



KELVIN WALTON OF RICHMOND SOFTWARE LTD LOOKS AT DEVELOPMENTS IN TREASURY TECHNOLOGY AND HOW THEY AFFECT PAN-EUROPEAN TREASURERS LOOKING TO GET THE MOST FROM THEIR TREASURY MANAGEMENT SYSTEMS.

ANALYSING TREASURY TECHNOLOGY

The advent of the euro stimulated the development of treasury management technology, and led to a wave of new implementations that was further amplified by the inevitable approach of the new Millennium. These issues may have stimulated the market in a very creative way, but they did also lead to the collapse of some of the earlier and perhaps more rigid systems.

The euro brought a dramatic shift in European treasury priorities. Prior to its introduction, many European companies' treasuries' efforts were focussed primarily on managing intra-European foreign exchange (FX) exposures. In some cases, this requirement demanded quite large specialist teams to be put in place to manage the risks associated with volatile or illiquid currencies or large exposures. The environment was ideally supported by quite sophisticated technology to analyse overt and latent FX exposure risk, and to evaluate the instruments used for hedging.

The importance of FX exposure management has not, of course, been fully eliminated for today for many European corporates with the advent of the euro, but it is relatively marginalised compared with the past. There is certainly little contemporary pressure from today's European marketplace for the treasury systems industry to develop elaborate new FX risk management tools.

Cash management has of course been the discipline that has gained from the reality of the euro zone. Long the poor relation of FX, interest rate and commodity risk management, the partial closing of one door stimulated growth in this sector, driven by creative ideas from many banks, and by the demands of the corporate base. Banks were naturally not initially enthusiastic about the emergence of in-house banking, but the growth of this discipline has forced changes in areas such as multi-bank reporting and the growth of cash pooling options. There are many aspects in which technology continues to support this relatively prosaic but potentially valuable development. For example, many companies use systems to check banks' notional pooling operations. In cases where zero balance accounts and global account sharing are used, strong system support is needed to unscramble the bank statements, and allocate debit and credit interest accurately.

INTERNET DEVELOPMENTS. The internet has also brought numerous and cost-effective changes to treasury management. The internal technology of a system is of little interest to most treasurers – it is results that they want. And in practice, the most desirable result has been the expansion of treasury's boundaries to all relevant corners of the company so the group treasurer in, say Paris, can now – with the right technology – see a real-time global cash position, through having key forecast, bank account and treasury operation consolidated by a treasury management system. Such opportunities have been theoretically available for some time, but the technology costs have been prohibitive. Proper use of the web now makes this concept increasingly possible and affordable for more and more companies.

COMPLIANCE AND TECHNOLOGY. Today, treasury technology development is being driven by a number of factors, including hedge

accounting and compliance with the Sarbanes-Oxley Act. The latter is of course only mandatory for European companies who have or are seeking US listings; but there are some companies who anticipate that there will be similar legislation in Europe sooner rather than later – and others who see voluntary compliance with Sarbanes-Oxley as being a valuable differentiator among potential investors and clients, showing high standards of transparency and corporate self-regulation. It is virtually impossible to contemplate Sarbanes-Oxley implementation without the backing of a treasury management system to track treasury transactions and provide supporting documentation.

Hedge accounting in Europe – IAS 39 in particular – continues to generate a confusing array of interpretations, and, therefore, technology requirements. Hedge accounting combines the classic elements of accounting with risk management. Solutions must be able to look forward in time to ensure that prospective testing, and hedge effectiveness needs are constantly monitored. The need for system support is obvious, especially when you add the complexities of mutating hedge/exposure relationships. And evolving understanding of the standard, coupled with conflicting and client-specific interpretations of 'compliance,' indicate that technology solutions must be configurable and flexible. A change of accounting firm or CFO may mean that today's 'solution' no longer fits requirements.

So what is pushing European treasurers to select new treasury systems, or to replace existing systems? And what are they looking for? Aside from the obvious drivers of hedge accounting and other regulation, and the real possibility of accessing real-time global working capital positions, treasurers increasingly expect high standards of client services, and may eject vendors who do not deliver. And, presently in a minor key, the restrictions imposed by old technology (such as the difficulty of reporting and interfacing; lack of internet compatibility) may justify a move into the marketplace.

Functionality is really not a live issue today, except for a small number of relatively specialist demands such as the availability of specific option pricing models, or of a particular hedge effectiveness test. Technologists may play a role in the selection, but the recent trend in their role has been to ensure that short-listed systems do not incorporate unacceptable technology, rather than imposing one set of technical rules. In today's European marketplace corporate treasurers are seeking flexible solutions that can be configured – and thus effectively customised – to their requirements. This implies that the vendor must demonstrate a consultative approach, justifying their position with a demonstrable understanding of the prospective client's business issues – and then proving the solution in some detail.

We have come a long way from the days when Windows-based systems sold themselves out of the box – and the real benefit continues to be gained by the discerning corporate treasurer.

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'CORPORATE TREASURERS ARE SEEKING FLEXIBLE SOLUTIONS THAT CAN BE CONFIGURED AND EFFECTIVELY CUSTOMISED TO THEIR REQUIREMENTS'

A 'FUZZY' KIND OF LOGIC

INTERNATIONAL INDUSTRIAL GROUP, DELTA PLC, IMPLEMENTED A NEW TREASURY MANAGEMENT SYSTEM IN 1999. SINCE THEN IT HAS CONTINUED TO EVOLVE THE SOLUTION AS THE DEMANDS OF ITS BUSINESS HAVE CHANGED.

Delta plc is a UK-listed multinational industrial company, with a global network of production facilities. The group's principal businesses involve production of electrolytic manganese dioxide (used in dry cell batteries), galvanising services and the fabrication of a range of products for the mining and other industries.

Delta's headquarters treasury department is based in central London. It is a centralised operation, managing the cash, foreign exchange and interest rate risk for the group, using highly integrated financial technology.

As a European company with a global business range, Delta is vulnerable to exchange rate volatility, especially in the US dollar, and even more demanding currencies such as the South African rand and the subsidiaries generally have multi-currency positions to hedge.

For these reasons, Delta's treasury management has invested heavily in technology to provide a secure, cost-effective and efficient platform for its operations. According to Delta's Treasury Manager, Kemi Olatunji: "We selected and implemented strong solutions to achieve a high level of business automation. The key for us has been achieving seamless integration, so that we can focus on our professional priorities in the treasury business – not on spreadsheets and IT."

Each morning, Delta downloads bank statements from Citigroup, in multiple currencies, for 12 operating subsidiaries. Delta's treasury policy includes the segregation of duties, and so automatic account reconciliation is performed by Richmond's Treasury Management System under the supervision of the accounts department. This process is optimised through pre-defined reconciliation tolerances, and the system uses 'fuzzy' logic to suggest possible matches.

System-generated forecasts, which integrate bank statements, treasury data and commercial information, enable the treasurers to view and analyse their positions, in order to plan the day's dealing operations. This is very important for the company, which operates in a wide range of instruments in the foreign exchange (FX) and interest rate markets and also performs inter-company deals, to take advantage of funding and hedging opportunities.

In the background, the treasury management system (TMS) also captures competitive bid information, which facilitates the construction of bank performance analysis reports, and, therefore, helps Delta to select and manage its counterparty banks for different financial market operations.

Another interesting feature of Delta's operation is that the TMS includes a 'digital dashboard' (implemented by in-TMS predefined web page links) to view Citigroup's electronic dealing facility, Chiefdealer. This is used for the automated execution of certain types of external market transactions submitted by the subsidiary network and this solution takes advantage of the speed, accuracy and automation on offer through this facility. This approach allows Delta's treasury team to approve deals online before execution, adding the necessary management and control aspects to the process.

Delta's treasury rightly regards deal confirmation as an essential control process, to help ensure that dealing operations are accurate, and as an additional check that they are in compliance with treasury policy. The TMS controls the process, differentiating between the confirmation of internal and external deals. The electronic confirmation service for external deals is conducted using the electronic matching system, Misys CMS. This automatic process provides Delta's treasury operation with what is, in effect, an electronic back office function. Deal confirmations are independently and securely issued and matched, providing a very high level of verification, quality assurance and control.

Reporting is another crucial treasury function in which Delta takes full advantage of the capabilities of its TMS. It uses a number of standard and consultant-developed reports that were supplied with the solution and fulfilled requirements at that time. It has since developed *ad hoc* and permanent reports in-house, in response to changing management and operational needs.

Taken singly, each of Delta's treasury activities is a standard function for a European headquarters operation working in the global financial marketplace. No individual activity is in itself remarkable – it is the holistic effect of automating and integrating processes wherever feasible (and cost-effective) that has enabled Delta to take maximum benefit from its investment in technology. After Delta implemented the TMS in 1999, it did not freeze the automation concept on completion of the project; instead, it continued to evolve its solution as the demands of the business changed, and as opportunities arose. "Frankly, we take our technology for granted as we perform our daily business," comments Olatunji. "And that's the way it should be!"

Figure 1. Set up of the treasury management system at Delta's treasury headquarters in London

