THE GROUP TREASURER

An ACT guide to the first 100 days

100

ACT

TREASURY
EXCELLENCE
AS STANDARD

In hindsight, what do you wish you had known in your first 100 days as a senior treasury leader?

Don’t be afraid to ask questions when you first join – asking obvious ones several months later will be embarrassing. It is also important to get to know your team as people and their capabilities asap (and if you are new to the organisation, your business)
Jono Slade – AstraZeneca

It is very important to learn about the business model of the company at first. Which values are created where, where the treasury department currently is involved and can support creating value. What are the biggest challenges and manual workload that is hindering project and development work.
Thomas Woelk – CECONOMY

Coming into a new multinational and rather decentralised mid-size company I wish I would have had a clear list/map of all the bank accounts and thereby banking partners from all subsidiaries and group companies.
Christian Bartsch – Zentren für Neue Technologien

A clear picture of who the stakeholders are: a comprehensive overview of the treasury network outside the team (controlling, tax, accounting, legal, audit AND management of the most important companies), as well as a comprehensive overview of contact persons with core banks
Regina Deisemann – Verband Deutscher Treasurer

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The Group Treasurer: an ACT Guide to the First 100 Days – ACT introduction

Caroline Stockmann
Chief Executive, the Association of Corporate Treasurers

This guide is intended to support treasurers as they navigate their new role – at the top of the treasury career ladder. Many will have come from other finance disciplines, but this will be their first step into the treasury function, and they will be leading an experienced, professional team. There will be others who are combining leading on treasury with another main role – perhaps tax, their own area of professional expertise, or they might be a CFO who has a smaller team and no explicit treasury roles. They may however have a significant P & L and balance sheet responsibility. As we know, even large multinationals often have only a couple of people working in treasury specifically, and some have none.

The Guide can also be used as a 'refresher', and each short chapter will highlight the key 'need-to-knows': what do you need to be on top of, and what can you expect from your team? We will also reference where further information can be found. For example, the ACT's treasurers' wiki (https://wiki.treasurers.org/wiki/Main_Page) is an invaluable resource when needing to check terms.

The ACT Competency Framework forms the basis for all the training and qualifications we run. Developed with the input of professional treasurers, the framework sets out the technical, business and behavioural skills required at four levels of operation: tactical, operational, managerial and strategic. It is complemented by a summary of the job roles to be found at each level, and all of our qualifications reference which level of learning they provide. This gives a comprehensive view of the profession, what it entails in terms of roles and skills, and offers a pathway to progress through a career in treasury for those in your team who would like this. I am highlighting this upfront, as the Competency Framework is a fundamental source of information for anyone new to the treasurer role.

> Working in treasury is the best opportunity under the CFO to work in an external-facing role. Building relationships with external stakeholders is fundamental to any business and treasury is your opportunity to gain that experience
>
> *Sarah Jane Hall, GSK*

You may only be in treasury a short time, or be working 'in' treasury on a part-time basis, as needed. Whatever the case, I would ask you now the question: what will you take away from your time in treasury? When you look back, what will success look like? Over the following pages you will find a number of 'vignettes' from treasurers, current and past, telling their stories about what they have gained from being in treasury, what they would do differently in hindsight, and what their first 100 days were like.

I hope you will find the Guide a useful tool, and remember: the ACT is here to support you, whether you are a member or not, as our Mission is to 'embed the highest standards of professionalism and integrity in the treasury world, and act as its leading advocate.'

The Group Treasurer: an ACT Guide to the First 100 Days – Deutsche Bank introduction

Ole Matthiessen
Deutsche Bank, Corporate Bank, Global Head of Cash Management

Back to basics: a trusted companion in uncertain times

As the way we work changes, the way we interact with clients has changed in tandem. Rather than offering "one size fits all" solutions, the emphasis is increasingly being placed on providing solutions tailored to the demands of today's fast-changing circumstances. Against this backdrop, guidance on best practice from trusted advisors has become a critical part of treasury.

At no point is this more important than in the first few days at the desk in a new role. When speaking to our clients – many of whom had recently moved into treasury roles for the first time – it became clear that the information to guide them through their first 100 days and beyond was not a readily available resource. Often we would see an individual finding themselves lost in their new role – having to balance learning a host of new, often alien, concepts, with the need to quickly get up to speed.

Equally, as the treasury function has evolved in recent years – with new processes and technologies moving centre stage – providing treasury professionals with a concise "refresh" of the latest developments is particularly valuable, especially for perennial challenges, such as the availability of liquidity.

To help meet these challenges, we have looked to create a guide that goes back to basics – and the ACT seemed the perfect partner for this. While the ACT can provide treasury professionals with training and qualifications necessary for a successful career, Deutsche Bank, in its role as a trusted advisor, can provide up-to-date insight on the options available for treasurers in the market. Over the years, we have worked with an array of clients and have an expert team that can – through their knowledge of the suite of products available and their longstanding relationships with treasuries across a host of industries – help you to navigate your new role, as well as the new environment.

This guide provides valuable insights into the role of treasury, what you need to know about cash and liquidity management, and the innovative technologies that can support you in your new role, as well as the best practice advice needed to gain maximum benefit from your time in your first – and perhaps most important – 100 days in treasury. However long or short your experience in treasury may be, we hope this guide acts as a useful companion.

What is the role of treasury in an organisation?

Corporate financial management

- accounting and reporting
- business valuation
- capital structure
- corporate strategy
- investment appraisal
- legal documentation
- regulation and law
- tax

Capital markets and funding

- asset and project finance
- bank lending
- credit ratings
- debt capital markets
- equity

Cash and liquidity management

- cashflow forecasting
- cash management
- payment and clearing systems
- short-term liquidity

Treasury operations and controls

- control and reporting
- policy and objectives
- technology and systems
- treasury organisation

Risk management

- business and operational risk
- commodity risk
- credit risk
- exotic risk, e.g. options
- foreign exchange risk
- interest rate risk
- other financial risk, e.g. insurance
- pensions risk

The treasurer's role has been evolving since the ACT was established in 1979, before which it wasn't really considered as a separate profession. It has developed at different paces in different geographies, and can be a very different job from company to company. Some treasurers spend most of their time managing cash and liquidity, while others concentrate on corporate debt structure. Increasingly treasurers are becoming managers of 'net working capital' rather than cash managers in the traditional sense. One of the biggest developments has been the impact of globalisation and the speed with which information is received and processed. Ten years ago it was common for companies to have a treasury function in each country. Today, technology has enabled greater centralisation and it is more usual to see regional or even global treasuries working with real-time or near real-time information.

Figure 1 on the following page shows the different top three priorities that a treasury department will focus on depending on their company type. Whereas for all company types cash management and/or cash forecasting is present, we can see that within capital intensive and public companies there is a greater emphasis on funding and financial strategies including shareholder relationships. This is especially the case when the company is funded with private equity, where risks in ownership are at stake.

Privately held companies, such as family groups, on the other hand are more focused on cash and working capital management. Each company requires different skills in the treasury department and the treasurer has to ensure that their staff has the right capabilities and tools to perform their tasks.

"As you enter treasury for the very first time one of the first hurdles to overcome is getting a view on what your particular focus, and the particular focus of you organisation, will be. Treasury encompasses a wide variety of disciplines, not all of which will fall under your treasury's strategy. As you make this transition and look to gain the requisite expertise needed, you are certainly not alone. You should, where possible, lean on your banking partner, who may even have a longstanding relationship with your organisation, for advice and guidance."

Bas Marteijn, Global Head Sales Corporate Cash Management at Deutsche Bank, Corporate Bank

Figure 1: Top three treasury department priorities, by company type

Ranking	Capital Intensive	Global	Large	Public	Private
1.	funding and financial strategy	cash management	cash management	funding and financial strategy	cash management
2.	risks in ownership	intercompany finance	treasury infrastructure	cash forecasting	cash forecasting
3.	cash forecasting	treasury infrastructure	cash forecasting	treasury infrastructure	working capital/ trade finance

Further reading:

https://www.treasurers.org/learning/competency-framework/overview

https://www.treasurers.org/hub/treasurer-magazine/five-key-traits-behind-high-performing-treasuries

How is the treasurer role different from those in accounting and controlling?

Although treasurers work in the same finance field as their colleagues in the controlling and management/financial accounting functions of an organisation, and are often part of the same department, there are some keys differences in how treasurers look at the numbers. The main difference is perspective. Traditionally accountants and controllers have more of a focus on historic data, and what has happened, whereas treasury looks mainly forward, with a greater emphasis on forecasts. This difference is also driven by the international accounting rules (IFRS, US GAAP or any local equivalent) to which accountants and controllers must adhere when reporting. There are some specific examples that bear consideration:

Ledger balances vs value date balances

Accounting rules, and therefore accounting systems, tend to look at the ledger balances of amounts where the date on which the amount was recorded on the bank statement, i.e. the ledger date, is the critical date. However, as treasurers need to know on which date the amount is available to earn interest, a treasurer will focus on the value date of any amount.

Credit balances vs debit balances

Another common miscommunication between the different functions is the different use of debits and credits. Accountants/controllers are used to posting journal entries where from a balance sheet perspective a debit signifies an increase in value, and a credit a reduction in value. However, for treasury staff a credit is an increase in value, and a debit a reduction. This simple difference is often cause for some awkward conversations between both professions.

Treasurers are more likely to use management (accounting) reports rather than financial statements in their day-to-day work. However, as external counterparties of treasurers such as bank or credit agencies are often looking at the financial statements, this means that treasurers also need to understand the official financial statements of a company and their implications.

Value date

In relation to a bank account, the date on which value is recognised for the benefit of the account holder. This will commonly be later than the date on which funds were deposited into the account. The most significant timing differences usually arise on cheques and other slower fund transfer systems.

https://wiki.treasurers.org/wiki/Value_date ↘

SPECIAL INSIGHT:
The strategic treasurer

Technical capability is critical for the treasurer in order to manage the 'nuts and bolts' of the role, and being 'tech-savvy' is also essential nowadays. But we find more and more it's the strategic skills which are in high demand. Many treasurers say that the 'softer skills' are the ones they need to build on to progress their career, and they are therefore actively engaging in personal development in order to make themselves a more-rounded treasury professional – with change management, communications and relationship-building skills being key areas of focus.

Discussions with treasurers during an ACT virtual treasury week have indicated that the top three strategic skills are:

1. relationship management skills
2. leadership skills including change management and communications
3. innovation and 'thinking outside the box'.

Relationship management skills

The treasury team must be able to bring internal stakeholders together and to build relationships within different teams. They should be able to understand the business and provide the correct advice. They must also manage external relationships with bankers, credit rating agencies, the treasury network and other stakeholders. The ability to provide concise, clear information as well as to manage the different relationships with all stakeholders are both critical skills.

> Clearly identify your stakeholders and invest in understanding and assimilating their perspectives into the treasury strategy. You need to be across the detail but also adept at explaining treasury content in a simple but robust manner to senior audiences.
>
> *Stewart Cox, BHP*

Leadership skills

It can be difficult to define what a good leader looks like, although a manager who is keen to develop other people, and is enthusiastic and open tends to create a positive, collaborative team around them. Being a good manager and developing the team is therefore an essential skill. But group treasurers should provide leadership within the company as well as within their teams. The treasurer needs to be visible company-wide and get buy in from the whole organisation.

Innovation

Treasurers should drive change and champion fresh ideas. If they are new to a role, they must bring the experience they have to provide different ways of doing things, and always question why things are done in a certain way. Innovation can be linked to being inquisitive – thinking beyond the obvious and wanting to ask questions that challenge the norm.

How can you understand your skills?

There are various resources you can use to understand your strengths and weaknesses. For ACT members (including eAffiliates*) the assessments within the ACT Career Hub provide useful information on the areas in which you excel and those you may need to develop. The strengths assessment in particular will enable you to categorise your abilities and can be found at https://careers.treasurers.org/resources/careerassessments/

Other insights are also available in the ACT's monthly general newsletter which anyone can sign up for, or indeed in our other online content and YouTube channel.

A unique perspective

Treasury has the visibility to see across departments and areas to come up with a holistic view. By understanding the wider business and being able to see all the moving parts, it can provide a considered, objective assessment that can help to build long-term plans.

The ability to provide this holistic view requires the treasurer to develop their business and behavioural skills alongside their technical skills. Judgement, leadership, relationship management and an understanding of the wider picture are all key.

When you are new in role, you may primarily focus on learning the business and the technical areas you need to cover. These are of course critically important – but remember that other skills will help you build relationships with colleagues and stakeholders, and focusing on clear and concise communication, are also vital. You will be assessed by others very quickly, so you need to get those first impressions right – as often you only get the one chance.

*eAffiliate membership is available for a modest annual fee and includes access to most ACT full member benefits including our regular publication The Treasurer, comprehensive online content and access to member-only events

How is my treasury department set up?

Most treasurers join an existing treasury function where the design has already been decided, shaped, and moulded by a number of factors, such as company strategy, financial strategy, history, and culture. To that extent there is often little that can be done to influence or change the treasury design. However, change can and does happen and there are start-up treasury projects where the department must be designed from the ground up. The treasurer should not be afraid to change the function to reflect the changing needs of the business, its financial strategy and financial risk management. It can, however, often take an event or shock to persuade business management to accept the need for change – as demonstrated by the COVID-19 crisis.

Treasury structures are as varied as the business strategies which they support, although we may come to expect some similarities between treasury departments in the same economic sector and of the same size. Despite the lack of rule-based models for treasury, there are some descriptive models and generally accepted dimensions of organisation that, at the very least, provide a point of entry for discussion.

A possible starting point to describe how a treasury function is managed is by addressing the response to risk that a treasury function embraces, depending on whether the treasury organisation is de-centralised, centralised or a mixture of the two. De-centralised treasury functions leave a large operational authority with the subsidiaries, perhaps only providing central policy-making. In a fully centralised treasury function operational activities are handled from the treasury centre as much as possible.

In all cases treasury, whatever the level of centralisation, needs to be an excellent business partner.

Figure 2: Treasury organisational structures/sophistication

	Elementary (ignores group efficiencies)	Intermediate (exploits group efficiencies)	Advanced (compromises due to complexity)
Treasury centralisation	De-centralised	Centralised	Balanced (e.g. in-house bank)
Treasury objective or definition	Cost centre	Value added/ cost saving centre	Profit centre

The expected contribution of the treasury function to the objectives of the organisation needs to be clearly set out as this will determine the attitude towards treasury risk exposures. Three common approaches set out above and below are those of ‘cost centre’, ‘value-added centre’ or ‘profit centre’:

a. a cost centre is a treasury function that acts as a service centre and hedges operational exposures at a cost. In addition to managing risks, a cost-centre treasury can add value by using techniques, such as currency-flow matching or cash-balance aggregation, to reduce costs without adding to the risks

b. treasury value-added centres are a more risk-tolerant variant on a pure cost centre. A value-added centre is a treasury department that – like a cost-centre treasury – acts primarily as a service function, but is also allowed a degree of discretion about when to hedge, with a view to adding value to the organisation by reducing net costs. Hence a value-added treasury can add value in a way that is beyond the authority of a cost-centre treasury. However, value-added treasury centres are not allowed to take speculative positions in the financial markets: the only speculation that is allowed is to leave existing commercial exposures unhedged and this discretion is subject to limits on the amount of unhedged exposure that the organisation is prepared to tolerate. Value-added treasury centres are sometimes also known as cost-saving treasury centres

c. a profit-centre treasury function may actively create market positions with a view to earning profits, as well as hedging. Profit-centre treasuries require sophisticated treasury operations and systems with robust internal controls and management reporting.

The second aspect that will determine how the function is shaped is the segregation of duties within the department. Large corporates are usually involved in a significant amount of trading and movement of funds, which introduces an element of operational risk. To mitigate this risk, a treasury function is typically split into a front office, a middle office, and a back office.

The front office enters into financial transactions with financial institutions and maintains the relationship with external parties. The middle office confirms and verifies these transactions as part of its risk management activities to 'control' the front office. The final steps of a transaction are performed by the back office, which initiates the funds settlement and records the transaction in the accounting system of the company. Sometimes the back office also performs bank account reconciliations, however it is more common for this to be performed by the accounting department.

In smaller organisations it is common to see the full back office integrated with the accounting or finance department outside of treasury.

The set-up of the treasury function will determine the number of employees in the department and their required skills. Considering that every position ideally needs to have a back-up to provide cover during holidays and sickness, this means that a typical treasury function would have between three and six members of staff with a treasurer leading the department. The average number is in fact four for multinationals, but when those organisations with huge numbers (100s) of treasury staff are stripped out, the average is only two – demonstrating that many treasury teams are stretched for resources and sometimes need to find back-up from other finance functions.

Further reading:

https://www.treasurers.org/hub/treasurer-magazine/planting-seed ↘

https://www.treasurers.org/hub/treasurer-magazine/how-segregation-duties-protects-treasuries-fraud ↘

What is the relationship between the corporate treasurer and the board?

The board sets the vision and the strategic direction of an organisation. The treasurer is the enabler of this vision and strategy from a treasury point of view.

In many cases the treasurer will write policies that will then need to be approved by the board. This is also where a treasury committee comes in. A treasury committee is a great opportunity for the treasurer to liaise with senior leadership of the organisation, in order to report on the functioning of the treasury department as well as to propose changes to the overall strategy.

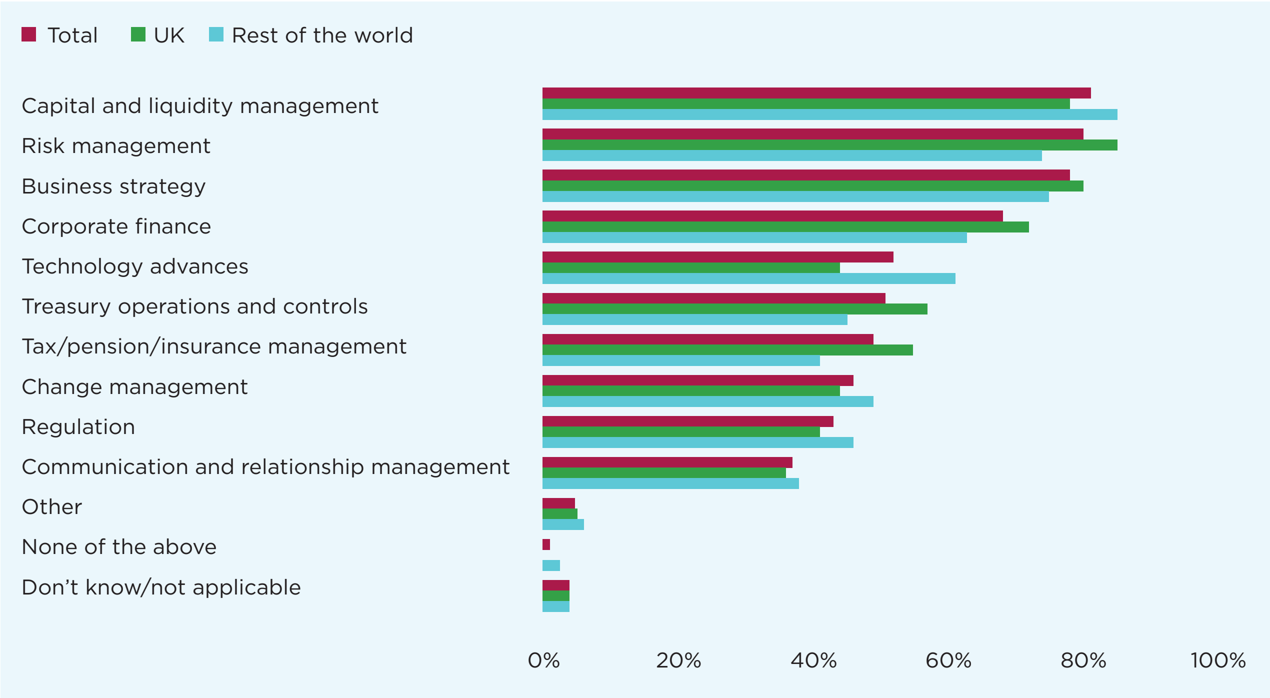
When coming into a treasury function for the first time, make it a priority to understand the vision and strategy that the board has set. If it is your mandate to establish a new treasury department or to lead a treasury function through a period of change this is especially important, as any set-up will need to reflect the wider vision and strategy of the organisation. For example, if it is the company's philosophy to operate in a very de-centralised manner with a significant level of independence for the subsidiaries in the group, it would not be appropriate to establish a centralised treasury function with full cash concentration systems in place.

As part of the ACT's Business of Treasury 2020 global research we asked participants what the board wants to talk about with treasurers. The top five topics were capital and liquidity management, risk management, business strategy, corporate finance and technology advances (but the board has less time for regulation). There are modest variations by region as to what tops the list, with capital and liquidity management coming in highest overall and topping the agenda in the US and the Middle East. In the UK risk management is the topic most debated (see Figure 3). The complexity of the issues being discussed demands that treasurers develop their skills and capabilities even further.

Ask yourself what treasury related issues the board, CFO, equity and debt holders, banks auditors, credit rating agencies and other external stakeholders have been/are concerned about. Who will you need to influence and how?

Jono Slade, AstraZeneca

Figure 3: Topics the board has expressed interest in over the past six months



Source: Business of Treasury 2020

The board has ultimate responsibility for financial risk management and for approving treasury and financial risk policies. In larger organisations, financial risk management tasks may be delegated to a sub-committee of the board, often called the (Treasury) Risk Management Committee. The contribution of the treasury function is to recommend financial risk management and other policies and to ensure that approved policies are followed.

This interaction with the board is often enhanced in times of financial crisis – and, as we see with COVID-19, is an opportunity to build a trusted relationship with the board.

Further reading:

https://www.treasurers.org/hub/research/business-of-treasury

https://www.treasurers.org/hub/treasurer-magazine/how-treasurers-should-respond-key-board-queries

https://www.treasurers.org/hub/treasurer-magazine/top-tips-presenting-board

What do I need to know about treasury policy?

Treasury cannot operate in a vacuum and must not operate in a silo. Its strategy and its policies need to reflect, and even complement, those of the rest of the organisation. It is important, therefore, to remind ourselves of the root of authority and governance within an organisation and consider broadly how this influences treasury policy design.

The treasury policy should first establish how much risk the organisation is willing to accept and how it will actively manage that risk. The policy should also detail the roles and responsibilities of the treasury function and the staff within it. It should be maintained as a key working document that outlines the objectives of the treasury function, the risk appetite and the boundaries within which the function can operate. As such, the policy should be regularly reviewed and updated: not simply filed away until the internal auditor asks to see a copy, by which time it may have lost much of its relevance. It's a good place for the new treasurer to start.

The treasury function is interacting on a regular basis with internal parties (such as tax and accounting) and external counterparties (such as regulators and rating agencies) and the treasury policy should reflect this interaction by, for example, cross-referencing to the departmental policies for tax and accounting.

In practice, many organisations spread the treasury policy over two or three documents: the first is a very high-level summary that the board approves on an annual basis; the second is a more detailed description of the risks and how they are going to be managed; the third is comprised of appendices that detail items such as banking relationships and authorisation limits for individuals and instruments.

The main components of a comprehensive treasury policy will include:

- objectives of the treasury function
- roles and responsibilities of the treasury function
- detail of each risk that is being managed
- permitted hedging instruments
- authorisation/approval limits by instrument and risk type
- list of bank relationships and permitted transaction banks
- key performance indicators (KPIs)
- confirmation procedures
- settlement procedures.

In recent times we have seen the growing importance of including environmental, social and governance (ESG) aspects in a treasury policy. Please refer to the section on sustainable finance for an insight into the need for a sustainable finance framework.

Developing a treasury policy does not finish when it has been approved by the board; once approved it should be further worked out into departmental KPIs, which are monitored on an ongoing basis. And the policy itself should be reviewed on an annual basis, or more frequently if circumstances change dramatically. Approved treasury policies will be reflected in treasury operating procedures and treasury processes, such as those attached to a treasury management system that is configured to

Figure 4: Roles and responsibilities

Management level	Role and responsibilities
Board of directors	■ establishes treasury objectives within the context of corporate policy and objectives ■ approves the control process ■ establishes a Treasury Risk Management Committee (TRMC) as a committee of the board, as applicable ■ reviews the TRMC's or treasurer's recommendations on treasury policy, strategy, and performance ■ approves any material changes to treasury policy and strategy; has ultimate responsibility for all treasury policy.
Treasury Risk Management Committee (TRMC)	■ oversees regulatory and financial covenant compliance ■ establishes measures and reviews treasury performance ■ establishes and reviews annual treasury budget ■ approves changes to policy and strategy that do not require board approval.
Finance Director or Chief Financial Officer	■ responsible for management of treasury and finance departments ■ approves treasury strategy and any changes that do not require board or TRMC approval ■ reports to TRMC and board on treasury activities and performance.
Treasurer	■ manages the treasury function ■ implements policy through detailed operating procedures ■ develops policy and control procedures ■ documents compliance and performance through reports to the finance director, the TRMC and board of directors ■ approves treasury initiatives and transactions within their level of authority.

adhere to and monitor compliance with the treasury policy. By checking out the policies and their monitoring/reporting, the new treasurer will gain a good grasp of what is expected of their function, and what to watch out for.

Further reading:

https://www.treasurers.org/hub/technical/briefing-notes/Guidance-For-Producing-Treasury-Policies-Oct-19 ↘

https://www.treasurers.org/hub/treasurer-magazine/how-produce-treasury-policy ↘

How has treasury changed since you started in your role?

I would say become even more of a thought partner to the C-suite/board in several areas as volatility across the world has become a way of life, be it in currencies or geo-politics. The horizon for planning and the triggers to do so are different and more frequent; one has to be far more agile and adaptable.
Vinod Rao – Diageo

Voice dealing and written confirmations have largely been replaced by Treasury Management Systems, various banking, FX and other digital execution and matching platforms. Trusted and open bank relationships have remained essential.
Simon Neville – RB

I've seen finance play an increasingly important role in defining and executing corporate strategy. Similarly, treasury is becoming a key commercial and analytic arterial within finance's mission. So, overall treasury is playing a vital role in the success of the corporation.
Stewart Cox – BHP

Digitalisation is rapidly changing treasury - from paper transfer vouchers to the first electronic signature via EBICS and now discussions on eBAM and tracking of payments.
Regina Deisemann – Verband Deutscher Treasurer

SPECIAL INSIGHT:
COVID-19 and its impact on treasury

Caroline Stockmann, Chief Executive, The Association of Corporate Treasurers

Somewhat different in its nature from the 2008-09 Global Financial Crisis (GFC), the COVID-19 crisis that developed in early 2020 more than firmly placed the treasurer at the centre of the business and economy. Liquidity and cash management came first and foremost, and getting that right meant the survival of the company – or not. One treasurer told us their 'general distrust of the system' meant that they had designed their risk management accordingly, so were in a good position. But sometimes even a healthy skepticism is not enough to prepare you for disruption at the scale of COVID-19.

A leading question arose several weeks into the crisis, once governments had offered schemes to help with liquidity, and boards were considering what to do: is it better for the organisation to have the additional liquidity 'in the back pocket', in effect, or will that cause reputational damage as stakeholders criticise the company for accessing schemes intended for those really in need? From a wider market perspective there was concern that drawing down on rarely accessed revolving credit facilities would place bank balance sheets under strain and ration credit to those in real need of it. Although the enhanced regulation introduced since the GFC has helped make the banks and markets more robust (it doesn't bear thinking about what might have happened if COVID-19 had hit in 2008), there is still risk.

Board members, we noted, were very conservative at this stage, and were encouraging – if not demanding – that their treasurers access the

> Never say "never" to a scenario which tells you that the world is shutting down and any business comes to a nearly complete stop. Welcome to the COVID-19 world and the massive impacts treasury leaders have to deal with!
>
> *Frank Waechter – PUMA*

additional liquidity, and their desire for this access often correlated with their previous experience. So, if their fingers had been burnt in the past, then they were more conservative than otherwise. Investors were also expressing similar concerns.

The take-out from this is two-fold: 1) ensure your relationship with your board is good, you have access to them and they trust you (or alternatively ensure this is the case indirectly, through your CFO), and 2) be aware of the broader risks to the organisation in times of change, crisis and uncertainty. To partner your CFO and board effectively entails having a handle on all the risks, not only the financial ones. Under COVID-19 many organisations withdrew their requests for government financial support due to the greater concerns of reputation – and today the stakeholder view is probably more important than that of the shareholder.

Bank relationships were generally positive through the early months of the crisis – a very different situation from the GFC. Banks in general were trying to support their clients, and were asked by central banks to act as conduits to get liquidity out into the market. Some, however, were less helpful, and this is where the treasurer is likely to reconsider their bank portfolio for the future. The learning is about ensuring your bank relationships are very healthy, and that you keep up regular contact with them. The degree of difficulty involved depends on the industry you are in or how new you are to your role – so the message is: treat your banking relationship as a priority, even in times of no crisis.

Other learnings have been more positive perhaps – discovering that treasury departments are operationally resilient and can move seamlessly to working from home (without losing any key controls). This can in turn create opportunities for a more diverse team going forwards, as well as the ability to attract the best talent from having a wider global pool. Not only people from different geographies can be included, but also those with disabilities, family commitments and other factors which mean they prefer to work from home. Though we were heading in this direction pre-coronavirus – with many young people demanding the change – the trend has been significantly accelerated in recent months. It will be a fight for the best – globally potentially, as things settle down – but in the meantime it's a bit of a hirer's market.

Other aspects of technology have been similarly accelerated through the crisis, and the group treasurer needs to keep abreast of developments. The ACT's partnership with the Centre for Finance, Technology and Entrepreneurship can help keep you up to date, as can our webinars, articles (online and print) and events.

Further reading:

https://www.treasurers.org/hub/technical/covid19

https://www.treasurers.org/hub/treasurer-magazine/covid-19-and-reassembling-the-treasury-function

https://www.treasurers.org/hub/treasurer-magazine/how-covid-19-driving-central-bank-currency-innovation

https://www.treasurers.org/hub/treasurer-magazine/post-COVID-19-supply-chain

https://www.treasurers.org/hub/treasurer-magazine/how-money-market-funds-are-passing-the-crisis-test

https://www.treasurers.org/hub/treasurer-magazine/how-corporate-treasurers-must-manage-covid-19-crisis

What do I need to know about cash & liquidity management?

Liquidity enables an organisation to pay its obligations wherever and whenever they fall due, as well as source additional funds to meet further obligations. Cash management – or the physical day-to-day management of cash – is a tool of liquidity management that is used to ensure those obligations can be met (see Figure 5).

It is a treasurer's task to ensure that cash flows (receipts and payments) throughout the business are processed as efficiently and securely as possible. Optimising bank charges and float (the time that a transfer is 'in transit') can produce significant cost savings. One way of doing this is by organising bank accounts into notional pooling or cash concentration structures. It is important for the new treasurer to establish which of these options, if any, is adopted in their company and why.

The primary purpose of a notional pool is to reduce bank interest to be paid or increase interest to be received, with a side benefit being that bank

Figure 5: Cash management overview

Cash management includes	
Day-to-day cash control including intra-day where necessary	Having the information to monitor bank account balances and tools to manage liquidity to ensure that the organisation has enough cash or near cash resources to meet its immediate obligations
Money at the bank	Building an efficient bank account structure that minimises overall borrowing costs, maximises overall interest earned and facilitates liquidity management
Receipts	Maintaining bank accounts optimised for collection streams and an efficient infrastructure for managing items in the course of collection
Payments control	Maintaining bank accounts optimised for making payments, routine or urgent, together with appropriate systems support
Short-term investments	Optimising the use of surplus funds with short term investments
Short-term borrowings	Utilisation of borrowing facilities to cover immediate funding shortfalls

"While learning the underlying concepts behind cash and liquidity management is, of course, a vital first step, it is important to remain nimble when looking at the solutions your company may need. As we find is often the case, treasury departments require a tailored suite of products and solutions to meet their specific cash and liquidity needs. It is here where having a trusted banking partner at your side – one that truly understands your business and industry and can offer advice and solutions – is particularly valuable."

Suman Chaki, Global Head – Cash Management Structuring, America's Head of Cash Management-Sales at Deutsche Bank, Corporate Bank

balances are aggregated into a single pool – improving access for treasury to the overall pool balance. For the purposes of calculating credit or debit interest, the bank determines the net position of each balance in the pool accounts, allowing debit balances to be offset against credit balances even though there is no physical movement of funds. It is the fact that funds do not physically move in a notional pool that is its defining characteristic. This type of structure is frequently seen in corporate groups with some form of centralised treasury and interest is charged or credited by the bank on the net position only, rather than on the gross balance in the separate amounts.

The second major technique for managing group funds is cash concentration, where balances – both debit and credit – in participating accounts are physically transferred into a centralised concentration account for management by group treasury. The major difference between concentration and notional pooling is that the balances in the accounts are physically moved into the concentration account.

Some treasurers are reluctant to take up notional pooling, as they do not want the related indemnity between entities, whereby the cross-guarantee might mean one entity became liable for another's debt if they were to go bankrupt, for instance. And some countries actually prohibit notional pooling. In these cases the treasurer may look for a bank to provide a different interest-optimisation solution that grants preferential rates on aggregate balances across multiple countries and currencies. This won't have the full benefits of notional pooling, but would be the next option to explore.

Other advanced cash management solutions which treasurers may use/have exposure to are:

Payment factory	A payment factory is a centralised facility that undertakes the execution, administrative and reporting functions associated with payments. This generally will not come under the remit of the treasurer, but has influence on payment efficiency.
Shared service centre (SSC)	A single business unit in which common finance and administrative functions are performed for multiple subsidiaries. An SSC delivers services to other subsidiaries or business units, regulated by service level agreements (SLAs). From a cash management perspective an SSC can lead to greater straight-through processing, an improved working capital position due to streamlined collections, and improved forecasting due to centralisation of financial information. Although most of these areas again will not be under the direct remit of the treasurer, additionally an SCC can take on some of the core treasury activities which are more 'sophisticated', such as the calculation of daily funding requirements, FX exposures, dealing, etc. This can have a range of benefits, and the reporting line will generally be into the treasurer.
In-house bank (IHB)	A vehicle where group treasury acts as the primary source of all banking services to operating units on an arm's-length basis. An IHB aggregates and nets out internal transactions. Only the differences are placed with external banks.
Virtual accounts	A solution offered by a bank where, underneath a physical account, the bank can create multiple virtual bank accounts with their own account number. These virtual account numbers can for example be issued to customers to speed up reconciliation or to manage intercompany transactions.

When considering bank account management it would be very convenient if all bank accounts globally were with a single bank from a technology and efficiency perspective – although diversification also has its merits. However, there is no financial institution that covers every region globally, and regions like Africa or South America lack any single bank that serves the whole region. There has been a growing trend towards companies being bank-agnostic, and becoming as independent from banks as possible in terms of technology and platforms used. New technology advances, such as the development of APIs and open banking initiatives, have gone some way towards making a bank-agnostic environment possible (see "What technology is available to support my treasury function?" for more details).

From a bigger-picture perspective, the use of many different banks is evidently inefficient, and many organisations are rationalising how they work. Multinationals may be unable to have one global bank, and probably would not want that dependency anyway, but solutions will often include having a limited number of preferred banks per region. Exceptions would have to be justified and go through an authorisation process.

Treasurers will often talk about 'relationship banking' versus 'transactional banking', but it would be rare in reality to have a purely transactional relationship and many banks work with favourable terms in one area in the expectation of gaining ancillary business (which is more profitable) from the same client.

Each cash management solution needs to be tailored to the specific characteristics of, and the strategy set by, the company – as well as the available bank offerings in the various regions. In practice, this means that you will often see a cash management solution that is a mixture of those mentioned here.

Apart from managing bank accounts, the treasurer is also involved in the inflows (receivables) and outflows (payments) moving through the bank accounts. There have been several initiatives since 2015 regarding cross-border payments such as the launch of the single euro payments area (SEPA) in Europe and the ability to track cross-border payments with the SWIFT global payment initiative (gpi).

For this reason, the treasurer can have a big (and positive) impact on the working capital ratios and KPIs of the organisation. Working capital is broadly composed of: inventory and work in progress, plus receivables, less payables. It and the cash conversion cycle can be controlled by adjusting the levels of inventory, supplier payment periods and speed of collection of cash from customers: all areas where the treasurer can have influence.

Treasurers should know about working capital for cash management and planning of financing. Their knowledge of the different ways of financing the various elements of working capital means that they can play a positive role in this process.

Cash and liquidity management is rarely taught as a subject in a financial degree or a professional accountancy qualification. It is, therefore, not a discipline that you would expect someone with a financial background or education to have extensive knowledge of. This is where the ACT fills that gap by offering certifications in this specialised area, in the form of the Award in International Cash Management

(AwardICM), and the Certificate in International Cash Management (CertICM). Both are very much geared towards those working in daily cash management and working capital optimisation.

Further reading:

https://cib.db.com/solutions/corporate-cash-management/Index.htm

https://www.treasurers.org/hub/treasurer-magazine/liquidity-first-three-tips-for-treasurer

https://academy.treasurers.org/qualifications/award-international-cash-management

https://academy.treasurers.org/qualifications/certificate-international-cash-management

https://www.treasurers.org/hub/technical/hot-topics/payments-cash

https://www.treasurers.org/hub/treasurer-magazine/cash-management-2020-the-payments-landscape

https://www.treasurers.org/hub/treasurer-magazine/how-treasurers-maintaining-cash-flow-covid-19-crisis

SPECIAL INSIGHT:
What is an in-house bank and why might I need it?

Christof Hofmann, Global Head of Payments & Collection Products, Deutsche Bank, Corporate Bank

When we speak to treasurers, among the questions we regularly get asked is “what is an in-house bank (IHB)?”. And in the wake of COVID-19, as the focus of many treasury departments has turned to liquidity management and funding, the need for further centralisation of financial operations and enhanced visibility has put IHBs firmly in the spotlight.

In simple terms, an in-house bank is a centralised treasury function that acts as a bank for an organisation’s subsidiaries. It facilitates various financial services, such as settlements, funding, intercompany lending, liquidity management and FX management and, in doing so, unlocks a host of benefits for the user. These benefits include the ability to have a central view of exposures 24/7/365, which in turn leads to vastly improved forecasting, and the flexibility to deploy liquidity across the group – without it being stranded locally. It also allows treasury functions to be far more agile, which makes it easier to implement new solutions and technologies.

So why doesn’t everybody have an IHB already? First and foremost, it’s because an IHB is not right for all treasury departments – and at present is primarily used by large multinationals. There are a number of reasons behind this. The requirement for a baseline level of technological sophistication, as well as the additional resources needed to establish the IHB itself, makes implementation a costly exercise. In addition, managing change from the perspective of employees – who might see the centralisation involved in an IHB as a loss of autonomy – is another hurdle to overcome. Another factor is the fact that some local regulators prohibit IHB services – though there are plenty of examples of IHBs being used across a host of different countries. While these factors can make the internal “sell” of an IHB project difficult, communicating the benefits to your organisation and leveraging the local knowledge found in your various geographies can help to offset these challenges.

For those who see resources and costs as their primary constraint, in-house banking-as-a-Service (IHBaaS) could help. IHBaaS allows a cash management bank to host the IHB on behalf of their client, which can be used to either complement an existing IHB set-up or establish an IHB for the first time – without the typical resource requirements. This is lowering the barriers to entry for establishing an IHB – all while bringing the same, if not enhanced, benefits.

IHB is an important treasury tool and one that is growing in popularity. It could help bolster your treasury function’s future resilience – allowing you to be better prepared for future strains on liquidity. For those working in a multinational corporation, an IHB should certainly be considered, and for those who are keen to embrace the benefits, but don’t have the budget for the initial outlay, the IHBaaS could well be your key to unlocking these benefits.

What do I need to know about cashflow forecasting?

Cashflow forecasting is one of the most essential elements of managing cash efficiently and an important tool for the treasury department. If the forecast is prepared well and used properly, it is an invaluable aid in a company's cash management strategy and can be used for many purposes, including:

- liquidity management
- minimising cost of funds
- optimising the use of surplus balances
- foreign exchange risk management
- working capital management
- optimising core and ancillary borrowing facilities
- setting and monitoring longer-term investing and financing strategies
- preparing budgets for capital expenditure
- monitoring and setting strategic objectives
- financial control.

Not all of the above tasks are the direct responsibility of the cash manager; the last five in particular are more likely to be the responsibility of the chief financial officer.

For cash management purposes there are usually three time horizons for forecasting, each serving a different purpose and using different forecasting methods: short-term, medium-term and long-term (see Figure 6).

Short-term forecasts are usually driven by the receipts and payments data from accounts receivable and payable ledgers, interest and tax information, and net profit/performance reporting. They generally cover a period of approximately 30 days from when they were created. While those in highly geared or volatile businesses value them greatly, not all treasurers in cash-rich or cash-generative businesses use short-term forecasts. This has of course changed somewhat during the COVID-19 crisis, where the volatility and uncertainty around trends and assumptions were very high. And it does not just take a crisis to highlight the importance of short-term forecasts, as more companies now adopt them to optimise their investment of surpluses – even in "business as usual" conditions.

Medium-term forecasts often extend to a 'rolling' year. These allow the planning of 'big ticket' items, such as capital expenditure, tax and dividend payments, and funding maturities. Another use of these forecasts is to monitor future financial compliance with financial covenants in loan agreements.

Long-term forecasts are an essential tool in identifying trends and overall cash generation or consumption over time. They are usually driven by plan data prepared by management accountants, and the timescale will typically extend from one year's time up to three, five or 10 or more years.

There are several techniques that can be used to create a cashflow forecast. The best one to use will depend on the purpose of the forecast and the data and system that is available to the treasurer. Most treasurers will use a combination of techniques, including:

- receipts and disbursements model: accounts receivable and accounts payable are taken from a financial system and combined with other treasury transactions
- moving average
- exponential smoothing
- regression analysis
- distribution model, where the total estimated flows are allocated to the number of business days in the period
- pro-forma forecast, where the pro-forma balance sheet and cashflow statement are used to derive a cashflow forecast.

> "Treasury is a forward-looking financial discipline that gets to the heart of what makes an organisation tick: cash! Whether that's short-term liquidity, long-term or event funding, or risk-managing exposures to preserve cash profit."
>
> *Lynda Heywood, Tesco*

Figure 6: Types of forecasting

Lower accuracy and practical impact → Higher accuracy and practical impact

5-year plan	12-month forecast	Monthly forecast	Daily position
Long-term planning, used for business and funding strategy	Medium-term forecast, to identify specific funding requirements and liquidity position	Short-term forecast to optimise cash and liquidity management	Daily position to determine daily cash shortfalls or surpluses

The emergence of new technologies requires the treasurer to understand the difference between statistical analysis and artificial intelligence (AI) including machine learning. The latter applies an additional layer of intelligence, where the computer is 'learning' and improving from experience.

In many organisations cashflow forecasting is either poor or inefficient. Some forecasts are overly detailed, with too many elements; others are too simplistic and high-level; and in either case, many are consistently inaccurate. From a practical perspective, the treasurer should monitor forecast accuracy on an ongoing basis, by comparing actual data against forecasts, and give ongoing feedback to material business units which provide the source data in order to improve forecasts. The section in the guide on cash forecasting (see overleaf) provides an insight into the 'range forecasting' approach to improving accuracy and providing a better foundation for business discussions around cashflow forecasting and therefore decision-making.

Given its importance, the new treasurer should very quickly understand their treasury function's approach to cashflow forecasting and consider whether it is appropriate to the business's needs. This includes considering proportionality – as there is a balance in everything.

Further reading:

https://www.treasurers.org/hub/treasurer-magazine/rolling-along

SPECIAL INSIGHT:
The importance of cashflow forecasting: why behaviours matter

Caroline Stockmann, Chief Executive, The Association of Corporate Treasurers

As any business-minded person knows, cash is 'king' (or 'queen', perhaps). The impact of COVID-19 demonstrates this clearly, and reinforces the point that a simple 'single point' forecast based on a system/technology that looks at trends simply won't work. Uncertainty in the world around us makes life for the treasurer very challenging indeed.

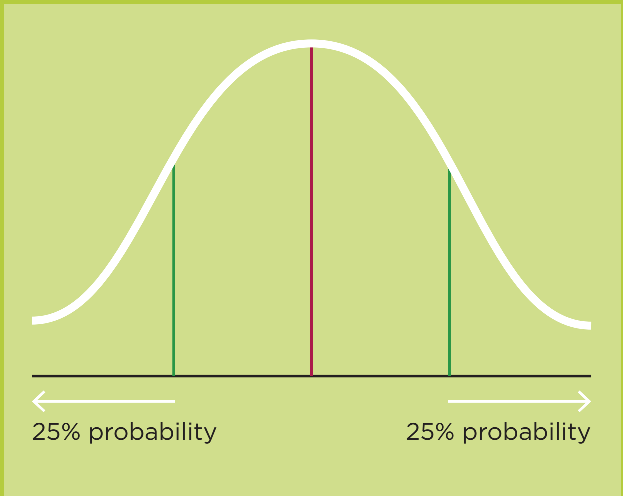
It's clear that cashflow forecasting is critical, and one's assessment of the level of accuracy of a forecast will determine how much 'buffer' cash is needed at any time. A technique which can help in this is called 'range forecasting' and it doesn't require complex systems, though they can be integrated into the process. It does demand knowledge of the business, and discussion with colleagues (see Figure 7).

So, instead of asking colleagues what their forecast is, and they respond with one number, and possibly some risk and opportunities around that number, you ask the questions: How good could it be? and How bad could it get? This gives a range, and in discussing that range you really start to understand the risks and opportunities of that part of the business. You then discuss what is the most likely outcome, and that point is unlikely to be located right in the middle. This forms a statistical probability curve, and you can add up the different parts of your business and then cut off the outlying parts of the overall curve to come up with a reasonable range of outcomes

The beauty of this process is that you start to really understand the attendant risks, opportunities and likelihoods. You break down some of the behavioural barriers such as those of colleagues within departments who are always over-optimistic on revenue, or alternatively constantly 'low-balling', as well as those who overstate costs so they can keep their own contingency. Experience from large multinationals demonstrates that unless there is a behavioural shift, you can be faced with contingency upon contingency, which leaves you to second-guess others to get your forecast in a reasonable state such that you can rely on it for decision-making, – and this can be a dangerous game. Another benefit to the process is that you get to know your business even better, and you thereby further gain the respect of your colleagues.

You can implement this approach in full, or alternatively use elements to ensure you are having the right discussions across the business – and in times of great uncertainty these conversations are invaluable.

Figure 7: Range forecasting



What do I need to know about financial risk management?

The treasurer's mandate is to identify financial risk, control it and mitigate it where appropriate. Enterprise Risk Management (ERM) recognises the importance of managing risk strategically and does so at the level of the entire enterprise, rather than in isolated silos. However, treasury expertise in financial risk management makes it well-suited to be a key contributor to an ERM approach.

While risk may be generated from almost any activity (financial and non-financial) within or connected with the company, treasury is primarily concerned with the financial consequences of such risks. Some of the major financial risks a company should consider are:

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. This can be due to:

- lack of internally generated cashflow
- lack of liquidity in the markets.

Commodity risk

When commodities are part of the company's core business or processes there can be exposures arising from:

- price fluctuations (price risk)
- lack of availability of the commodity (delivery risk).

Counterparty or credit risk

Counterparty or credit risk is the risk to each party in a contract that the counterparty fails to meet their contractual obligations and will default on the trade or transaction. Company guidelines will specify the maximum exposure it will accept with banks and other counterparties or, for trading partners that carry counterparty risk deemed to be high, the company may require them to hold a minimum credit rating.

In today's uncertain economic conditions, counterparty risk management is one of the most pressing treasury issues – and even sits ahead of securing external credit. Treasury needs to ensure that it actively monitors the creditworthiness of its financial counterparties and has policies in place to enable it to respond rapidly to changes. An interesting development through COVID-19 has been that treasurers naturally have become more interested in non-financial counterparties too, as they seek to ensure the whole 'ecosystem' continues to operate. Hence invoice factoring and other supply chain finance options are being used more – including by counterparties, where the treasurer encourages or helps them to implement such practices.

Foreign exchange risk

Changes in currency exchange rates can lead to various exposures: at the transaction level; at the translation level for reporting purposes; and at the strategic, long-term business impact level.

Interest-rate risk

Interest-rate risk is usually defined as the risk that changes to the interest rate will affect the company adversely. In the international context there are additional exposures arising from interest rate fluctuations such as:

- local level inflation/deflation levels and their impact on business economics
- funding risk when borrowing needs to be renewed
- investment risk when maturing investments need to be reinvested.

In order to deal with the last two types of risks, we can look to hedging financial instruments, which are of two kinds: fixing instruments and options (see Figure 8).

To successfully hedge your organisation's FX and interest-rate risks, you must first understand the characteristics, market conventions, valuation, accounting and risk of the various financial instruments, as well as the underlying transaction. Whilst you may be familiar with some of the instruments, such as market conventions and calculations, check that these are thoroughly understood by your team and can be applied. The fundamental and all-pervading insight is that financial instruments can only ever transform unacceptable risks that we don't want into more acceptable risks that we both understand and are fully able to manage. It should be noted that no financial instrument can eliminate FX risk, or any other risk, entirely.

To be able to select the correct hedging instrument and to discuss and negotiate the pricing of the instrument with a financial institution requires

Figure 8: Foreign-exchange and interest-rate exposure management: an overview

	Managing foreign exchange exposure	Managing interest rate exposure
Fixing Instruments	■ Forward FX contracts ■ FX futures contracts ■ Short dated FX swaps ■ Longer dated cross-currency interest rate swaps	■ Outright put and call options ■ Collars ■ Exotic options
Options	■ FX options	■ Options on FRAs ■ Options on interest-rate futures contracts

specialist skill, and the new treasurer needs to ensure that this skill and knowledge is present in their treasury organisation.

Risk mitigation in general

Overall policy on managing identified risk is agreed by the board. The treasury interpretation of that policy is dependent on the objective of the treasury function. The objective usually ranges from a 'cost centre' at one end of the spectrum, to being a 'profit centre' at the other end (see "How is my treasury department set up?" for more details).

The treasury function's response to risk will be influenced by factors such as:

- risk appetite, as defined by board policy
- competitive position and industry practice
- materiality of risks
- period of exposure
- volatility of outcomes
- expertise to assess risk, arrive at a view and execute deals
- control system quality.

Key to the treasurer's role is their understanding of the financial risks and how best to manage those risks, which will range from detailed knowledge of hedging instruments as described, to how best to manage cash and liquidity.

It cannot be emphasised enough that the role of treasury does not include taking opportunistic (or speculative) risks, for return.

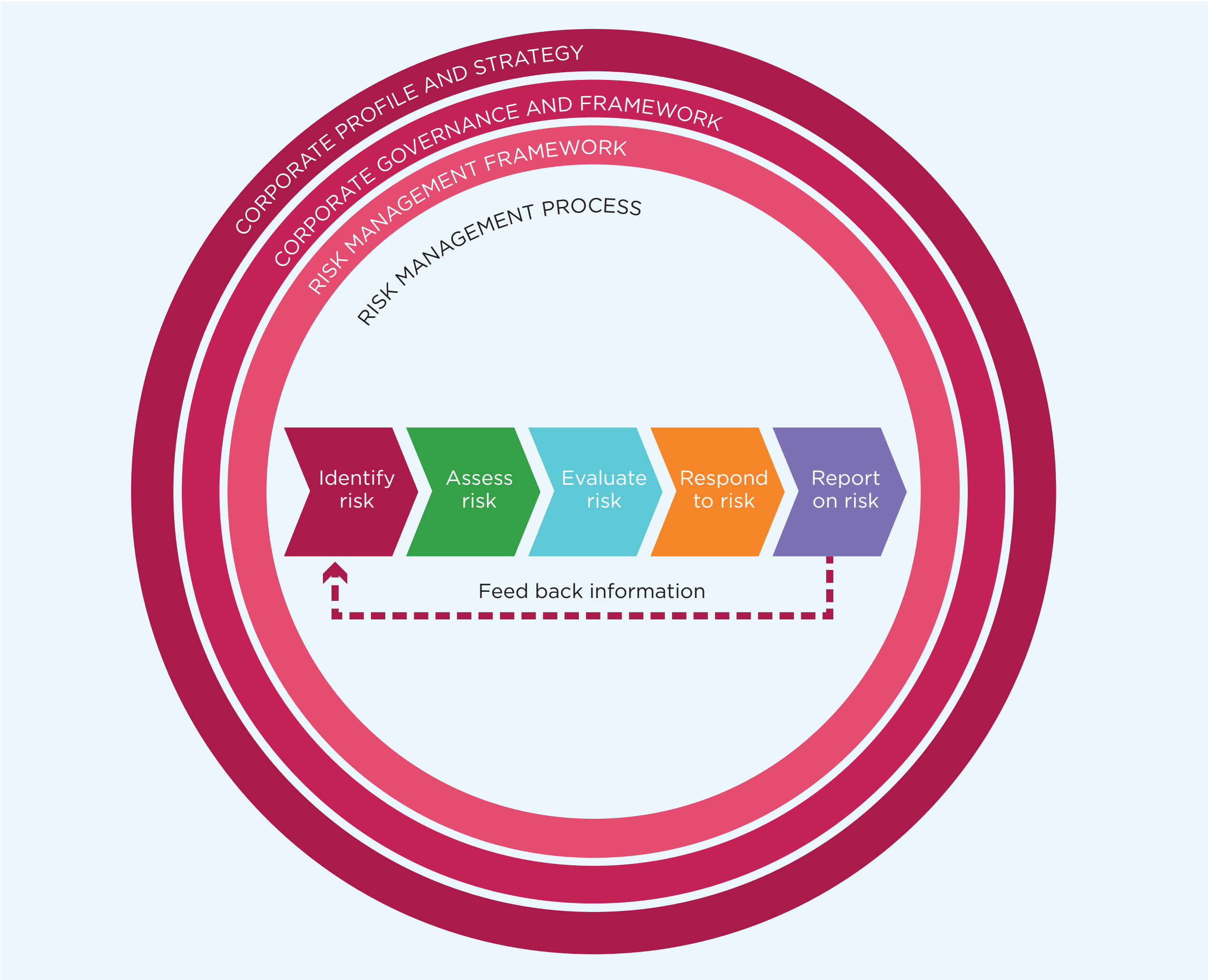
Further reading:

https://www.treasurers.org/hub/technical/resources/risk-management

https://www.treasurers.org/hub/treasurer-magazine/rise-corporate-financial-risk-manager

https://www.treasurers.org/hub/treasurer-magazine/how-maintain-high-ethical-standards-fx-market

Figure 9: The context of risk management



SPECIAL INSIGHT:
‘Value at Risk’ and how it is used in a treasury functiony

Alex Ashby, Head of Treasury – Markets, Tesco

Risk management is an area of growing focus for treasurers, with Brexit, China-US trade wars and the COVID-19 pandemic all challenging the idea of what a ‘normal’ or ‘acceptable’ level of risk is for a business.

Treasurers and risk professionals have a variety of methods to summarise complex risks so that they can be reported on in a transparent manner and managed at executive/board level. One of the most widely used risk management metrics is Value at Risk – usually referred to as “VaR”.

What is VaR or Value at Risk?

Value at Risk is a statement of how much profit (or cash) is at risk were there to be an adverse market movement, e.g. the forecast currency risk in a business over the next year has a Value at Risk of £100m at the 95th percentile.

What this means is that the company is 95% certain that it won’t lose more than £100m over the next year due to adverse currency market movements or that the company could face a loss £100m only once in20 years.

[NB: many other percentiles are used by businesses but the 95th (1 in 20 years) is by far the most common and 99th if risk appetite is very low (1 in 100 years).]

How is it calculated?

The overall financial risk exposures are collated, so in the example above all the known/forecast currency risks over the next 12 months are collated, less any off-setting positions or hedging that is in place.

Extreme movements on the currency pairs can then be modelled using historic data or by statistical modelling of how volatile the financial risk index is (‘Variance-Covariance method’ or sometimes ‘Monte Carlo’) to simulate an adverse movement at a defined probability of occurrence.

Where is it normally used?

VaR is regularly used as a tool to define and manage risk appetite. It is extremely common in companies that take financial risk as a normal course of business e.g. banks and interest-rate risk.

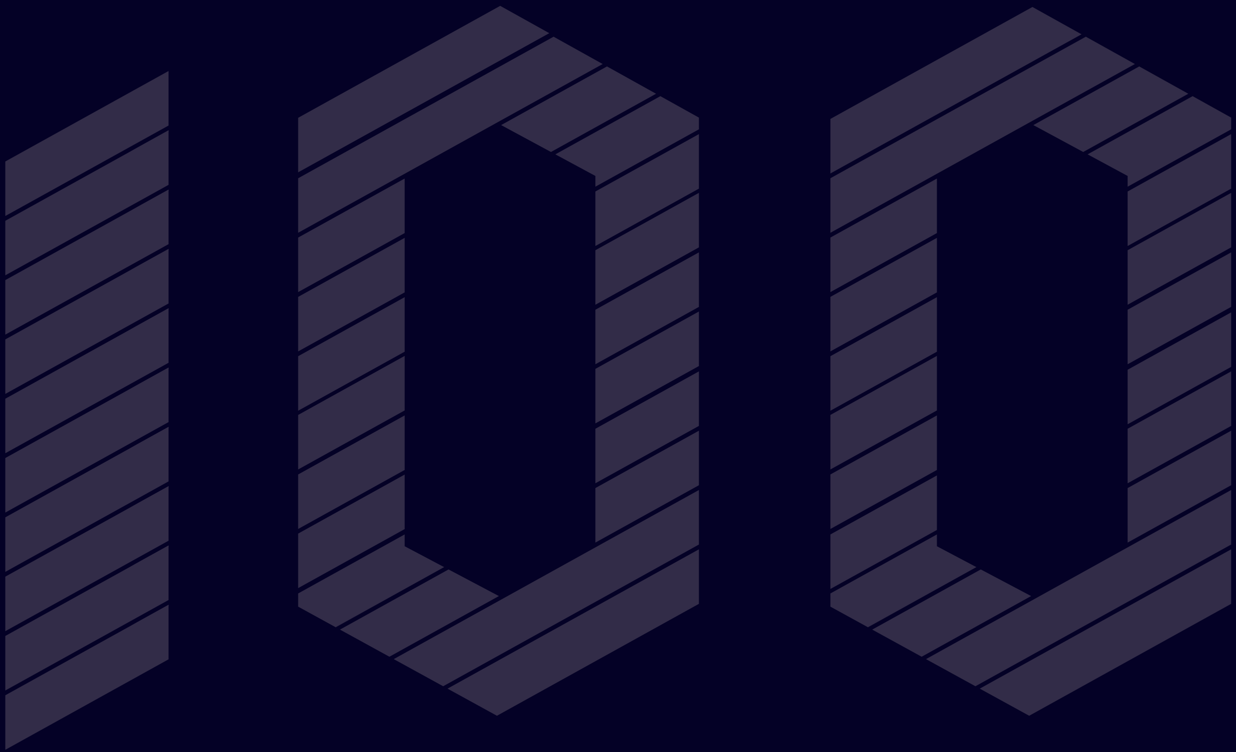
VaR risk frameworks almost always have limits with defined breach escalation policies; while this is likely to be to the treasurer and CFO, it can also be to other executive or board members who will receive regular reporting on business risks in any case.

VaR is mostly used on financial market risks and in treasury for currency, interest-rate and commodity-related risks, but anything with regularly published price data can be modelled, e.g. an oil company to manage oil price risk or a car producer to manage currency risk on foreign car sales.

What should I be wary of?

VaR is only a simulation of historic events repeating themselves or what the current markets are telling us. In June 2016, the day before the Brexit vote, 3-month GBP/USD volatility was 10%, already high compared to historical levels; the day after it reached 16%, a 60% increase in risk and a likely similar move in VaR.

While it is a useful risk indicator, it can cloud decision-making where not understood by senior management. It can also be costly to implement and maintain for businesses with a complex set of risks. Any business relying on VaR should remember that it only forecast a fraction of the 2008 crash, and similarly understated the market impact of the COVID-19 pandemic



What do I need to know about capital markets & funding?

When making decisions on financial strategy, one of the first to address is the financing decision. That is: how to finance the assets and, importantly, the most appropriate split between debt and equity. There are many tools available for treasurers to help with this decision, offset by the many constraints that may have an impact. These constraints include the supply of financing, the cost, the terms and the risk appetite of the business in respect of the debt/equity financing split. The key drivers include the stability of cash flows, the nature of the sector and the availability of assets against which to secure financing.

While not every company will have access to all markets, diversification of funding sources is important in case one of them should dry up. Treasurers may also want to keep an adequate number of bank lines open in case future funding is needed quickly (i.e. for expansion). When compared, each type of instrument typically has its own benefits and drawbacks. For example, a private

Figure 10: Equity, bonds and loans: a comparison

Factor	Equity	Bonds	Loans/Bank Debt
Return of funds	■ No obligation to return funds	■ Bonds must be repaid on maturity	■ Bank debt must be paid upon maturity
Relative cost	■ High	■ Low ■ Fixed interest rate	■ Low ■ Almost always at a floating rate
Information disclosure	■ Quoted companies public, formal disclosure	■ More private, even for a public bond issue ■ Private placements are more private still and suitable for smaller issues	■ More private than equity and bonds but amount of information high, often including business plans
Covenant requirements	■ None	■ Investment grade bonds have fewer conditions and generally no financial covenants compared to loans/bank debt ■ Sub-investment grade ('high yield') bonds have more covenant	■ More covenants and more onerous even for investment grade borrowers ■ Easier and cheaper to discuss amendments with banks than with possibly unknown bond holders
Flexibility of usage	■ Poor	■ Fairly poor	■ Good ■ Amount can often be drawn and repaid at will in revolving facilities as opposed to a term loan

placement market might currently provide cheaper funding than a bond, but may also have more restrictive covenants. As such, treasurers should consider whether the benefit of reduced funding costs outweighs the restrictions that covenants put on a business.

When deciding the type of instruments to use to fund the business, diversification of funding sources is key. Possible sources include:

- equity.
- retained cash.
- bank debt.
- bonds (including private placements).
- commercial paper.
- leasing structures.

A company's rating or a specific rating of a debt instrument will impact on the credit spread between the yield on debt and the yield on a comparable risk-free instrument. The stronger the credit rating, the smaller the credit spread, so there is a direct link between credit-rating improvement and a lower cost of debt. Credit ratings are predominantly designed for bond markets, i.e. traded debt securities. Credit ratings provide investors with a method of quickly evaluating the credit quality of bonds when they are unfamiliar with either the detail of the issue or the creditworthiness of the issuing entity.

For issuers, credit ratings enable them to quickly communicate the credit quality of the bond to potential investors.

Obtaining a formal credit rating will broaden the organisation's access to capital markets and

"In hindsight, in my first 100 days I wish I knew about the different borrowing structures available or that could be arranged with implications & pros/cons of each vis-à-vis just the plain vanilla term debt structure, and even here the different nuances."

Vinod Rao, Diageo

sources of funding. But this benefit is acquired at the expense of the time and money involved in securing and maintaining a rating. There may also be some loss of operational flexibility in staying within the credit-risk ratios monitored by the rating agencies.

Besides the credit rating, treasurers should understand how their organisation appears to a lender, including not only their credit profile but also the economic business case. This is especially important when the borrower is part of a wider relationship and the lender is receiving additional income from transaction fees.

Furthermore, for a treasurer it is important to understand funding requirements well in advance to ensure sufficient time for the required raising of the capital. The treasury team therefore needs to be well-connected with the business and with the board. At the same time those responsible for funding within the treasury team need to work closely with those responsible for liquidity and cash management when it comes to (long-term) cashflow forecasting. Given the relationships you need to foster with external parties, such as rating agencies and lenders, relationship management, in addition to technical expertise, is a very important skill within any treasury team. Our 2020 Business of Treasury research tells us that treasurers see relationship-building and communication skills as critical areas to develop, without which they experience barriers to career progression.

The new treasurer should therefore understand credit ratings and their impact, ensure they are developing relationships with all the relevant stakeholders, and also might like to consider how to develop their team in this area, whether via ACT programmes or in-house training.

Further reading:

https://www.treasurers.org/hub/research/business-of-treasury

https://www.treasurers.org/strategic-insights-podcasts

https://www.treasurers.org/hub/technical/resources/funding-financing

What tips would you have for anyone (non-treasurer) moving into their first treasury role?

Be a sponge!: supplement on the job learning with formal learning and qualifications; be curious and ask questions; find an experienced treasurer, ask them to be your mentor and let them help you navigate the world of treasury.
Lynda Heywood – Tesco

Don't lose sight of the most important task of treasury that overrules all other purposes: safeguard sufficient liquidity at all times.
Rando Bruns – Merck

Most people are moving from banking roles into their first treasury role. The difference between banking and treasury is the complexity and the wide field including IT processes in treasury. Don't be afraid, but don't expect you really know about the world of treasury. I'm always inviting bankers or other treasury suppliers to spend a day with us in treasury. Most of them are surprised, some are shocked.
Thomas Woelk - CECONOMY

While there is a high degree of core activity in treasury, as there is in, say, FP&A or corporate accounting, you will need to be prepared to have your day changed by real time events, that will generally require immediate or intra-day actions.
Simon Neville – RB

SPECIAL INSIGHT:
What do I need to know about sustainable finance?

Helen Slinger, Executive Director, The Prince's Accounting for Sustainability Project (A4S)

Companies and their finance providers have strategic, financial and moral incentives to work towards a sustainable economy. Pressure to respond to issues such as climate change is growing as a result of shifting social norms as well as a recognition of the financial implications resulting from inaction.

The COVID-19 crisis has underlined the interconnectedness of the global economy, across social, economic and environmental dimensions. Evidence suggests that organisations which had taken steps to embed social and environmental risk and opportunity into their business model, governance, strategy and financial decision-making – what we would think of as sustainable businesses – are those that have fared better than their peers during the crisis.

At the same time, capital market participants are increasingly focusing on the creation of positive value, not only for their own organisation, but also for society as a whole, rather than the management of risks alone.

The rise of sustainable finance presents some interesting opportunities for treasury teams. Historically, sustainability has not been seen as relevant to their activities. Over recent years, however, many treasurers have started to explore their role in financing their organisation's transition to a sustainable business model. The opportunity for treasury teams is in understanding how treasury activities can support the organisation's strategic sustainability goals, particularly in light of the growing interest of debt providers in the sustainability ‘utility’ of their assets, as well as the financial returns.

A key way that treasurers can capitalise on these opportunities is by developing a sustainable finance framework. This sets out how a company incorporates environmental, social and governance (ESG) criteria into its financing decisions. To be credible, it should support the overall corporate strategy and be in line with international best practice guidelines (see principles and standards below). It should also be subject to external review and validation.

Over time, the framework should be expanded to cover all financing activities that the company undertakes. It should reflect progress in line with establishing a single, sustainable business strategy. For most businesses, a good starting point is to develop a sustainable finance framework that supports the financing of planned projects which deliver tangible sustainability benefits. This financing could be through the issuance of green, social or sustainable bonds and adopt the “use-of-proceeds” approach, described below. Referencing international best practice guidelines, the framework should include:

1. use of proceeds

the categories of projects for which your company will use the proceeds, and the measurable environmental/social benefits expected

2. process for project evaluation and selection

the process for determining whether the projects fit within the categories you have identified above

3. management of proceeds

how the proceeds will be managed, including tracking of disbursements and allocation of funds

4. reporting

the type and frequency of reporting you will carry out, e.g. annual allocation and impact reporting

5. external review

the level of independent external review you will obtain in order to assess your framework and the issuances made under the framework.

Gradually, the framework can be developed such that it drives all the corporate finance activities of your company and supports the integration of ESG factors into the overall corporate strategy.

Among the overall benefits of incorporating a sustainable finance framework into the overall corporate strategy are better risk management, greater access to capital, and a superior ESG rating.

Principles and standards:

https://www.climatebonds.net/certification/resources ↘

https://www.icmagroup.org/green-social-and-sustainability-bonds/ ↘

https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf ↘

Further reading:

https://www.treasurers.org/hub/technical/hot-topics/esg-sustainable-finance ↘

https://www.accountingforsustainability.org/en/knowledge-hub/guides/debt-finance.html ↘

https://www.accountingforsustainability.org/en/knowledge-hub/guides/sustainable-finance-framework-top-tips.html ↘

https://www.treasurers.org/hub/treasurer-magazine/what-treasurers-need-to-know-about-COP-26 ↘

https://www.treasurers.org/hub/treasurer-magazine/definitive-guide-to-corporate-investment-green-projects ↘

What technology is available to support my treasury function?

Before the arrival of treasury management systems ('TMS') in the early 1990s spreadsheets were the standard tool of any treasury function. Even today spreadsheets are still widely used, thanks to their flexibility. However, we know that this flexibility is also their main weakness, and data could be corrupted or deleted by accident quite easily. Although not completely achievable, most finance and treasury functions now have a policy to limit the use of spreadsheets as much as possible. For US-listed corporates this has also been a regulatory driver due to the Sarbanes-Oxley Act of 2002 which forced corporations to examine the validity and accuracy of their financial systems, including spreadsheets.

Today's technology is used for many different activities in treasury to collect data and to perform tasks in order to achieve straight-through processing as much as possible.

Typical data which may be collected include:

- bank balances
- transaction data from bank statements
- foreign exchange exposures
- market data on interest rates.

Tasks which may be performed by technology include:

- giving visibility of cash
- executing foreign exchange trades
- preparing and communicating payment requests
- recording complex transactions such as long-term bank borrowings with complex loan principal repayments
- preparing accounting journals for cash transactions and interest accruals
- valuing transactions and preparing mark-to-market accounting entries
- warning of counterparty exposure limit breaches and sending automated messages.

Apart from TMS's, bank portals are the most obvious IT solution employed by treasurers. Apart from the original use – to view bank balances and initiate payments – bank portals are becoming more versatile and are adding new capabilities, such

"Technology plays a very important role nowadays in most treasury processes and is a huge enabler for efficiency and insights. It has become the basic foundation (and differentiator) of every treasury organisation."

Rando Bruns, Merck

as cashflow forecasting, online foreign exchange and supply chain finance modules. One of the downsides of bank portals is that the treasurer will end up with one portal for each bank; so if a company has eight banks this would mean logging into bank portals eight times to collect bank statements each morning.

However, larger corporates are now able to join the SWIFT network and communicate with their banks directly by using SWIFT messages. For this a third-party solution is required, usually a TMS. Since the global financial crisis in 2008, where it became obvious that banks could collapse, treasury functions have been looking at ways to become less dependent on their financial provider and become as bank-agnostic as possible. SWIFT membership as well as FinTech developments have been enablers for this.

One of these developments is open banking. Open banking is an initiative backed by government regulation focused on the freedom of the bank account holder to have their information shared with whom they choose. This means that a corporate will be able to collect information, such as bank balances and outstanding foreign exchange trades, from all their banks through a tool called an Application Programming Interface (API) and have these reported into a central database like a TMS. The investment required to implement the API needs to be evaluated against the need for real-time information, of course.

> "Today, technology sits right at the core of most treasury departments – it cannot be ignored. It is something that has redefined the industry in recent years and continues to keep it on a path of evolution. Whether through your TMS, an API or the services that make up a real-time treasury, technology is offering treasurers an opportunity to step back from the day-to-day, manual processes they have traditionally become accustomed to, and instead commit themselves to the strategic responsibilities that are increasingly coming to define their role. As such, it is important to keep up-to-date with the latest developments"
>
> *Claudia Villasis-Wallraff, Director Corporate Cash Management Structuring at Deutsche Bank, Corporate Bank*

FinTech

Financial technology, often shortened to FinTech, refers to new technology and innovation that aims to compete with traditional financial methods in the delivery of financial services. It is an emerging industry that uses technology to improve activities in finance. The use of smartphones for mobile banking, investing services, and cryptocurrency are examples of technologies aiming to make financial services more accessible to the general public. FinTech companies consist of both start-ups and established financial institutions, as well as technology companies trying to replace or enhance the use of financial services traditionally provided by long-established financial companies. Examples of FinTech development within the treasury space in recent years include FX trade-matching services, online multi-bank dealing systems, and cashflow forecasting capabilities. Many existing financial institutions are implementing FinTech solutions and technologies in order to improve and develop their own services, in order to gain an improved competitive stance.

Artificial Intelligence in treasury

No discussion about technology would be complete without mentioning artificial intelligence. AI or 'machine intelligence' can be defined as the mimicking of human intelligence by computers. Over time this has evolved from simple cognitive or analytical ability to include elements of emotional intelligence and social intelligence. There is debate around whether artificial intelligence will always have limitations, as a computer cannot replace a human fully in terms of their complex decision-making processes.

The other side of the argument, however, maintains that the huge amount of data able to be processed by a machine means that, as long as the inputs are appropriate, the outputs will be everything that a human can produce and more.

AI has a host of implications for treasury, and its real power comes in where large amounts of data or 'big data' are concerned. Other examples for the future could be around bank account reconciliation, investment decisions, cashflow forecasting and even strategy development.

Further reading:

https://www.treasurers.org/hub/treasurer-magazine/why-open-banking-will-be-better-corporate-treasurers ↘

https://www.treasurers.org/hub/treasurer-magazine/why-treasuries-must-automate-to-survive-pandemic ↘

https://www.treasurers.org/hub/treasurer-magazine/which-technologies-are-shaping-future-treasury ↘

https://www.treasurers.org/hub/technical/hot-topics/technology ↘

https://cfte.education/ ↘

SPECIAL INSIGHT:
What do I need to know about real-time treasury?

Claudia Villasis-Wallraff, Director Corporate Cash Management Structuring at Deutsche Bank, Corporate Bank

Real-time treasury is a concept that has grown in popularity in recent years, with the industry having made considerable progress – either developing or already providing the majority of supporting services required for real-time treasury management. Key benefits of real-time treasury include: eliminating labour-intensive processes, reducing the need for hedging and liquidity buffers, lowering gross debt, eliminating FX exposures faster, and reducing local bank credit risk.

But how close are we to realising real-time treasury? Real-time payments are proliferating widely – with dozens of schemes already up and running worldwide – while the rise of open banking, powered by advancing API technology and regulations such as the second EU payments services directive (PSD2), is further simplifying payments and treasury processes. In particular, it is enabling treasurers to aggregate their banking services across different providers onto a single dashboard to achieve a clear overview of cash positions.

Real-time liquidity management capabilities are also starting to take shape, with intra-day sweeping already available as part of some banks' cash-pooling services. These will eventually progress to real-time automated sweeps, or be emulated by the implementation of virtual accounts – another solution already on the market – to facilitate instant cash concentration.

The FX space is also rapidly approaching the realm of real-time operation – with many banks already offering 24/7 conversion of inbound and outbound FX payments, along with platforms that can calculate a company's net currency exposure and apply tailored hedges within seconds.

As corporations increasingly move towards real time, the demands on treasury to make timely decisions based on real-time information are also increasing – with new technologies, such as robotic process automation (RPA) and artificial intelligence (AI), helping treasurers meet these new demands.

Amid the flurry of talk in the industry around real-time treasury, we are often asked "is real-time treasury right for me?". The immediate value of, and ability to realise, the real-time treasury vision will vary across industries and individual organisations, depending on their scope of activity, commercial and financial drivers, and technological sophistication. For example, the most urgent need for a real-time payments strategy – as a first step towards a real-time treasury – is often among treasury departments of an organisation operating in the business-to-consumer (B2C) space.

If we look at real-time visibility over cash positions, companies operating from a single region, with limited banking partners and an established in-house bank may be better off sticking with end-of-day visibility. On the other hand, a business operating globally, with a just-in-time business model, limited liquidity, and real-time payment acknowledgement already implemented, would see significant benefits from intra-day visibility.

As treasurers seek new ways to support and partner the business, while fulfilling their liquidity and risk obligations, they should be looking to take early advantage of some of these new opportunities as and when they align with their overarching treasury strategies.

SPECIAL INSIGHT:
Cybersecurity and corporate treasury

As companies continue to evolve digitally, they also become increasingly more vulnerable to cybercriminals deploying more sophisticated attack methods. Even the most conscientious employees make mistakes, and hackers know that a single slip-up is all it takes to expose a business to a massive cyber fraud attack – one that doesn't just have financial implications but can also lead to reputational damage. The FBI estimated that business email compromise – in which fraudsters pose as company executives or suppliers to trick employees into transferring payments to attacker-controlled bank accounts – cost $12.5bn+ between 2013 and 2018.

Manual interventions or interactions with most systems are inevitable. When they do arise, the key is to ensure there are the appropriate levels of control around them. Utilising features such as user profiles, workflow limits and 'four-eye' approvals help to reduce the threat of misuse.

Existing banking portals may include several controls that can be deployed to reduce unauthorised payment. The usefulness of these controls will depend on how they are integrated and set-up. Below are the most common tools as identified by The European Association of Corporate Treasurers (EACT)'s CyberSecurity Working Group:

- restricted payee lists, such as to only allow payments to credit pre-loaded beneficiaries/ internal accounts
- workflow tools to aid dual approval and segregation of roles and duties
- two-factor authentication or one-time passwords for key users
- reduced scope of individuals with dual administration.

One popular theory posits that having humans cover for human imperfections and errors is a self-defeating proposition. While the future of cybersecurity rests in our hands, accepting our human weaknesses is a big step towards acknowledging the problem and opening our thought process to innovation. This could ultimately lead to adopting innovative technology to provide fraud protection and safeguard the financial security of the company.

Key options the new treasurer might consider are: 1) have a professional firm review your security, by carrying out attempted hacks – there are now many providers of this 'ethical hacking' service, and 2) train your staff in what to watch out for via webinars, conferences and other forms of learning. The impact of human behaviours, whether fear of the boss, laziness (passwords) or helpfulness (opening the door for someone, trusting strangers) has a huge impact on whether or not cyber fraud is successful.

Further reading:

https://www.treasurers.org/hub/treasurer-magazine/why-humans-are-the–weakest-link-in-cybersecurity

https://www.treasurers.org/hub/blog/tackling-cyber-risks-in-treasury

https://eact.eu/news/108/is-your-company-protected-from-cyber-threats

The importance of business and behavioural skills

The importance of these skills, in addition to the core technical skills required of the treasury professional, cannot be underestimated. As mentioned earlier, our 2020 Business of Treasury research, conducted amongst 200 treasury professionals around the globe, clearly shows not only that the treasurer is being considered as more of a strategic business partner than ever (and that has only been reinforced by the COVID-19 crisis), but also that a lack of development in strategic influencing and the ‘softer’ skills is the most common obstacle to career development. And while cash and liquidity management are firmly at the forefront of both the treasurer’s and the board’s mind, there is a re-prioritisation of other aspects of treasury towards change management and communications and relationship-building.

Our competency framework, set out in appendix 1, with a link to further detail, includes business and behavioural skills at all the levels described in the introduction to this guide. The ACT also provides training in such skills, and its Career Hub holds a vast amount of information and tools, useful at all levels of the role. In fact, our strategic influencing seminars and podcasts have been applauded by a number of Group Treasurers from large FTSE and internationally equivalent organisations.

You will no doubt have had training in such skills, and will be competent in them, having reached the position you are now in. Nonetheless these areas need refreshing like any other, and we often can leave them and our own development to one side as we focus on the here and now, and the all-too-common situation of firefighting. The ACT’s recommendation is to ensure you create a plan for your personal development – as you would for anything else important in the work sphere. This involves setting out your objective(s), your milestones and the various actions you will take, as well as the support you might need along the way.

> “I think that I underestimated the impact on the team that a change in leader would have – it’s fundamental to their daily lives and it’s really important to get to know and understand the whole team. ”
>
> *Sarah-Jane Hall – GSK*

The benefits are clear in terms of your ability to stand out above others with similar technical skills, and there is an additional benefit that such a focus on new learning can build resilience – something we need to tackle as we navigate the rollercoaster of life.

Further reading:

https://www.treasurers.org/hub/research/business-of-treasury ↘

www.treasurers.org/strategic-insights-podcasts ↘

https://www.treasurers.org/membership/cpd/podcast ↘

Business of Treasury session from ACT's International Treasury Week Conference, May 2020: https://youtu.be/S2zmBD8iJ9A ↘

https://www.treasurers.org/hub/treasurer-magazine/definitive-guide-neurodiversity-why-we-need-it ↘

https://www.treasurers.org/hub/treasurer-magazine/five-tips-boosting-your-negotiating-technique ↘

https://www.treasurers.org/hub/treasurer-magazine/how-read-your-own-emotions-and-develop-resilience ↘

How do I manage my treasury team members?

Your new treasury team members will be at different stages of their career, from back office treasury analysts to front office treasury managers executing treasury transactions. As you interact and manage your treasury staff, be aware of the various skills and responsibilities that are required for their roles. As already mentioned, the ACT has developed a corporate treasury competence framework (see appendix 1) that defines the treasury skills and responsibilities needed by treasury professionals to operate successfully in a treasury environment.

While some in your team might already have an accountancy qualification, it is common for treasury staff to either already have or study towards a dedicated treasury qualification. The ACT offers treasury professionals a study route for every stage in their career, with exemptions for accountants, as well as tailored in-house courses to train a number of your treasury team on a specific topic (see Figure 11).

Figure 11: Overview of ACT qualifications

	CERTIFICATE in Treasury Fundamentals	CERTIFICATE in Treasury	DIPLOMA in Treasury Management	ADVANCED DIPLOMA in Treasury Management	AWARD in Intnl Cash Management	CERTIFICATE in Intnl Cash Management
What to expect	The perfect first step in to Treasury and Corporate Finance	An operational view, providing technical content to build your treasury competencies	Develops in-depth treasury skills, preparing you for the management of treasury teams	The qualification for senior finance professionals, enabling you to influence business strategy within your organisation	Develop the essential skills and knowledge required for a career in Intnl cash mgt and liquidity	Relaunching in January 2021
Study time	3-6 MONTHS	6-12 MONTHS	12-18 MONTHS	15 MONTHS	3-6 MONTHS	6-12 MONTHS
ACT competency framework level	Tactical Level	Operatinl. Level	Managerial Level	Strategic Level	Tactical Level	Managerial Level Operational Level
Assessment methods	ONLINE One assessment (1.5 hours)	ONLINE Assessment per unit (2 hours)	ONLINE Assess Unit 1&2 3 hours each; Assignments 3, 4a, 4b	ONLINE Units 1&2 Assessment (4 hours); Dissertation	ONLINE One Assessment (1.5 hours)	ONLINE Two Assessments (2 hours/3 hours)

To speak with someone in the ACT qualifications team directly please send an email to: clientsolutions@treasurers.org

You may also want to read articles in The Treasurer magazine on management and leadership, as well as consult our Career Hub which is a depositary of all kinds of thought leadership in these areas, featuring our own and other external content.

"It is a profession populated by people who enjoy and care about what they do! "

Lynda Heywood – Tesco

Further reading:

https://www.treasurers.org/learning/train-your-team

https://www.treasurers.org/hub/treasurer-magazine/five-key-traits-behind-high-performing-treasuries

https://www.treasurers.org/hub/treasurer-magazine/how-to-keep-dispersed-treasury-team-on-same-page

https://www.treasurers.org/hub/treasurer-magazine/how-to-plan-your-leadership

https://www.treasurers.org/hub/treasurer-magazine/career

https://www.treasurers.org/hub/careers

The importance of professional treasury qualifications

The business environment is complex and ever-changing, as highlighted by the coronavirus global pandemic. As organisations and the external environment become more complex, so the need for qualified, skilled treasury professionals grows – as highlighted in the ACT's Business of Treasury research.

To meet this demand, qualifications, professional training and CPD are more important than ever. Without key technical skills the risk to an organisation and even the economy is significant – which is why the ACT's vision emphasises the treasurer's role in ensuring stability. Having professional, qualified staff is essential for effective corporate financial and business management.

However, technical ability needs to be married to strong communication and relationship-building skills. Without the ability to think strategically and influence effectively, technical ability on its own will be wasted.

The ACT's qualifications are based on the ACT competency framework, which defines the skills and competencies (technical, business and behavioural) needed by treasury professionals to operate successfully in today's challenging business climate. Depending on your career aspirations you can either take the treasury or the cash management pathway, which will develop your skills within your chosen area. You build your competency as you work through the different levels, culminating (for those on the treasury pathway) with the Advanced Diploma in Treasury Management, which delves in to the commercial and financial challenges facing businesses at a strategic level.

The advantage of working through different qualification levels is that you can develop your learning in line with your needs and upskill as your career progresses. In addition, because both the learning material and the examinations are available online you can study anywhere in the world, and at a time that suits you. Once you complete your qualifications you will be eligible to join the ACT and use the designatory letters of your achievement, while continuing to access the information available to members, which includes member-only networking events and tailored resources.

"Be pragmatic and open-minded. Although you can learn many things on the job it is useful to be trained by experts in order to get to know the basics."

Baerbel Karwath – Liebeskind Berlin

These member resources cover a comprehensive range of CPD tools, including: the Career Hub which provides a wealth of information and advice to support the development of key employability skills, and matches the tools on the website to the competency framework; the mentoring scheme, which matches members based on the objectives they would like to meet and enables you to connect and learn from those outside your immediate network; CPD podcasts which provide case studies for technical, business and behavioural skills areas, and include the highly regarded strategic insights podcast series; and support on ethics, where we have worked with the Institute of Business Ethics to provide resources for members.

The ACT also provides a number of public training courses. These give an insider's perspective of the treasury function and are popular (as are our qualifications) not only with those who work in treasury, but also with service providers, bankers and other consultants.

Professional qualifications set the benchmark for excellence. They show employers, clients and the wider public that you have met a specified standard and competence, and ongoing membership, with CPD obligations, shows that you are committed to keeping this knowledge up-to-date. Members need to adhere to ethical codes and standards of conduct, and this gives the added advantage of reassuring all stakeholders that the individual will act with integrity and honesty. As more and more individuals take qualifications – and the ACT had students studying in 90 countries in 2020 – the need to keep up with peers and maintain a competitive edge by taking those professional qualifications becomes increasingly pronounced. The ACT is here to support you in your career journey – from the graduate trainee to the seasoned treasurer, we are here to ensure you have the tools and resources to work as effectively as possible.

"Get in touch with your local treasury association and see what they offer"

Christian Bartsch – Zentren für Neue Technologien

Further reading:

https://www.treasurers.org/learning/train-your-team

https://www.treasurers.org/learning/qualifications

https://www.treasurers.org/learning/training

https://www.treasurers.org/hub/treasurer-magazine/what-is-the-future-shape-of-learning-and-qualifications

SPECIAL INSIGHT:
Corporate failures: the learnings

The treasurer is accountable for managing a variety of risks on behalf of their organisation. Getting it wrong can result in significant financial losses, affect the reputation of the organisation and, in the worst cases, lead to the failure of the business. The following five cases are among the most high-profile examples:

Carillion

Carillion was a UK construction and services company with 43,000 employees world-wide that went into liquidation in 2018. It was an asset-light company that made its money on the margin charged for construction and servicing activities. It had a number of joint venture businesses which used off-balance sheet special purpose vehicles (SPVs) to manage these businesses.

Funding: the business had increasingly relied on short-term bank funding. This made it subject to changes in market conditions. As the business continued to struggle, it was unable to easily find alternative sources of financing and ultimately ran out of liquidity. Working capital had been aggressively managed over a period of time – again, another sign of unsustainable funding.

Cash forecasting: had the business run accurate short- and medium-term cash forecasts, along with stress tests and scenario planning, it would have had a much better view of its liquidity prospects. This would have given the board time to consider a range of alternatives (including, for instance, cutting dividend payments).

Financial risk: the impact of the SPVs on increasing financial risk for the company should have been part of the analysis undertaken. This would have helped identify the effect of intangibles on the business and the appropriate level of gearing. Establishing appropriate risk appetites and early warning indicators would have ensured that the board recognised the increasing risks taken by the business.

Thomas Cook

In 2019, this tour operator collapsed into compulsory liquidation after nearly 180 years of operations. The business had been performing poorly over a period of time and faced the challenges of over-supply, the increased use of online booking and the acquisition of a high street travel agent in 2007. Attempts to sell its airline and the travel business had both failed.

Cash forecasting: management should have prepared detailed contingency plans and run different scenarios. This would have helped them assess more alternatives if options to sell parts of the business had not completed. Their reliance on government support was a high-risk strategy.

Barings Bank

This investment bank had a small and initially highly profitable unit based in Singapore, run by Nick Leeson trading futures on a Japanese index. As a result of his unauthorised trades, the world's second oldest merchant bank collapsed in 1995 after suffering losses of almost £900m.

Segregation of duties: working in a small team, Leeson was able to hide trading losses by creating an account on their system, which only he knew about. As he was responsible for reporting on his own trades to senior management in London he was able to avoid their awareness of the losses until the margin calls he requested from London became too large. This lack of segregation of duties allowed him to invest client money in his own proprietary trades. A series of poor trading decisions contributed to the bank's demise.

Allied Lyons

Allied Lyons was one of the largest food and drink companies in the world with a turnover in 1991 of almost £5bn. It announced in March of that year that it had lost £150m through currency trading losses and that the Financial Director had resigned.

Policies and culture: the company had recruited a number of ex-bankers into its treasury team. These individuals were accustomed to proprietary trading and had initially employed it successfully at Allied Lyons. Using currency options, the team had speculated on the US dollar in order to generate exceptional profits. The policies in place at the time gave the team sufficient headroom to take on currency positions and to "write" options which generated premium income for an accepted level of risk.

The treasury team at Allied Lyons was allowed to operate as a profit centre, taking financial risks outside of normal business operations in order to make additional profits to the company. However, it went wrong and is one clear example of why the number of treasury functions operating as a profit centre is now limited.

Orange County

Orange County is the third largest county in California and one of the US state's wealthiest. Its treasurer at the time – Robert Citron – undertook an investment strategy that was initially very successful. He had averaged a 9.03% return during the 1980s – nearly double that of some comparable investment pools – and won numerous awards. However, as a result of a rise in interest rates, his strategy failed and the county filed for bankruptcy with the loss of 3,000 public employees.

Poor governance: Citron's investment strategy was high risk and did not fully account for the scenario of rising interest rates. The reporting he provided to senior management ignored any of the downside risks and the Board of Supervisors was not sufficiently skilled to assess and challenge his investment strategy.

Further reading:

https://www.gov.uk/government/publications/report-into-the-collapse-of-barings-bank

https://www.treasurers.org/hub/treasurer-magazine/short-history-market-misconduct-techniques

What tips would you have for anyone (non-treasurer) moving into their first treasury role?

Cash is king – I don't think many companies have gone out of business for having too much cash! Understand where your current cash is, what the cash forecasts look like and what liquidity sources you have available, including any financial conditions you need to comply with. COVID-19 has reminded us the world can change rapidly, as it did in the GFC.
Jono Slade – AstraZeneca

Enjoy learning something new every day. Be prepared to be a very specialised generalist and dive deeply into very different topics. It will not be enough to be a "normal" generalist who knows a little bit about everything. It will not be enough to be a specialist who is good at only one thing. Think networked and see the bigger picture – and act with foresight!
Jutta Demant – Currenta

Particularly now there are a lot of good and free webinars from banks about treasury basics – from cash management to risk management tools: make use of those to get a first sense.
Christian Bartsch – Zentren für Neue Technologien

It is important to participate actively in continuing education. Networking will also form part of this education. Get in contact with senior treasures in local associations and find a mentor internally as well as externally.
Peggy Schumm – Addfinity Testa

APPENDIX 1: the ACT competency framework

Global Treasury Standards

The competency framework defines the treasury skills and capabilities needed by treasury professionals to operate successfully in today's challenging business climate.

treasurers.org/competency framework

Financial management

Financial management is a critical element of treasury's role, whether managing transaction costs, protecting against exchange rate exposure or contributing to cash flow forecasting. Budget monitoring and provision of early warning of adverse trends and variances are core aspects.

Knowledge and information management

Collect, analyse and translate data into information that can be appropriately disseminated to assist with problem solving and decision making across the organisation. Ensure such data is retained and stored in such a way as to provide easy access but always in accordance with the Data Protection Act 1998 and any associated legislation.

Planning and projects

Develop and implement departmental, project or team objectives in order to manage scarce resources and deliver results that are in line with corporate objectives. Problem solving is a key skill.

Commercial drive and organisation

Appreciate own position in and contribution to wider organisation and understand those of other business functions in delivering the organisation's strategic objectives. Optimise opportunities within own area of expertise to deliver efficiencies and drive costs down through effective negotiation with suppliers.

Self management and accountability

Use skills and competencies confidently and effectively to help deliver the organisation's objectives. Understand your core strengths, as well as areas for development. Accept responsibility for own actions, and hold others accountable for theirs.

Influencing skills

Develop mutually beneficial working relationships with internal and external stakeholders, gaining support for ideas and plans of action. Create win-win situations which deliver value to the organisation and the broader treasury community.

Working effectively with others

team to support the strategic direction of the organisation. Achieve team and organisation objectives by getting the best out of others, through active listening, as well as constructive challenge.

Context of treasury

The business context

Treasury should hold a pivotal position within the organisation to add most value and must have a detailed understanding of both the business and the implications of external events on their organisation.

Accounting, tax and regulation

Accounting rules, tax and other legislation or regulation may affect the financial markets accessed by the organisation, the activities undertaken by treasury and how such activities are reported. Regulatory requirements can change frequently so keeping up to date is key.

Ethics and corporate governance

Ethics

Ethical behaviour is a mind-set and underpins all business activity. Treasury professionals need to appreciate why ethics matter, to act ethically at all times and to lead by example.

Compliance and audit

Treasury's activities need to be clearly defined, executed and monitored and this includes the independent review provided by regular audits. Policies and procedures need to be integrated into the organisation's risk management approach. Reporting must be provided for all stakeholders (both internal and external).

BUSINESS SKILLS | **BEHAVIOURAL SKILLS**

CHARACTER: Traits | Values | Virtues

Risk management

Risk frameworks

In order to explain its approach to risk management, every organisation needs a risk management framework that not only establishes the policies and processes to be followed but also articulates the risk appetite of the organisation. The process of risk management must be structured to enable visibility and support of decision making.

Identify and assess risks

In order to manage risk, first it must be identified, evaluated and prioritised. Strong relationships, clear communication and a straight forward process will enable treasury to work with the business in identifying financial risk – both core treasury (e.g. liquidity, working capital, foreign exchange, counterparty risk) and other financial risks that may fall under treasury's remit (commodities, pensions etc.).

Manage risks

There are a variety of approaches to managing risk: Avoid, Accept, Transfer. Management techniques range from doing nothing, through changing ways of working, to undertaking external transactions that change the nature of the risk (e.g. derivatives). Select and implement the most appropriate response to a particular risk for the organisation, dependent on its risk appetite.

Risk reporting

Stakeholders (both internal and external) need to understand how risk is being managed and whether the approach is effective. Ensure that the most appropriate risk evaluation and reporting methodology for the organisation is selected and implemented; included in this will be mitigations with assigned responsibilities and a feedback loop to report on residual risks, adapt policy and refine procedures.

Corporate financial management

Corporate finance

Corporate finance theory (risk/reward) is applied in practice to evaluate sources and uses of finance. This encompasses everything from capital structure (debt, equity and dividend policy), through major business transformations (e.g. mergers and acquisitions) to individual financing decisions (e.g. whether to buy a particular machine).

Long term funding

The success of the organisation is dependent on access to funds. Identification of the most appropriate sources of funding to achieve the organisation's medium/long term objectives and putting funding solutions (including documentation) in place will ensure that funding is available whenever required.

Investment

Treasury needs to be prepared to handle cash surpluses as well as borrowing requirements. A financial investment strategy (based on security, liquidity and yield) that is consistent both with the needs of the business and with its risk appetite, should be in place as well as methodology to monitor the creditworthiness of investment counterparties.

Intercompany funding

Intercompany funding of subsidiary operations is generally an efficient source of funds for an organisation. It may not be straight forward to implement or manage, as tax, legal and regulatory aspects must all be taken into account especially when setting up intercompany structures such as netting systems, in-house banks etc.

Treasury operations

Treasury operations infrastructure

The treasury function must be set up to support the business to reflect the needs and culture of the organisation. This includes establishing a framework of policies and procedures which enable the treasury to be resilient to external shocks (disaster recovery) and to function effectively; and building strong relationships with the business and financial institutions.

Financial products and markets

A thorough understanding of the various financial markets and related instruments is core to treasury. Familiarity with the intricacies of transacting such products and the risks and benefits they offer the business, as well as the ability to explain products to non-treasury members of the organisation are key.

Technology

The use of technology (increased automation) can improve the accuracy and security of treasury transactions, by delivering solutions to manage payments, disaster recovery etc. The wide range of systems products available need to be thoroughly evaluated to ensure those selected are aligned to the treasury's delegated powers, policies, procedures and audit requirements.

Cash management

Efficient cash management is crucial to the long term success of the organisation. This involves identification and implementation of cash management solutions for day to day funding of operating units and mechanisms for remitting cash across a group.

Liquidity Management

Liquidity management focuses on the organisation's short term need to meet payments as they fall due. This can be achieved through the development of accurate cash flow forecasting solutions, and the management of working capital and external sources of funds to ensure resilience.

Trade finance

Trade finance relates to operational cash flows and specifically to supporting customer and supplier transactions. Trade finance solutions manage the risks which arise with cross border trading. It also covers supply chain finance solutions.

What tips would you have for anyone (non-treasurer) moving into their first treasury role? (continued)

I would firstly congratulate them on this decision to move into treasury, because it is a profession offering a perfect insight into and increasing importance for the corporate you work for. Secondly I would 'warn' the 'newby' to build up teams early enough, because as an academic education for treasurers is missing/quite uncommon, you need to build teams with many young professionals learning the task from scratch and that needs time. Participating as an active member in treasurers' associations like the EACT may help
Frank Waechter – PUMA

Get an immediate overview of the financial situation and liquidity planning as well as of existing covenants in credit agreements.
Regina Deisemann – Verband Deutscher Treasurer

Be very curious and ask a lot of questions; do not be intimidated by the technical or treasury-specific terminology; ask the banks/partners to do extensive teach-ins on different areas/subjects – yes, it's technical, but also a lot of common sense.
Vinod Rao – Diageo

Understand if there is any "trigger" event that could impact borrowing facilities or cash levels, e.g. financial covenants, credit rating clauses, pension deficit levels. These could arise in major supply agreements, not just financial agreements.
Jono Slade – AstraZeneca

What would you hope a first-time treasurer would take away from their time in treasury?

A broader and more rounded view on their company, and that how providers of credit and rating agencies view things is quite different to that of equity investors.
Simon Neville – RB

That treasury is a very exciting and dynamic function which plays a vital role for the company.
Rando Bruns – Merck

To see how treasury can play a key role in managing and exploiting uncertainty in a fast-changing world.
Stewart Cox – BHP

How capital markets work around the world, how boards think as regards capital allocation and how does one influence that, and how so much value can be added (or lost) over and above what operating teams do.
Vinod Rao – Diageo

It would be nice if the treasurer would take with them how varied, fascinating and communicative treasury is and that treasury is always needed.
Regina Deisemann – Verband Deutscher Treasurer

“ This Guide provides valuable insights into the role of the Group Treasurer, what you need to know about cash and liquidity management, and the innovative technologies that can support you in your new role, as well as the best practice advice needed to gain maximum benefit from your time in your first – and perhaps most important – 100 days in treasury.”

Ole Matthiessen, Global Head of Cash Management,
Deutsche Bank

“ I hope you will find the Guide a useful tool, and remember: the ACT is here to support you, whether you are a member or not, as our Mission is to embed the highest standards of professionalism and integrity in the treasury world, and act as its leading advocate.”

Caroline Stockmann, Chief Executive,
The Association of Corporate Treasurers

ACT TREASURY EXCELLENCE AS STANDARD