



Corporate Treasury For Successful Businesses

Managing your financial risks

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Introduction

- Efficient management of financial risks can save you money !
- Mistakes are costly and can have serious financial, regulatory and reputational consequences.
- Management's risk appetite should be reflected in the treasury operating procedures
- Managing risk is complex: consider outsourcing or managing in-house.
- Financial risks come in in many forms and include:
 - Liquidity (cash availability)
 - Interest rate
 - Foreign exchange
 - Credit
- There are a number of key cash processes that must also be facilitated:
 - Payments must be authorised and released
 - End of day balanced books
 - Cash accounts reconciled
 - Errors identified and investigated intra day
 - Accounting entries posted to General Ledger
 - Documented audit trail

Common Problems

The following represent many of the common problems that exist. We have identified how they manifest themselves and how they impact on a business.

Current Situation

- No clear responsibility for each risk class
- High volume of manual processes
- Insufficient management guidance on the risks to manage
- Financial positions unrelated to offset hedge balances [A requirement of IAS 39]
- Independent pockets of processing, reliant on spreadsheets, paper and standalone systems
- Complex products not supported by existing systems or business processes
- Key Information stored on paper and inaccessible electronically (e.g. bank statements)
- Spreadsheet based – no audit trail, manual entry of figures, cutting and pasting columns

Leads to the following:

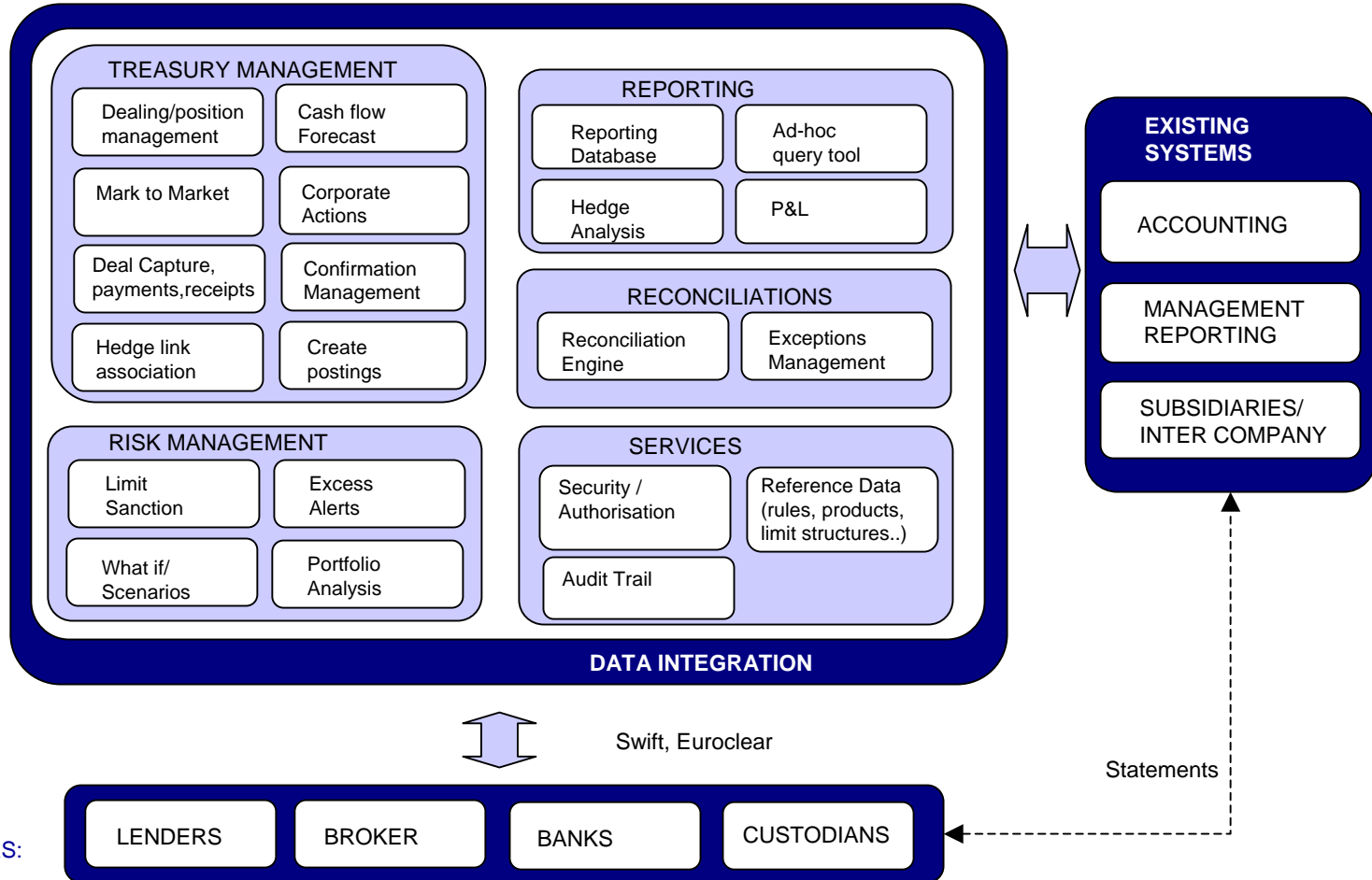
Impacts

- Some risks are unmanaged – only recognised when money is lost
- Management risk appetite not understood - greater risks taken inadvertently
- High risk of errors - leading to financial loss
- Expensive to run
- Risk of fraud, poor audit trail - frauds difficult to detect and counter measures taken
- Assets not being used effectively (e.g. risks are not set off internally where appropriate)
- Only basic position reporting - no value added analysis
- Rising volumes (expansion) will exacerbate problems

Business Requirements

The diagram below outlines the key requirements of a corporate treasury and risk management system. The key functional areas are grouped.

CORPORATE TREASURY AND RISK MANAGEMENT SYSTEM



Why change now?

There are key reasons why the time is now right to change. These are highlighted below.

Complexity of Treasury and Risk Products

Many treasury functions have evolved with the business they support. Starting out as simple cash management operations and growing to include hedging and risk management. These in turn have led to the need for complex interest rate, foreign exchange and credit products to be used.

Many organisations still rely on legacy systems and processes or a multitude of linked and uncontrolled spreadsheets leading to mis-reporting of the facts and errors in the subsequent decision-making

Why does this make a difference?

Every day hedging products are complex to value requiring various data feeds for pricing. The products have multiple facets and cannot be 'simply added'. This requires a set of rules and a data structure to break down products to their basic constituents enabling comparison and analysis.

Harsher Regulatory Environment

The introduction of international accounting standards from January 2005 impose additional requirements for the reporting, monitoring and testing of appropriateness of individual hedges.

Sarbanes Oxley, currently restricted to US quoted or registered companies has reinforced the personal responsibilities of company management for operating effective monitoring and control procedures.

Basel 2, No direct impact yet, but insurance companies are already planning for compliance.

EU Savings Income directive has increased the onus of reporting balances to the appropriate tax authorities

Below are a list of challenges to determining a Treasury and Risk Management solution.

Business Case

Ensure there is a solid business case and sponsorship right at the start of the project.

The business case may include costs of incorrectly hedged risks, internal hedging efficiencies and the cost (reputation and financial) of fraud. Some changes are mandatory - imposed by regulators. For example derivative products will become more visible through the imposition of IAS 39/FAS133.

Clearly identify stakeholders and ensure that ownership of the business benefits is clearly communicated

Needs Analysis

The solution should be positioned as a strategic solution.

Conduct workshops to determine what business problems need to be resolved now and in the future (e.g. need to capture medium term future requirements arising from business expansion plans and expected changes).

Square Mile recommend a timeframe of 3-5 years future proofing.

Solution Selection

What are the options and which should be progressed? What are the pros and cons ?

Can the existing business processes be improved ?

Are additional controls required ?

Consider in-house development for cutting edge bespoke solutions or a third party package solution for more standard requirements.

Understand the trade off between out of the box solutions and those which deploy a high degree of configuration

Document detailed business requirements and select and cost out preferred solution option



Types of Solutions

Outsourcing

Do you have the necessary skills in-house.

Can you manage those skills effectively ?

Should the day to day operation of treasury be outsourced with appropriate risk/return benchmarks.

System Selection

Fast track the selection process

The process should be focused and requires significant involvement of business users, vendors and must be managed on a day to day basis.

Can be completed within 3 months

In-House Build

Is the solution cutting edge and not readily available from a software vendor?

Is there a strong culture of managing software development within your organisation?

Our Experience

The treasury market is fairly mature with the most products comprehensively modelled and supported within a broad range of solutions. The most prevalent solution is to perform a third party system selection and expect to perform approximately 20% customisation during the configuration process to meet requirements specific to the organisation.



Why use us?

- **Credentials.** We understand the Treasury and Risk Management business and the underlying technologies. We also have in-depth knowledge of both cash management and financial accounting needs.
- **Vendor Knowledge.** We are aware of the vendors in the market place and have recently undertaken vendor research on treasury, risk and financial systems solution providers. We are also in touch with the key cash management vendors. This will reduce time spent in understanding which vendors to consider and short list.
- **Experience.** We have significant experience of successfully implementing cash management solutions. Our involvement in similar projects for other clients that address similar business architecture requirements will reduce risk and save time.
- **Fast Track Methodology.** We have a tried and tested “fast track” methodology and established track record in solution analysis / and system selection work. For example, we can use model business requirements to speed up the analysis process.
- **Road Map.** We can provide and end to end solution from initial study to final implementation.
- **Delivery.** We will ensure that we deliver to your requirements.

Recent Assignment

The Problem

Establish a new corporate treasury function within an aggressive deadline
 Overcome a lack of in-house treasury expertise
 Manage risks between three locations - London, Paris and New York

Our Approach

Identify key risks the business faced (foreign exchange, interest, credit risks)
 Develop a treasury Policy reflecting management risk appetite
 Obtain management approval of the policy
 Develop and implement standard procedures to mitigate each risk
 Provide focussed training for the business representatives.

The Benefits

Effective procedures to manage specific risks faced by the business across several business units
 Increase of treasury revenues of £270k in the first year of operation

What We Achieved

A successful project that implemented on time, to budget and fit for purpose



Who Are We

- **Square Mile Consulting** delivers innovative business and information technology solutions.
- Our focus is always to achieve measurable business benefits in a cost efficient way.
- Our expertise is primarily aimed at IT and Operations in Financial Services including Asset Management, Investment and Retail Banking, Insurance and Corporate Treasury.
- We only employ experienced practitioners.
- What we do:
 - Project and programme management
 - Business and IT strategy
 - Systems and service selection
 - IT Systems implementation
 - Business Process review and re-engineering
 - Outsourcing
 - Disaster Recovery
 - Training - project management, programme management and user acceptance testing

Our Approach to Client Assignments

- **Methodology.** Our project management approach is based on PRINCE 2, a UK government methodology
- **Partnership.** We always develop a partnership with our clients ensuring an open and honest appraisal of progress is made through regular progress reports and update meetings
- **Proven abilities.** Our success is based on a set of proven abilities enabling us to:
 - Accurately define scope and manage change
 - Meet business objectives and realise measurable benefits
 - Manage risks and issues
 - Identify key deliverables and milestones
 - Manage all project participants including business, IT and suppliers
 - Manage communication of progress at steering group and project team levels
 - Coach and mentor client operational and support staff
 - Quality is controlled by systematic review and sign off of stage deliverables

If you require any further information please contact:

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