

TREASURY TRENDS

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'The Strategic Treasurer'

There has been much talk about today's Corporate Treasurer needing to adapt and become more strategic — which is a term that we have heard a lot recently as job descriptions change. People in those roles must adapt or risk becoming redundant. What is a Strategic Treasurer and how do you get there?

What does it mean?

A Strategic Treasurer does not just 'manage' treasury risks but interacts with stakeholders in the organisation and, most importantly, adds long term value.

The role of a Treasurer has changed dramatically in the past ten years, just as treasury risks have evolved. There are now other key risks that need to be considered within the treasury function, such as the influence of increased geopolitical risks, changes in banking technology, financial market changes, virtual currencies, increasingly innovative fraudulent activities and greater scrutiny from regulators. There are so many uncertainties that organisations and Treasurers need to be aware of, along with the volatility that uncertainty creates in currency, commodity and interest rate markets.

There is also the trend that companies are expected to do more with less resources. Across Australasia, most treasury teams are relatively small, and the Treasurer is expected to do more — manage more risks and provide greater visibility over risks and processes — along with having to be on top of developments in financial markets and accounting standards. A Treasurer also needs to be a great communicator with internal and external stakeholders.

How should a Treasurer operate today to ensure that he or she is ready for the future?

What does a Treasurer need to do?

One of the first places to start is improving integration within an organisation. Ensuring that information flows from all parts of the organisation and processes are automated creates accuracy of information, speed of delivery, enhances prompt decision making and delivers cost savings. Employees can

Key points

- A Strategic Treasurer supports an organisation in achieving its business objectives
- By moving away from 'managing' treasury risks, the Strategic Treasurer focuses on adding value
- Integration within an organisation and streamlining processes lowers costs and creates efficiencies
- The role of a Treasurer has changed significantly. Key risks such as financial markets, changes to accounting standards, developments in fraudulent activity, and geopolitical risks all need to be considered within the treasury function

then focus on value-add activities rather than doing manual non value-add roles. An effective treasury system can help achieve integration between the treasury and finance functions. Often companies have a treasury system but do not utilise the system's full functionality.

With fraudulent activity increasing and becoming more innovative, the treasury function needs to ensure that measures are put in place to prevent fraud or, at worst, to alert stakeholders very soon after the event. There is no point in being reactive, as the cost is too high both in terms of the financial loss and damage to reputational risk.

The treasury function needs to be proactive in preventing fraudulent activity. The Treasurer must ensure that employees are properly vetted before hiring, including police checks and reference checks. Staff should also have training to identify the risks of money laundering and phishing scams. Similarly, processes should be in place when companies are dealing with new counterparties. When illegal behaviour is suspected, there should be a clear process to follow.

Financial markets are evolving, so organisations need to be on the front foot. One example is the replacement of Libor as a reference rate for interest rate pricing in many parts of the world.

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A Treasurer needs to know that the organisation's treasury systems will manage the change, and what the implications are for its valuations of derivatives, hedge accounting, borrowings, and investments.

Changes to accounting standards also present challenges and require foresight into the potential impact and if there are any broader implications. Virtual currencies may also affect the treasury function, for example how could blockchain technologies impact cash management. Add to that global geopolitical events, such as recent developments regarding trade tariffs and protectionism, which could cause exposures to change. For example, if a tariff is imposed on its imports a company may switch to sourcing products from another market that is excluded from the tariffs. This could result in a change to the currency exposure. Treasurers therefore need to be aware of international developments and changes in internal procurement.

In a survey conducted by the Association of Corporate Treasurers last year, around 86% of respondents were concerned about geopolitical uncertainty. The trade war between China and the US, Brexit and the rise in populism and nationalism in recent elections in two of the world's biggest democracies (India and the European Union) make it increasingly difficult for Treasurers to manage treasury risks such as currency risk.

In the case of Brexit, many commentators have predicted large swings in the pound depending on the Brexit outcome, as well as potential issues at the UK border. How do you hedge exposures in this situation? The strategy might be to include some optionality to protect a worse case currency outcome and to allow participation should the currency

move favourably. However, the option premium cost might be prohibitive, thereby disrupting the usual risk-reward relationship of options. So, any costs will need to be compared to the benefit to participate in any upside.

A Treasurer and the treasury function should provide visibility over all these risks.

Why is it important?

A Strategic Treasurer will support an organisation's strategy and long term planning by ensuring visibility over cash and its ongoing availability, improving forecasting and identification of exposures, delivering optimal hedging strategies and monitoring international developments and financial markets for changes that affect the organisation.

Where to from here?

Organisations need to employ and reward Treasurers with the right skills to take the organisation forward. By upskilling in the areas mentioned above, and seeking help when needed, a Treasurer will support an organisation in achieving its long term objectives.

In addition to finding the right people, technology is also key in ensuring integration between the treasury function and wider business teams, to provide relevant and timely reporting. Automating and streamlining processes can lower costs and create efficiencies, provided they are done well, i.e. with planning, oversight and follow through.

The focus should be on moving a treasury function away from being just a cost centre, to adding value and having a strategic focus.

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BANCORP TREASURY

Phone +64 9 912 7600
AUCKLAND
WELLINGTON
CHRISTCHURCH

BARRINGTON TREASURY

Phone 1800 425 079
SYDNEY
MELBOURNE
BRISBANE
SUNSHINE COAST
PERTH

BARRINGTON ASSET CONSULTING

Phone 1800 425 079
SYDNEY

PMC TREASURY

Phone +64 9 912 7600
LONDON
NEW YORK
SINGAPORE



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