Treasury Technology for Turbulent Times

August 24, 2011

Presented by:
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Logistics

Questions

Recording & PowerPoint
- A link to the recording and a copy of this presentation will be available next week.

CTP Credits
- CTP recertification credits are available for any treasury or finance events lasting at least 50 minutes.
- Contact the AFP for more information.
Speakers

Laurie McCulley
Managing Director, CTP

Jim McCormick
Principal, CTP
Agenda

Treasury demands in this market

What’s the right technology?

Putting it all together
  • Considerations for selection
  • Considerations for implementation

How you’ll benefit

Next steps
Treasury Demands in this Market
More Fire Drills?
Sovereign Debt = Counterparty Risk

FINANCIAL TIMES

Week of turmoil

From MARKETS Aug 19, 2011

Yen and gold soar on recession fears

Demand for the safest assets grows stronger

- Global Market Overview Treasuries rally late as stocks tumble
- Tokyo struggles to keep pace with gold rush
- Flight to safety sparks dramatic slide • Gold price nears $1,900
- Funding fears hit European bank stocks
Increased Volatility = Portfolio Risk

Oil

USD/JPY
Weak Economy = Drive for Efficiency

- Improve timing and speed of information delivery
- Automate manual processes – eliminate data rekeying
- Flexible & scalable architecture
- Lower costs
Spinoffs = Opportunities

Organization
✓ Centralized?
✓ Shared Service Center activities?
✓ Functional specialization?
✓ Hire

Technology
✓ Services agreement with former parent?
✓ Select technology
✓ Prioritize implementation

Policies & Processes
✓ Draft policies
✓ Assign functional roles
✓ Ensure appropriate controls

Bank Architecture
✓ Evaluate optimal bank structure and relationships
✓ Assess bank connectivity opportunities
Mergers & Acquisitions = Opportunities

Organization
✓ Centralized?
✓ Shared Service Center activities?
✓ Functional specialization?
✓ Rightsize

Bank Architecture
✓ Evaluate optimal bank structure and relationships
✓ Assess bank connectivity opportunities

Policies & Processes
✓ Align & update policies
✓ Assign functional roles
✓ Ensure appropriate controls

Technology
✓ Review technology contracts and options
✓ Select technology
✓ Prioritize implementation
Audience Polling Question

What’s the biggest concern for your treasury right now?

1. FX risk
2. Interest rate risk
3. Counterparty risk
4. Visibility to global cash
5. Spinoff/merger situation
6. Efficiency
7. Trapped cash
8. Investment opportunities
Technology for the Enterprise
Intelligence vs. Data

Download Treasury Strategies' white paper on the evolution of the treasury services business http://tinyurl.com/3cyj4p3
# Technology Requirements

## Cash Visibility

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Technology Enabler</th>
</tr>
</thead>
<tbody>
<tr>
<td>Near-real-time cash reporting</td>
<td>• Automated bank balances from all business units</td>
</tr>
<tr>
<td></td>
<td>• Access for all stakeholders (AR, AP, Accounting)</td>
</tr>
<tr>
<td></td>
<td>• Include in counterparty risk reports</td>
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<tr>
<td>Full details on cash receipts and payments</td>
<td>• Integrate ERP reference numbers on file transmissions and bank acknowledgements</td>
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<tr>
<td></td>
<td>• Leverage XML formats for more information</td>
</tr>
<tr>
<td>Regular Treasury-driven forecast</td>
<td>• Integrated AP &amp; AR flows</td>
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<tr>
<td></td>
<td>• Recurring items automated</td>
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<tr>
<td></td>
<td>• Automated variance analysis</td>
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</tbody>
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Download Treasury Strategies’ Quarterly Corporate Cash Report™ [http://tinyurl.com/3hvdjqm](http://tinyurl.com/3hvdjqm)
## Technology Requirements
### Foreign Exchange Management

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Technology Enabler</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visibility to exposures</td>
<td>• Business units submit operational exposures via centralized TMS</td>
</tr>
<tr>
<td></td>
<td>• Import extracted balance sheet exposures from ERP</td>
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<tr>
<td></td>
<td>• Automated consolidation and analysis against policy if hedge ratios dictated</td>
</tr>
<tr>
<td>Efficient execution with flexible hedge instruments</td>
<td>• Add options – execute, track and analyze in technology systems</td>
</tr>
<tr>
<td></td>
<td>• Execute on multi-bank portal</td>
</tr>
<tr>
<td></td>
<td>• Use in-house entity to net external trades</td>
</tr>
<tr>
<td>Valuation of positions</td>
<td>• Mark-to-market with proprietary technology</td>
</tr>
<tr>
<td></td>
<td>• Compare to bank valuations if ISDAs dictate bank is valuation agent</td>
</tr>
</tbody>
</table>

Download Treasury Strategies’ Quarterly Corporate Cash Report™ [http://tinyurl.com/3hvdjqm](http://tinyurl.com/3hvdjqm)
Technology Requirements
Counterparty Risk Management

Broad, frequent counterparty risk reporting is crucial in this environment.

<table>
<thead>
<tr>
<th>Cash at risk</th>
<th>Potential risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in global bank accounts—visibility to all global accounts; converted to common reporting currency</td>
<td>Derivatives—FX, interest rate and commodities contracts—notional and mark-to-market values (adjusted for FAS 157/ASC 820)</td>
</tr>
<tr>
<td>Investments—time deposits, direct CP, repos, money market funds</td>
<td>Credit facilities—un-utilized</td>
</tr>
<tr>
<td>Credit facilities—drawn (revolvers, letters of credit, etc.)</td>
<td></td>
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</tbody>
</table>
Treasury technology vendors are enhancing functionality to integrate policy limits and key metrics directly into their platforms. At the same time, more portals are incorporating greater integration with TMS systems in their development roadmap.

<table>
<thead>
<tr>
<th>Limits</th>
<th>Metrics</th>
<th>Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Money market fund limits</td>
<td>• Limit compliance</td>
<td>• Portal integration</td>
</tr>
<tr>
<td>- By fund</td>
<td>• Benchmark performance</td>
<td>- Investments</td>
</tr>
<tr>
<td>- By portfolio</td>
<td>• Counterparty risk</td>
<td>- FX</td>
</tr>
<tr>
<td>- Asset concentration</td>
<td>• Mark-to-market valuations</td>
<td>• ERP integration</td>
</tr>
<tr>
<td>- Country exposure</td>
<td>• Hedge accounting compliance/effectiveness</td>
<td>- Reference numbers</td>
</tr>
<tr>
<td>• FX portal limits</td>
<td></td>
<td>- Acknowledgments</td>
</tr>
<tr>
<td>- By trader</td>
<td></td>
<td>• Bank integration</td>
</tr>
<tr>
<td>- By currency</td>
<td></td>
<td>- SWIFT</td>
</tr>
<tr>
<td>• TMS system limits</td>
<td></td>
<td>- Hybrid approach with SWIFT and individual bank links</td>
</tr>
<tr>
<td>- By instrument type</td>
<td></td>
<td></td>
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<tr>
<td>- By user</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Payment limits</td>
<td></td>
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</tbody>
</table>

Download Treasury Strategies' Whitepaper on Investment Policy Compliance [http://tinyurl.com/3so3e8j](http://tinyurl.com/3so3e8j)
Technology Requirements

Efficiency

SWIFT for bank connectivity
- Flexible – no proprietary bank interfaces for IT to maintain
- Lower cost
- Scalable
  - Can start in Treasury and leverage across organization
  - Global standardization of messages

Middle and back office processes
- Reduce paper
  - Use technology for internal payment requests
  - Avoid paper deal confirmations
- Add compliance activities
  - Mark-to-market valuations generated independently and frequently
Technology Requirements
Efficiency – Mobile

Anytime, anywhere access
- Trade verification
- Payment approval
- Dashboard reporting

Improved response time

Increased convenience

Download Treasury Strategies’ North American Mobile Banking Report http://tinyurl.com/3s4xljo
Download Treasury Strategies’ European Mobile Banking Report http://tinyurl.com/3puhrq3
Technology Requirements
Efficiency

Reporting Requirements Now

- **Dashboard**
  - Customize by user
  - Align to key metrics

- **Ad-hoc reports**
  - Should be easy to produce quickly
  - Helps if data is resident in one database

- **Standard reports**
  - Should be easy to change and retain format

- **Policy compliance & key metrics reports**
Technology Requirements
Merger & Spinoff Situations

Uncertain requirements coupled with pressing deadlines!

• Merger/Acquisition – key considerations
  - Integrate into acquiring company’s existing system?
  - Migrate to superior system in place at acquired company?
  - Best-of-breed solution (some from both)?

• Spinoffs – key considerations
  - Replicate existing system for spun company?
  - Clean slate – spun company implements new TMS that best fits their unique requirements?

• Other considerations
  - Are existing systems being ‘sunset’ by vendors?
  - Do existing systems provide the best-in-class features to meet critical requirements, or are they not keeping up with the market?
  - What process changes will be required within Treasury as a result of the path chosen?
  - How will change be managed and rolled out?
Putting It All Together
Technology Tools: Internal

Corporate Technology Environment

- Treasury
- Intranet
- ERP
- TMS

SWIFT
Technology Tools: External

- Bank websites
- Trading & specialized portals
- Market rate providers (Bloomberg/Reuters)
Selecting for Now…and the Future

Solutions that grow with your organization

Evaluate technology against future state vision

- Define concise requirements
- Include current, relevant functionality to provide timely intelligence
- Eliminate outdated, inefficient processes
- Update (or select new) systems that enable best-in-class processes and performance measurement
- Don’t delay!

Determine most suitable technology partners

- Evaluate vendor’s capability at an in-depth level
- Can they meet more advanced demands?
- Have they kept up to date? Are they market leaders?
- Do they provide flexible hardware alternatives (Installed, hosted, ASP/SaaS)?
- Confirm they are investing in their product and executing against defined product roadmap
Implementing for Success

Time is of the Essence – Get it right the first time!

Don’t underestimate time and effort for key project phases

- Vendor evaluation and selection
- Project initiation
- Design
- Configuration
- Acceptance Testing

Anticipate Project Challenges

- Functional complexity
- Alternate agendas
- Vanishing resources (team members, budgets)
- Additional fire drills…

Start now, but don’t go it alone…
How Your Treasury Will Benefit
Financial Nerve Center – Not Nervous Breakdown

• Broaden Treasury focus beyond execution to strategic assessment

• Respond to Senior Management rapidly, comprehensively

• Assess impacts of major events

• Access the power of integrated data

• Get it right the first time
Next Steps

• Evaluate what internal and external stakeholders need in this environment
• Examine technology architecture to see if it can support what you need right now
• Prioritize roadmap of improvements and technology for 2012 and beyond
Exit Poll

Your feedback is essential for us to provide valuable content. Please let us know what you think.

1. On a scale of 1 to 5 (1 is low, and 5 is high), how useful did you find this session?

2. Did this presentation meet your expectations?
   - Yes
   - No

3. Do you plan to make changes to your treasury technology in the next 6 months?
   - Yes
   - No

4. What other topics are of interest to you for future Treasury Strategies’ webinars?
Questions?

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### Upcoming Treasury Strategies Events

#### Treasury Strategies at Industry Conferences

<table>
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<th>Date</th>
<th>Event</th>
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<tr>
<td>September 19 – 23</td>
<td>SIBOS Conference</td>
<td>Toronto</td>
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<tr>
<td>October 12 – 14</td>
<td>EuroFinance Conference</td>
<td>Rome</td>
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<tr>
<td>November 6 – 9</td>
<td>AFP Annual Conference</td>
<td>Boston</td>
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#### Treasury Operations: A Formula for Post-Crisis Success

- Joint Webinar Series with Treasury & Risk Magazine
  - Starts on Thursday, September 15\textsuperscript{th}

- Quarterly Corporate Cash Briefing\textsuperscript{TM}
  - Friday, September 16\textsuperscript{th}

For more information, contact us at info@TreasuryStrategies.com
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We help you maximize worldwide treasury performance and navigate regulatory and payment system changes through a focus on best practices, technology, liquidity and controls.

Treasury Technology
We provide guidance through every step of the technology process. Our expert approach will uncover opportunities to optimize the value of your treasury through fully integrated technology solutions.

Financial Services
Our experience, analytic approach and benchmarks provide unique consulting solutions to help you strengthen and grow your business.