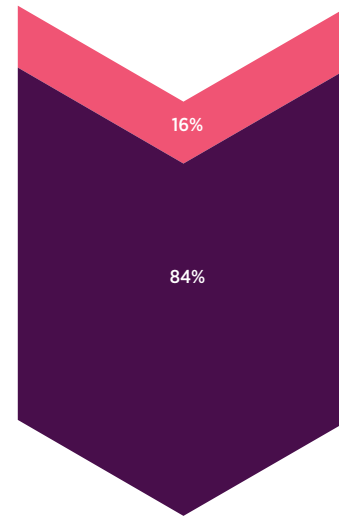
SERVICE YEARS



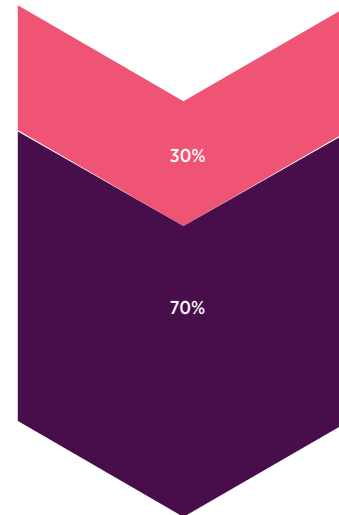
84%

of treasury leaders are male, while 16% are female

LEVEL OF SENIORITY



Leading treasury role



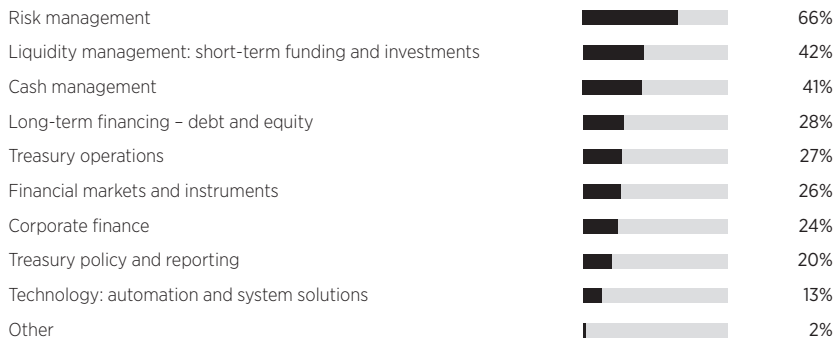
Other treasury role

● FEMALE ● MALE

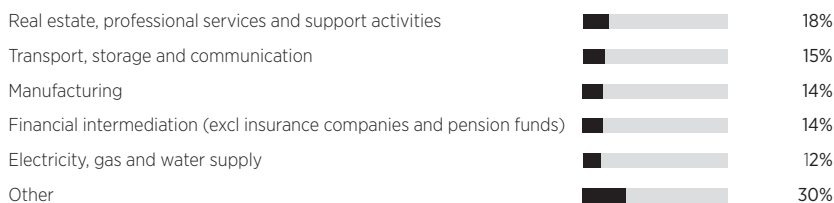
ACTIVITY ON WHICH MOST TIME IS SPENT



ACTIVITY REGARDED AS MOST IMPORTANT



INDUSTRY SECTOR



66%

say risk management is their most important activity

Today's treasurer

Treasury issues are both strategic and operational. So it is important to consider them in an integrated way. Treasury issues are also part of financial strategy. And financial strategy, together with business strategy, constitutes corporate strategy. So treasury has an important role to play in setting the future direction of a business.

While financial strategy depends on business strategy, business strategy is enabled or constrained by the financial strategies available to the business at any given time and by the particular financial strategy that the business ultimately chooses. So, at a strategic level, treasury is about advising on appropriate choices as well as the trade-offs and compromises involved when decisions need to be made. Strategic issues concern the business's board, so its directors must be comfortable with what treasury advises and 'buy in' to its recommendations.

The ACT believes that treasurers' professional qualifications add to their credibility and value. Since

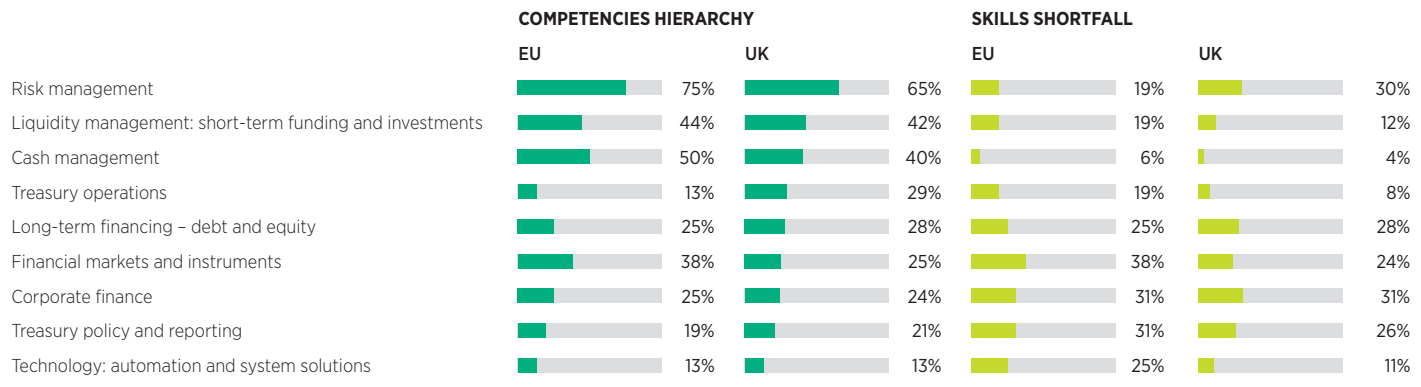
the growth and development of both the profession and the ACT itself depend on new entrants and the progress they make, it is vitally important to us that ACT qualifications are widely accepted and respected. So we are extremely proud of the endorsement that we got from treasury leaders in our survey – 86% said that they look for candidates with an ACT qualification, or a willingness to work towards one, when recruiting.

This year we asked individuals about their own competencies, which certainly makes for interesting reading as a benchmarking exercise. It seems that treasurers are expected to be capable in both the 'traditional' areas of treasury – cash management and treasury operations – while also possessing the skills associated with corporate finance and balance-sheet management. Of course, the ACT is ready and willing to help all treasury professionals broaden their skill sets in order to achieve professional success.

We also asked respondents about the key competencies that are most important in their work and the skills that they believed young treasurers lacked. This revealed some interesting contrasts between the UK and the EU (see table below). But it is clear that young treasurers need to recognise the breadth of their profession and educate themselves accordingly.

86% [of treasury leaders] said that they look for candidates with an ACT qualification

SKILLS SHORTAGE IN YOUNGER TREASURERS



The working day

Unsurprisingly, experience dictates the extent to which a treasury team or an individual treasurer is focused on strategic activities as opposed to functional activities. But UK treasurers spend an average of 30% of their day on strategic matters and a further 30% on more functional issues. In the EU, treasurers spend slightly more time on functional activities.

Nearly a third (29%) of treasurers say that operations and controls take up the largest chunk of their time. Their next most time-consuming task is capital and liquidity management (cited by 25%), followed by risk management (15%).

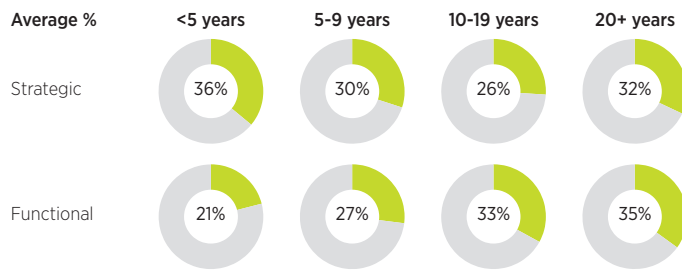
Just over half (51%) of treasurers' time is spent on international matters; the remainder is devoted to domestic issues. Broadly, the more strategic the treasurer's role, the more likely they are to have a higher focus on international matters. Having said that, it is worth noting the following:

- ◆ Reasonably experienced treasurers (those with between five and nine years' experience) have a disproportionate focus on international business compared with treasurers who have other levels of experience.
- ◆ The distinction between international and domestic is not necessarily clear-cut. Running an international cash-pooling operation from the UK could be considered either a domestic or an international activity. (But we are confident our respondents are comfortable with the difference.)
- ◆ Treasurers for mid-cap companies and non-public organisations are more likely to focus on international activities, which may reflect their own specific issues.

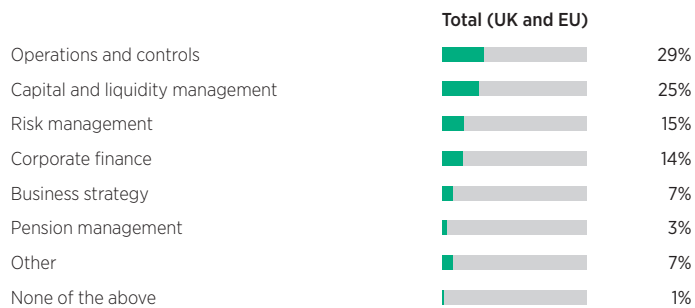
It appears that treasurers are working significantly more on risk management this year compared with 2013. Indeed, it is taking up even more time than they forecast for themselves 12 months previously, which is perhaps a reflection of the market volatility that was evident in the early part of 2014. This helps to explain why nearly two-thirds (66%) of respondents identified risk management expertise as the most important competency for a treasurer to possess. Risk management encompasses a wide range of risks, including FX, interest rate, business (including traditional insurance), commodity, operational and pension risks. But pension management appears to be a low priority, since pensions never absorb more than 8% (at most) of any respondent's time.

Looking forward, our survey suggests treasurers are expecting operations and controls, and capital liquidity management, to be their main areas of focus over the next 12 months. Or, as in 2013, will they end up surprising themselves?

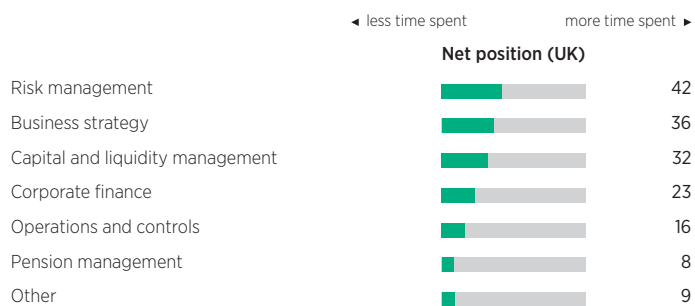
TREASURERS' ACTIVITY



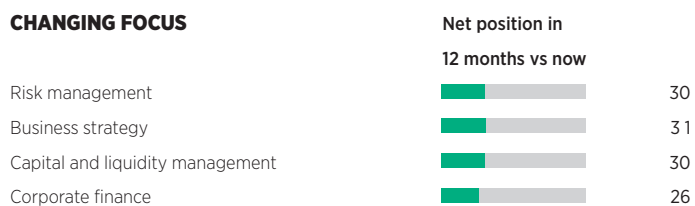
TREASURERS' CURRENT FOCUS



DAY-TO-DAY ACTIVITY (COMPARED WITH ONE YEAR AGO)



CHANGING FOCUS



Interaction with the board

Those treasurers who achieve outstanding success in their careers partly focus their energy on communicating effectively. So treasurers who are working to fulfil their potential should assess their communication skills to see what they can do differently. This is particularly important with regard to board interaction.

Our 2014 survey found that respondents continue to have a high level of interaction with their boards. They prepare reports for more than half of all board meetings, with EU respondents having slightly higher visibility with boards than UK respondents. The content that treasurers provide in their board reports reflects the broad nature of their responsibilities today.

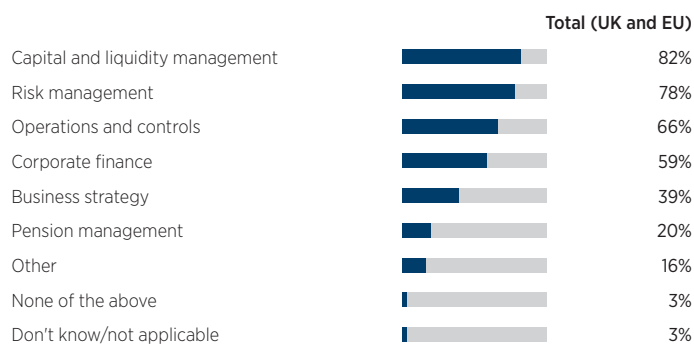
In terms of giving advice to the board, bank finance and debt capital markets are, by some distance, the areas where treasurers are most likely to be asked for recommendations. Furthermore, they are also seen as experts on improving working capital and supply chain finance. This is a consistent trend across virtually

all respondents irrespective of their location or level of experience.

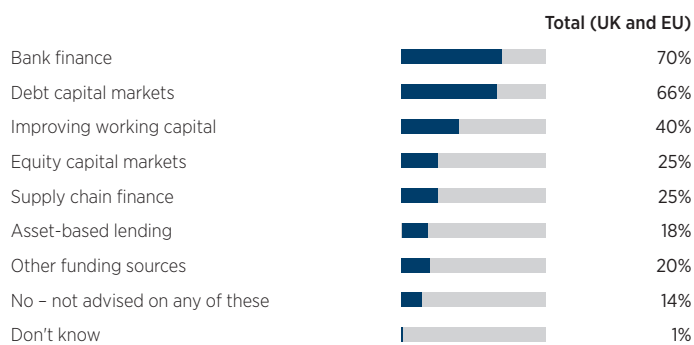
The acid test of any treasurer's communication skills is whether the board acts upon their advice. Overwhelmingly, and continuing the trend noted in 2013, boards accept advice from their treasurers across almost all types of debt funding.

We asked participants whether they worked with the board to set business strategy in new markets. Here, the results suggested that defining that strategy is not a key element of the treasurer's responsibility. Rather, treasurers play a passive role by responding to specific requests for information, which almost certainly relate to finance and funding. There was a small anomaly, however, in that the EU treasurers we spoke with seemed to be more involved than their UK counterparts in developing strategy for new markets. This finding warrants further analysis – as does the role of treasurers in securing equity financing.

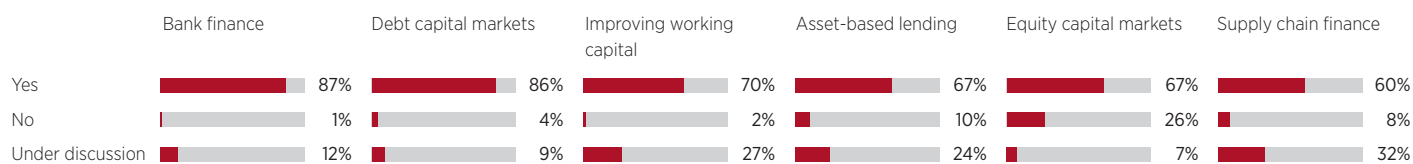
TOPICS FOR BOARD REPORTS



ADVICE GIVEN TO BOARDS (BY BUSINESS TYPE)



BOARD RESPONSE TO ADVICE GIVEN (UK ONLY)



AVERAGE NET TAKE-UP: 64%

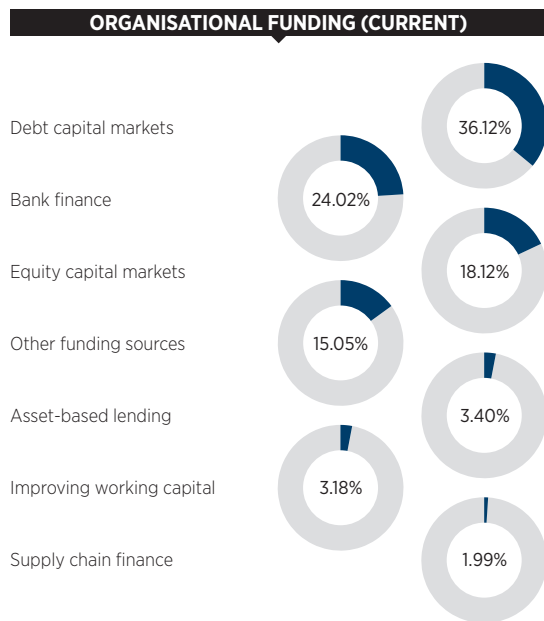
Where does the money come from?

The liquidity flowing through the markets in 2013 brought good opportunities for corporate treasurers, particularly those working for large companies. Corporates took advantage of investors' appetite for bonds and tapped the markets with ease, securing funding at very attractive rates.

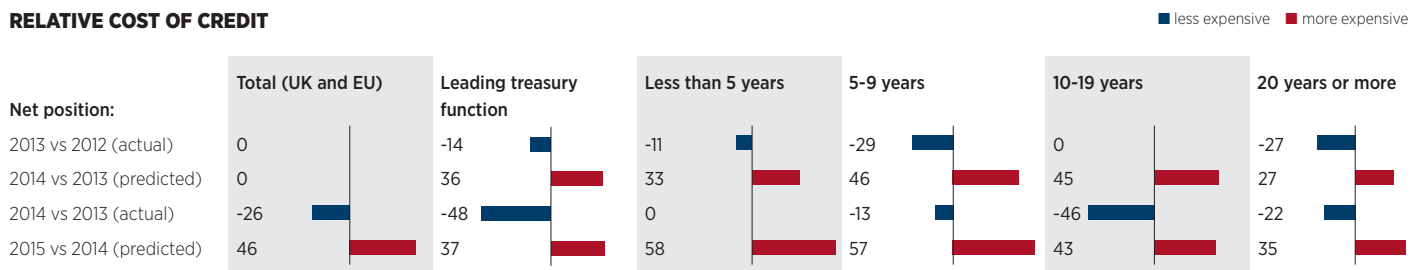
Banks and other investors have re-entered the market faster than anticipated and they pumped more liquidity into the loan markets throughout 2013. Terms and conditions for finance became more aggressive as a result. Right across Europe, pricing, covenants and maturities have all relaxed or weakened, bringing an imbalance in supply and demand. So now there is a huge amount of liquidity and very little demand for new monies.

Interestingly, despite treasurers giving boards a significant amount of advice on bank funding, the banking sector's share of the funding cake has fallen sharply over the past year, from 33% to 25%. Nevertheless, the funding hierarchy remains the same as in 2013 with debt capital (bond) markets the clear winner. This funding method is favoured above bank finance and is still twice as popular as equity markets. Given that companies have been busily tapping external funding sources, it is a little surprising that treasurers seem to spend so much of their time on cash management and working capital. But perhaps it is more time-consuming to help their smaller suppliers access finance rather than to change the shape of their own large organisations' balance sheets.

We asked respondents about the relative cost of credit. From 2012 to date, treasurers have expected credit to become more expensive year-on-year. Yet that caution has not been necessary; credit has become less expensive, not more. Nevertheless, they still expect the cost of credit to go up in 2015.



RELATIVE COST OF CREDIT



Growth and a brighter future

This year, we asked a different set of questions from last year on topical issues, focusing on growth, China and regulation. We also asked treasurers about their job satisfaction.

In the UK and, to some extent, continental Europe, fears of recession have subsided. Respondents have a positive - if tentative - belief that the outlook is one of growth. Nevertheless, they think that European central banks will need to perform a fine balancing act in terms of raising interest rates, while helping to sustain economic growth. By a clear margin, they believe that growth will slow - albeit modestly - if and when official interest rates start to rise.

We also asked respondents about the rise of China as an economic superpower. In almost every case, the answer was consistent: treasurers believe that the US economy and the US dollar will continue to dominate over the next generation. Only the most experienced treasurers, who have a predominantly international focus, felt that China would supersede the US within the next generation.

Unsurprisingly, the bugbear of regulation is vexing treasurers. In 2013, 41% of treasurers surveyed felt that the regulatory environment was 'about right'. This year, that view has dramatically reversed, which is undoubtedly to do with the onerous derivative-reporting requirements associated with the European Market Infrastructure Regulation (EMIR). By a huge margin (75% to 9%), respondents felt that financial services regulation was having a negative effect on their organisations. (Although some survey respondents work in financial services institutions, this doesn't have a material effect on the result.) The reasons most commonly given for the negative impact were the increased workload and time commitment required to manage regulation and undertake reporting, and the increased cost of holding capital for no apparent business benefit.

On a positive note, most respondents believe that treasury has become more interesting and varied over time, with 43% saying the role is at least as satisfying, if not more so, than five years ago.

“EMIR is just extra work and no one knows how it will end. It's a negative effect on treasury rather than the business. Every deal has to be tagged and reported, and we have to change the treasury system for all this to happen”

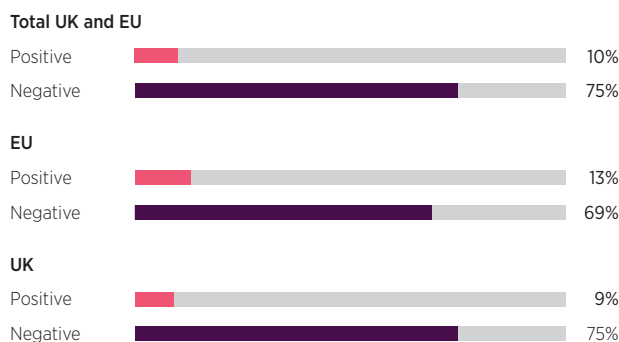
2014 SURVEY PARTICIPANT



CHINA VS THE US

Over the next generation, how likely do you think the Chinese economy and currency will be to overtake the US?			
	Total (UK and EU)	EU	UK
Very likely	7%	19%	6%
Quite likely	34%	25%	35%
Quite unlikely	51%	56%	50%
Very unlikely	3%	-	4%
Don't know	5%	-	6%
Likely	41%	44%	41%
Unlikely	54%	56%	54%

THE EFFECT OF GREATER FINANCIAL SERVICES REGULATION ON YOUR BUSINESS



Methodology

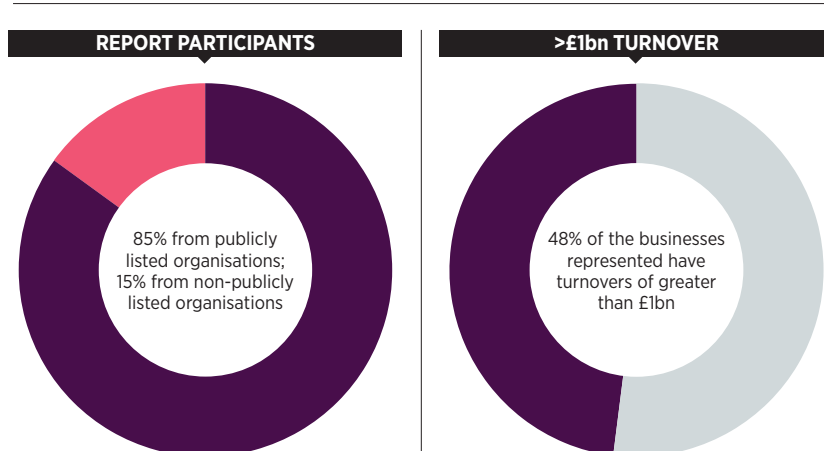
The findings in this report represent the second iteration of a tracking study into the influence of treasurers on corporate strategy, designed to be repeated at least annually.

Telephone interviews were conducted by a professional research firm, with 122 treasurers randomly selected from the ACT's membership lists. The interviews took place between early January and mid February 2014.

The sample comprises treasurers working for the following types of organisation:

- ◆ 85% from publicly listed organisations
- ◆ 15% from non-publicly listed organisations

Forty-eight per cent of the businesses represented have turnovers of greater than £1bn.



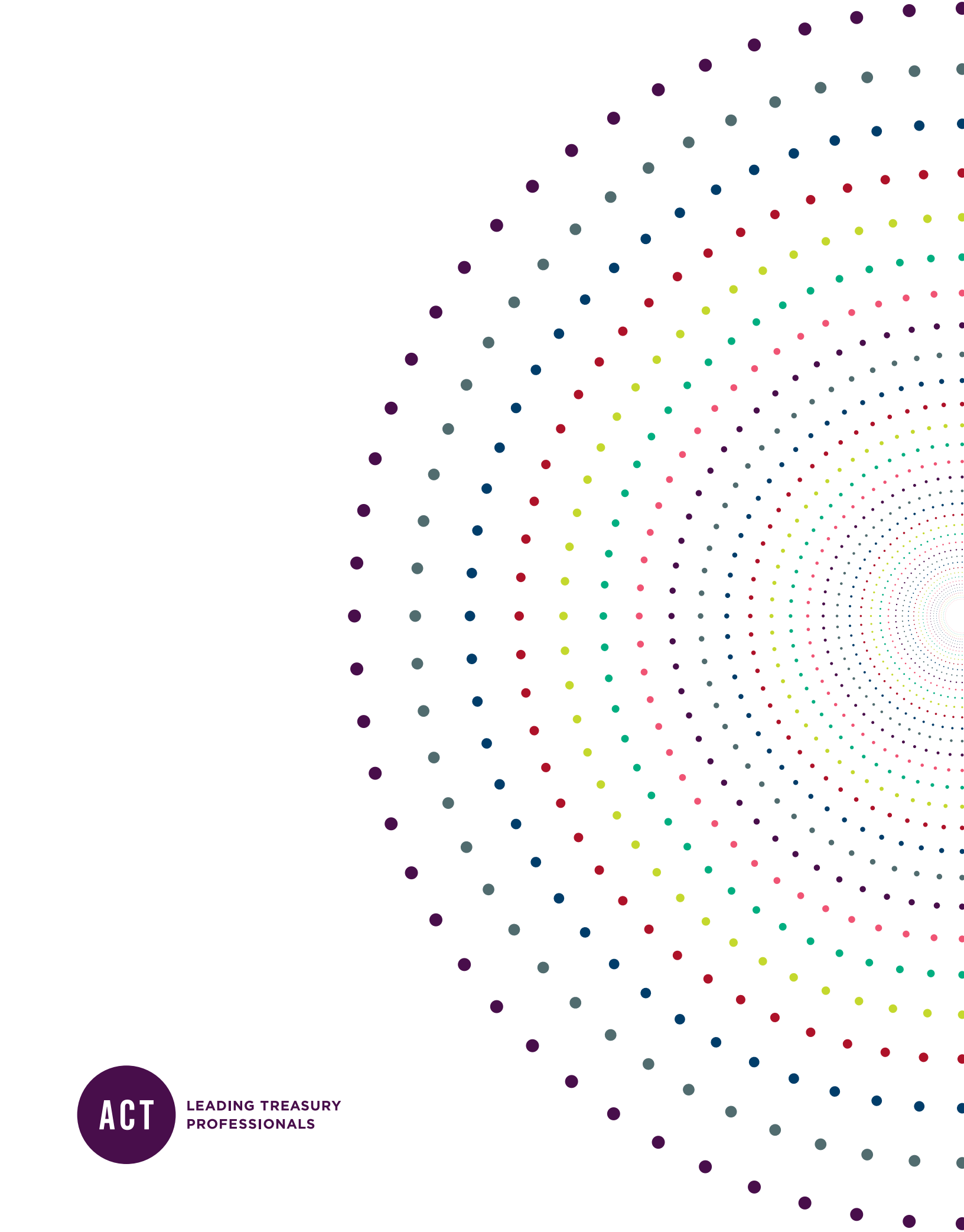
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