

# FACING NEW TECHNICAL CHALLENGES



**FRANÇOIS MASQUELIER** OF THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS EXPLAINS WHY IT IS VITAL FOR TREASURY ASSOCIATIONS TO PRESENT A UNITED FRONT.

This article considers the ways in which the role of the treasurer has developed in recent years and the reasons for these changes. The treasurer, it seems, has emerged from a state of isolation and recent events have drawn attention to the crucial role they play within the organisation. I will also discuss the main challenges faced by treasurers and the essential role of treasurers' associations worldwide.

**DEVELOPMENT OF THE TREASURER'S ROLE.** "Every new difficulty overcome should be the occasion for new progress," said Baron Pierre de Coubertin) The role of the treasurer has expanded and changed profoundly in recent years. This rapid change can be explained in terms of the different factors that have caused it, such as legal, fiscal and technical aspects, IT, financial and economic factors and accountancy.

In the age of globalisation, it would be surprising if the treasurer had remained immune to the globalisation phenomenon. Treasurers have had to come down from their ivory tower and emerge from the isolation that wrongly confined them. Several recent financial scandals have shown how apparently solid firms can be quickly undermined, or even smashed to pieces, and the importance of keeping a firmer hold on the purse strings.

**MULTI-SPECIALIST IN FINANCE.** Financial experts, and treasurers in particular, have never been such an important part of the company. The key word nowadays is 'profitability'. The treasurer has been required to intensify centralisation of activities and aim for maximum efficiency or competitiveness.

They have become as much a generalist in finance as an in-depth multi-specialist, in that they cover a range of different disciplines and have acquired very particular skills and expertise, like a sort of chameleon, constantly adapting to an ever-changing environment.

Yet it is a profession little known to the general public. Some languages have no equivalent of the word 'treasurer' – or where one does exist, the existing definition does not correspond to the modern-day reality.

Even in English, a treasurer is only the person 'in charge of the money'. This definition is way too brief and outmoded.

**HOW THE TREASURER CREATES VALUE.** The treasurer's job remained untouched for so long by the idea of value creation,

described as the Holy Grail. He or she creates value – there is no doubt about that – although it is hard to measure it. Setting up a system of multilateral netting, thereby reducing the number of transfers and base of exchange rate risk helps create value. Establishing cross-border cash pooling in multiple currencies gives the business an advantage. By introducing hedge accounting, treasurers reduce the volatility of the profit and loss (P&L) account and create value. When he or she helps to improve the working capital cycle, they contribute to the wealth of the business. Finally, through intelligent and coherent management of banking relationships – a perilous task in these days of tight liquidity – they contribute to value. There is not enough space here to describe all the other occasions when they make a positive contribution. Perhaps this provides a clue to the origin of the word 'treasurer'. Surely value is something to be treasured?

**ROLE OF INTEGRATION 'FACILITATOR'.** The treasurer assists in the integration of acquired operations creating value. The treasury and financing function have been one of the first things to be centralised and hence integrated. Companies have finally understood the importance of consolidating and genuinely integrating what they have acquired. However, they have forgotten the treasurer's contribution to this process. Moreover, IAS 39, euro, credit ratings and related issues surrounding structural subordination on debt transactions contribute to further centralisation, synonymous with economies of scale, and obviously of integration. The treasurer expands his or her role through more centralised management of risks, for accounting reasons, among other things. Nowadays, they are so much more than a cash manager – they are the common denominator among all the financial functions that have a relationship with them or are dependent on them. By centralising processes, the treasurer binds the subsidiaries to one another and creates value, particularly where they set up an in-house bank and a central payments unit, or where they interface their tools with the enterprise resource planning (ERP) systems. By organising matters so that data need only be input once, they reduce errors and save time on transactions that can be fully automated right up to the point when they fall due and are entered to account.

**A ROLE AS INTERNAL CONSULTANT.** The treasurer's role now extends to that of an internal consultant servicing other

departments or subsidiaries. A good treasurer must combine different qualities: intelligence, creativity and common sense. Knowledge is not enough on its own – he or she must be able to show that they are brave enough to change things and improve them, review organisations and rethink the flow processes. The associations of treasurers are wonderful laboratories in that respect, and are essential for nurturing these ideas and guiding towards best practices. Common sense remains crucial. It is vital to stand back to see things from a new angle. It is good to compare, but not so good to follow the herd. Each element of this ‘virtuous trio’ relies on the next one. To progress, the treasurer must be aware of the operational environment within which everything takes place, while, at the same time, adapting to the need for a more formal approach.

They become a vector of change in the financial approach. He or she must become a better communicator, both to the outside world, such as with rating agencies, investors and analysts, as well as within their own company. They must communicate change and the gains that it brings. Communication was not the strongest skill of treasurers. However, the treasurer remains, as much as ever, the guardian of the temple, of the ‘treasure’. They have moved on from a short-term, day-to-day role, to a longer-term role. This change has made them one of the drivers of the strategic financial vision of the firm.

**CHALLENGES.** In a changing economic world, neither the treasurer nor the legislative framework has been immune to the effects of technological progress. Treasury has become extremely specialised, combining specific qualities at a very high level. The treasurer is a watchtower, watching over the financial heart of the company, which makes them indispensable. They are asked to perform the feat of achieving the objectives listed below, while reducing costs:

- IAS 32-IAS 39: difficulty of implementation, amendment(s), P&L volatility, expectations of unresponsive banks, future of asset backed securities (ABS) structures.
- Basel II: impact on banks’ margins and possible scarcity of credit to small- and medium-sized enterprises (SMEs).
- Key role in active management of the tax burden and struggle to reduce its impact on the group.
- Increased role in mergers and acquisitions (M&A).
- Adoption of a better considered and more coherent banking strategy to guarantee medium-term liquidity and distribute business more equitably.
- Technological developments, new tools (e-trading platforms, treasury management system (TMS) modules, IAS 39 compatibility, online banking confirmations reconciliation tool, application service provider (ASP) solutions and the like).
- Credit rating: necessary ‘visa’ for capital markets, issues with structural subordination on high-yield bond issues.
- Centralisation.
- Outsourcing of middle office (low value-added operations).
- Sorting out the mass of information bombarding treasurers.
- Better forecasting of cashflow and improvement of working capital.
- Ideal balance sheet structure: debt-capital ratio, ensuring sufficient liquidity in a context of risk-aversion, minimum level of committed credit lines.
- New European directives on prospectuses, takeovers and the like.
- IAS 19: risks linked to refinancing of pensions.
- European payments: Step 2 project, Twist, SwiftNet, harmonisation of transfer costs less than €12,500 and the like.

## ‘THE ASSOCIATIONS OF TREASURERS ARE ESSENTIAL FOR NURTURING THESE IDEAS AND GUIDING TOWARDS BEST PRACTICES’

**FUTURE OF THE TREASURER’S JOB.** There is no danger of the treasurer’s job becoming less interesting or attractive, it is simply becoming more complex and technical by the day. It covers the management of financial risk in general. The treasurer has to try to improve the management of their department, while reducing their dependence on consultants. This is clear from the non-exhaustive list of topics for consideration and tomorrow’s challenges. Today’s treasurer, while remaining more open towards other departments, nevertheless tends perhaps towards over-specialisation. Treasurers are generally poor at switching to other financial roles. Specialisation isolates them and puts them in an envied position, while at the same time, locking them in a gilded cage. What can a senior treasurer look forward to?

**ROLE OF TREASURY ASSOCIATIONS.** Treasury associations play a key role in developing and protecting the profession. They campaign to uphold the interests of treasurers. Their role remains local, but through force of circumstances it has become more international. Local associations are now joining forces to represent treasurers more effectively – International Group of Treasury Associations (IGTA) or the European Association of Corporate Treasurers (EACT).

It is almost impossible for an association to gain the ear of the European Commission if it represents only one country, however large. Then again, we live in the age of lobbying, when powers of influence are all-important. The best example of this is the action taken by banks at the International Accounting Standards Board (IASB) and the European Commission. Treasurers cannot allow themselves to become the subject of choices made by people more powerful than they are. If the IAS 39 amendment is adopted and if macro hedging is granted to the banks, this will be the acid test of the strength of the banking lobby. Clearly, we cannot sit and do nothing. That is the role of the associations.

To get a hearing and participate in working groups, it is necessary to get involved, to interfere and to be representative. Simply making ourselves heard is already a victory.

Another project concerns the definition, with rating agencies, of some sort of code of conduct or agreement to adhere to procedures for the granting of ratings and subsequent revisions (see hotline p16).

Associations are also looking to standardise their training and certification programmes, so as to harmonise skills between countries and treasurers, and plead for greater mobility. By conducting European surveys, they provide a snapshot of trends and best practices in the sector. That the profession is growing larger all the time is an even stronger argument for a ‘federalist’ approach by the associations, whose interests and objectives are, in the end, after all, fairly similar.

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