Managing a Corporate Treasury Department
Session 1: Treasury Scope and Objectives

A Presentation to the New York Cash Exchange
by Bruce C. Lynn, CTP
June 3, 2011

Agenda – Part 1

- The traditional role of corporate treasury
- Why treasury’s scope needs to change
- Key policies and procedures for the modern treasury function
- Best practices for the modern global corporate treasury
- Making it happen – how to transition from traditional to modern (Session 2)
- Q & A, discussion
The Traditional Treasury

- Focused on Processing
- Resources devoted to repetitive tasks

Advanced Goals

Risk Mgt
(Mkt, Credit, Ops)

Cash Management
(focus on balances)

Investment  Cash  Debt

Basic

Cash Accounting
(focus on posting, reconciling transactions)

The Traditional Corporate Treasury

- Daily cash management operations
  - Obtain yesterday’s bank transaction data, identify exceptions, update A/R and A/P records
  - Prepare today’s cash worksheet, identify borrowing/investment levels, execute transactions
  - Heavy transaction processing workload

- Bank Relationship Management
  - Maintain lists of banks, contacts and accounts
  - Periodically review / negotiate credit facilities
  - Monitor activity / fees via account analyses
The Traditional Corporate Treasury (4)

- **International Support**
  - Execute FX spot and forward transactions
  - Assist foreign units to set up pools, netting, etc.
  - Managed as a separate unit within Treasury
  - Limited knowledge of tax impacts of treasury activities

- **Capital Markets**
  - Support CFO in negotiations for public debt issues
  - Limited knowledge of alternative markets / instruments
  - Intercompany borrowing opportunistic and uncoordinated

- **Treasury personnel have limited experience**
  - Treasury staff recruited from banking/cash/accounting background; mostly domestic, not involved in the business
  - Promotion usually internal; Treasury staff have low visibility and rarely move into non-financial functions

The Traditional Corporate Treasury (3)

- **Bottom line**
  - Treasury viewed as a processing (not strategic) unit; cost-center (not a value adding function)
  - Limited planning or policy responsibilities
  - Problems are solved rather than prevented
  - Highly dependent on spreadsheets, emails and multiple bank systems
  - Treasury systems not priority for corporate IT
  - No integrated views of global cash position or future liquidity needs (i.e. forecast)
  - Low headcount - “outgunned” by Controllers or other financial or operating units
Why Treasury needs to change (1)

- External factors
  - Competitive nature of business – 24/7 demand for “global cash visibility” and liquidity alternatives to the capital markets (e.g. do I have enough credit?)
  - More interaction with key corporate customers – “my AP is your AR”; not all customers are profitable
  - More competitive/complex/unpredictable financial markets
    - Volatile FX and interest rates, leasing, ARS, credit crunch dislocations
    - More complex transactions - Derivatives expand the scope for pro-active management of FX, interest costs, commodities
    - Regulatory changes, e.g. financial market deregulation, FAS 133, IAS39, SARBOX, SEPA

Why Treasury needs to change (2)

- Financial marks are volatile

<table>
<thead>
<tr>
<th></th>
<th>12 month max</th>
<th>12 month min</th>
<th>Spread Max/min (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$/Euro</td>
<td>1.4699</td>
<td>1.2021</td>
<td>22%</td>
</tr>
<tr>
<td>$/GBP</td>
<td>1.6583</td>
<td>1.4450</td>
<td>15%</td>
</tr>
<tr>
<td>LIBOR 1 month</td>
<td>.349</td>
<td>.221</td>
<td>57%</td>
</tr>
<tr>
<td>NYMEX oil</td>
<td>113.93</td>
<td>70.04</td>
<td>63%</td>
</tr>
</tbody>
</table>

Euro vs USD - Average Weekly Price (Ask)

Source = www.Oanda.com

Need for Change – Market Trends

Euro = $1.31
$1.42 or +8% just in 2011

WSJ - 1 Month LIBOR

What next when LIBOR goes to "normal"?
Why Treasury needs to change (2)

- **Internal factors**
  - International business and the associated FX risks have increased and became more visible
  - Greater management focus on liquidity and working capital management
  - Quality of a company’s financial management is increasingly recognized as a key competitive factor
  - FX hedging programs developed skills that Treasury can apply to other risk management issues

Why Treasury needs to change (3)

- The environment that Treasury works in will continue to change rapidly and dramatically
  - Impact of global recession and the credit crunch will affect banks and capital markets for years
  - Changes to US corporate tax system expected
    - Increased US taxes on foreign earnings will require rethink of funding, transfer pricing and cash repatriation strategies
  - Use of technology will continue to expand
    - SWIFT, bank interfaces, integration with ERP systems
  - Manufacturing and new business opportunities will increasingly be outside US/Europe
    - Treasury must be able to support more diverse needs
Summary of the presentation

- So far
  - Where Treasury started from
  - Why Treasury needs to upgrade itself

- Next
  - We will develop a vision of the modern corporate treasury and the challenges for Treasury managers
  - Session 2 - we’ll examine how Treasuries are making the transition

Overview of the Modern Treasury Function (1)

- Treasury should be a strategic unit that adds significant value to the corporation
  - Routine cash/banking transactions highly automated
  - Primary workload shifts from transaction processing to strategic analysis/decision making
  - Centralized global approach to funding/banking/FX
  - Major focus is on forecasting and future events
  - Becomes a focal point for risk management expertise

- Treasury is pro-active and visible in the company
  - Problem solving resource for global business units
  - Liquidity and debt management now seen as vital issues
  - Staff have broader career opportunities as they become knowledgeable about global operations and cash flows
Overview of the Modern Treasury Function (2)

- Policies Highly Visible
- Interactive Communications
- Plan, Actual & Forecast in Sync
- Functions & Systems integrated
- Performance Metrics in Place to Demonstrate Value

7 Key Activities of the Modern Treasury

1. Global oversight of financial assets/liabilities/risks
2. Maintain access to sufficient funding at all times
3. Risk management role expanded beyond FX/IR
4. Internal consulting and information resource for corporate management and business units
5. Reduce processing costs and bank charges
6. Prepare and analyze forecasts to enable better decisions on funding, hedging, pricing, investments
7. Actively participate in major company initiatives, e.g. strategic planning, IT, compliance, M&A
1. Global oversight role (i)

- Treasury has policy and oversight responsibility for management of all financial assets, liabilities and risk
  - Transaction execution may be decentralized, but treasury policy and strategy decisions are not
  - Manage treasury by functions, eliminating the traditional domestic vs. international split
  - Treasury must formulate, document, distribute and update corporatewide policies/guidelines,
    - liquidity management
    - FX/IR risk management
    - intercompany transactions and loans
    - bank selection and counterparty risk

1. Global oversight role (ii)

- Corporate Treasury has a control and oversight role over treasury activities at foreign business units:
  - Bank relationships and account structures
  - Cross-border liquidity management: Cash pooling, netting, intercompany loans
  - Foreign exchange risk management
  - Standardized (electronic) reporting
  - Forecasting: Cashflows, debt, FX exposures
1. Global oversight role (iii)

- Works effectively with other company units:
  - Operating
    - Enforces the use of standard market rates
    - Establish currency of billing rules for intercompany and third party trade transactions
    - Forecasts encourage liquidity needs to encourage focus on future business, not just accounting for activities that have already happened
  - Financial
    - Tax - Optimizes capital structure and after tax cost of funds
    - Controllers - Standardize rules for settlement of intercompany transactions

- Bottom line - More planning, less processing
  - Treasury is in the funding business
  - Resources best spent on future activities to control risk

2. Maintain access to funding

- Funding has suddenly emerged as a challenging issue for many companies
  - Traditional external funding sources now unreliable or “pricey”
    - Bank loans, CP, IPO, equity issues, long term bonds
    - Term loan waivers not routinely granted
  - Risk of shortfalls in sales volume and pricing
  - Minimal interest income on surplus cash
  - Counterparty risks now much more important

- Need to improve internal liquidity management
  - Tighter control of A/R and A/P
  - Centralize and utilize surplus cash more quickly
3. Scope/objectives of risk management

- Treasury must make itself the focal point for risk analysis and management within the corporation
  - Acquired FX/IR skills give Treasury a firm foundation to manage other market or credit risks e.g. commodities, employee option programs, “enterprise risk management”
  - Risk management is a key component of strategic planning
    - Treasury’s forward-looking orientation complements Controller’s “backward look” based on historical GL data
    - Senior management needs analysis of future P&L impacts

- Risk analysis and management is a sophisticated function
  - New SEC rule 33-9089 (Board must disclose its role in risk) will require more highly educated staff with quantitative skills
  - Support will require upgrades and utilization of specialized software

4. Treasury as an internal consulting resource

- Treasury can work with business units to:
  - Increase P&L by upgrading working capital mgt, applying improved techniques and benchmarks
  - Identify market exposures and hedging alternatives, and analyze cost/benefit strategies
    - Analyze FX impacts on product pricing strategies, e.g. currency of billing, fixed price lists
    - Hedge manufacturing costs, e.g. metals, energy, oil, sugar/cocoa/coffee etc.
  - Analyze customer credit risk and develop better customer financing programs
5. Treasury's focus on reducing operating costs

- **How treasury can do more with less**
  - **External cost control**
    - Rationalize banks and bank account structures - companies have too many accounts, which create excessive “maintenance” charges
    - Replace paper based services with electronic services e.g. EFT, check imaging, purchase or T&E cards
  - **Internal cost control**
    - Automate daily bank and cash operations - e.g. treasury workstation as single platform for cash, debt activities across multiple banks
    - Move to portals for managing FX or investments reducing need to process multiple paper statements, spreadsheets on FX contracts, etc

- **Identify new ideas to increase liquidity / reduce risk**
  - AR collections to increase funds in?
  - AP disbursements to time funds out?
  - Intercompany settlements to reduce borrowings, FX needs?

6. Treasury’s forward-looking orientation

- A **Treasury can add value by facilitating better financial and business decisions**
  - Value of the company = NPV of future cashflows, so managing only current transactions is not protecting stockholder value
  - Reliable forecasts enable better liquidity management, e.g. borrow/invest with longer maturities
    - Identify and hedge FX exposures earlier, i.e. when they already exist but may not yet be booked
    - Avoid surprises and crises rather than having to manage them after they have occurred

- **It is not all numbers**
  - Bank relationships
  - Debt/ covenant compliance
7. Treasury as a pro-active corporate unit

- Treasury needs to interact within the company at least as much as with financial institutions
  - Works closely with Tax on global capital structures and cash repatriation strategies
  - Internal consulting and support role
  - Should be an active contributor to major corporate initiatives, e.g. ERP, M&A, SARBOX compliance, China strategy, XB factory moves
  - Provides important information to business units via treasury intranet

Best practices for the modern treasury

- Create clear written policies, updated regularly
- Define performance measurement criteria
  - “What gets measured gets managed”
    - Normal business concept (e.g. P&L, ROI, stock price)
    - Adopt measures of liquidity and risk (rarely attempted in corporate treasury today)
  - Benchmark treasury vs. peer companies
- Rotate staff between finance and business units
  - Have staff to visit principal business units at least annually, especially international
  - Require staff to follow a continuing education program
Overview of the Modern Treasury Function

- Cash Management
- Risk Management
- Debt Management
- Investment Management
- Financial Markets & Institutions
- Company & Operating Units

- Policies Highly Visible
- Interactive Communications
- Plan, Actual & Forecast in Sync
- Functions & Systems integrated
- Performance Metrics in Place to Demonstrate Value

Making it happen

- Translating the vision into reality
- Step 1 - Start with the most important
- Top 5 from FECG’s “Treasury Issues 2011” survey:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Sales &gt; $1Bn</th>
<th>Sales &lt; $1Bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve cash forecasting capability</td>
<td>2.16</td>
<td>2.13</td>
</tr>
<tr>
<td>Improve corporate liquidity across business</td>
<td>2.45</td>
<td>2.59</td>
</tr>
<tr>
<td>Seek out a role in the company’s strategic planning/decision making</td>
<td>2.55</td>
<td>2.58</td>
</tr>
<tr>
<td>Plan to optimize the company’s capital</td>
<td>2.57</td>
<td>2.75</td>
</tr>
<tr>
<td>Understand the company’s global businesses and tax strategies</td>
<td>2.71</td>
<td>3.35</td>
</tr>
<tr>
<td>Improve working capital</td>
<td>2.74</td>
<td>2.53</td>
</tr>
</tbody>
</table>
Managing a Corporate Treasury Department
Session 2: Transitioning to the Modern Treasury
A Presentation to the NY Cash Exchange
by
Bruce C. Lynn, CTP
June 3, 2011

Session 2 Agenda

- Breaking the ties that bind
- What does the other company do?
- The survey says.....
- Problems and opportunities
- Treasury Do’s & Don’ts
- Implementing a transition plan
- Q & A
Breaking the ties that bind

Quick review
- Session 1 – The "perfect" treasury
  - More planning, less processing; treasury is in the liquidity business
  - Fewer "moving parts", more integration
  - Less "float", more flows (cash, accounting, information)

Bottom Line: Change is hard
- Change is not free & has a cost
- Change means risk, but can generate rewards
- Doing nothing is really not an option given:
  - The demise of "covenant lite" credit facilities endangers access to external liquidity sources (i.e. "the market")
  - Slow (no?) growth environment which has impacted corporate operating cash flows (i.e. internal source of liquidity)

What does the other company do?
- Reaching any goal requires a series of risk / reward decisions. Ask:
  - What are my peers goals?
  - How do I know if I am doing a good job?
  - How much risk am I willing to take?
- Setting goals via "benchmarking" can help
  - 4th annual survey conducted by the FECG looked at 25 treasury issues
  - Each company asked to rank 25 questions
    - 1 = most important
    - 5 = least important
The survey says.....

- **Sales size among 280 respondents**
  - Small: 73% of companies had sales under $250 million
  - Medium: 10% had sales between 250 million – 1Bn
  - Large: 15% had sales greater than/equal to $1Bn+

- **Respondents**
  - Among Small / Medium:
    - 58% were CFO, Treasurer, AT
    - 32% were VP Finance, Director, Controller, Ass’t Controller
  - Among Large:
    - 30% were Treasurer, AT
    - 46% were VP Finance, Director, Controller, Ass’t Controller

- **No longer have to be big to be global**
  - 17% of companies with Sales < 1BN billed more than 20% of their sales in non USD
  - Business done outside the US (regardless of currency)
    - "Smalls" = 24%
    - "Mediums" = 36%

- **Companies are becoming more sophisticated**
  - 20% of small companies hedge their market exposure
  - 52% of medium companies hedge
  - Favorite Hedges: Forward or SWAP

- **Multiple “platforms” (GL, ERP) in use**
  - 61% at large companies
  - 37% at medium companies
  - 15% of small companies

- **Implications**
  - Operational risk issues?
  - “Cloudy” view when managing liquidity?
The survey says....(2)

Treasury resources are small (mostly)

<table>
<thead>
<tr>
<th>FTE</th>
<th>Small*</th>
<th>Medium *</th>
<th>Large *</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3 FTE</td>
<td>22 %</td>
<td>54</td>
<td>15</td>
</tr>
<tr>
<td>3 to 5 FTE</td>
<td>6</td>
<td>7</td>
<td>32</td>
</tr>
<tr>
<td>5 to 7 FTE</td>
<td>3</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>&gt; 7 FTE</td>
<td>1</td>
<td>4</td>
<td>27</td>
</tr>
</tbody>
</table>

Technology still depends on old “systems”

<table>
<thead>
<tr>
<th>% Mostly / solely dependant on Email, Spreadsheets, Bank Web Systems</th>
<th>Sales &gt; 1BN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Mgt – Collecting, Positioning, Transfers, forecasting</td>
<td>61%</td>
</tr>
<tr>
<td>Reporting</td>
<td>57%</td>
</tr>
<tr>
<td>Debt Mgt – Track principal, interest accruals, covenant</td>
<td>43%</td>
</tr>
<tr>
<td>Investment Mgt – Track portfolio, interest accruals</td>
<td>36%</td>
</tr>
<tr>
<td>Risk Mgt</td>
<td>34%</td>
</tr>
</tbody>
</table>

The survey says....(3)

Too many “moving parts” (financial systems) at larger companies?

<table>
<thead>
<tr>
<th>Financial systems</th>
<th>Sales &gt; 1Bn</th>
<th>Sales &lt; 1Bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple ERP systems</td>
<td>61%</td>
<td>17%</td>
</tr>
<tr>
<td>In house systems (billing, order entry, etc)</td>
<td>59</td>
<td>50</td>
</tr>
<tr>
<td>Bank systems</td>
<td>49</td>
<td>63</td>
</tr>
<tr>
<td>Treasury Workstations</td>
<td>56</td>
<td>24</td>
</tr>
<tr>
<td>Other 3rd party systems</td>
<td>56</td>
<td>24</td>
</tr>
</tbody>
</table>

Implications

- Reliance on many, older systems (spreadsheets) does not generate “global visibility” of financial results.
- More profitability than liquidity systems – Treasury less important?
The survey says....(4)

Banking structures still too large?

<table>
<thead>
<tr>
<th># Banks in Use</th>
<th>Domestic %</th>
<th>International %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales &lt; 1BN</td>
<td>Sales &gt; 1Bn</td>
</tr>
<tr>
<td>&lt; 10</td>
<td>96</td>
<td>64</td>
</tr>
<tr>
<td>10 – 15</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>15 – 20</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>&gt; 20</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Not sure</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

- 10 banks or less “works”, but still too many?
- Will lack of credit drive relationship change?
- Strategy – fewer banks or fewer bank accounts?

The survey says....(5)

<table>
<thead>
<tr>
<th>2010 rank</th>
<th>Most Important Top 5 of 25 Issues</th>
<th>2011 Rating (1 = most Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Improve cash forecasting capability</td>
<td>2.4</td>
</tr>
<tr>
<td>2</td>
<td>More efficiently manage working capital</td>
<td>2.6</td>
</tr>
<tr>
<td>3</td>
<td>Improve liquidity across business units</td>
<td>2.6</td>
</tr>
<tr>
<td>5</td>
<td>Seek out role in strategic plan</td>
<td>2.6</td>
</tr>
<tr>
<td>4</td>
<td>Optimize capital structure</td>
<td>2.7</td>
</tr>
</tbody>
</table>

- Forecasting most important due to more uncertainty in 2010?
- Top issues are all about “liquidity”
The survey says….(6)

<table>
<thead>
<tr>
<th>2010 Rank</th>
<th>Least Important Issues</th>
<th>Rating (5 = least Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Travel to business units</td>
<td>3.7</td>
</tr>
<tr>
<td>2</td>
<td>Reduce Number of bank Relationships</td>
<td>3.6</td>
</tr>
<tr>
<td>7</td>
<td>Develop positions on external Issues (Dodd Frank. Banking reform, etc)</td>
<td>3.6</td>
</tr>
<tr>
<td>8</td>
<td>Benchmark Treasury capabilities</td>
<td>3.7</td>
</tr>
<tr>
<td>4</td>
<td>Estimate market risks (FX, int. rates)</td>
<td>3.8</td>
</tr>
</tbody>
</table>

- Will managing most important be impeded by the least important
- Will demand for treasury resources exceed supply?

Problems and opportunities

Problem 1 - Can top 5 issues be completed without attempting the bottom 5?
- Reporting – means communicating common goals and performance
- Strategic planning – moving away from transactional thinking will yield better results
- Risk Management – no one can accurately predict the future but failure to try is not an answer either

Problem 2 – Cash forecasting is not being rewarded
- Cash forecasting – Most important issue, but only 8% of companies had initiated or completed a program in the last 12 months
- Working Capital – 2nd most important issue but only 9% of companies responding had a program in place
- Possible reasons
  - Incentives – company focused on profitability, not liquidity?
  - Integration – multiple financial systems increase “friction” among lines of business / financial staff

Problem 3 – How does treasury demonstrate “value”?
- Future costs / market risks are difficult to measure
- Financial statements measure historic events
- What are best measures of liquidity? Risk?
Problems and opportunities (2)

**Bottom line**
- Size by itself is not important in determining importance of issues
- Issues of forecasting and working capital (i.e. operating cash flow) are key
- Least important issues maybe preventing implementation of the most important (need for more resources?)
- Technology alone is NOT the solution
- Neglecting key issues can:
  - Make treasury less “visible” and valuable
  - No value = Restricted career options

---

Treasury Do’s & Don’ts (1)

1. **Do your diagnostic homework**
   - Only start serious discussions with banks or other vendors if you fully understand current practices;
     - Identify key needs/opportunities
     - Define project scope/objectives
     - Set measurable goals

2. **Do be realistic**
   - Change requires an organization to tackle twice as much work
     - How much time/effort treasury staff can devote to a special project in addition to their normal jobs?
   - Be prepared to change the changes

3. **Do exchange ideas with your peers who have addressed the same issues**
   - From other companies
   - From associations (e.g. via AFP, FEI, AICPA, etc)
   - From networking resources (e.g. FENG)
Treasury Do’s (2)

4. Do seek answers to business issues
   • The answers will not always be in treasury
   • Forecasting requires two way communication with the “owners” of the cash receipts or disbursements
   • Email is so 20th century – seek out interactive planning and forecasting tools

5. Do become a planner not a processor
   • Career choices are limited – how many Treasurers, VPs, CFOs process?
   • Understanding strategy is important regardless of company size or complexity

Treasury Don’ts (3)

1. Don’t forget - a bank or vendor’s primary objective is to sell
   • When seeking change will their standard product (technology, bank service) fit your need?
   • Should I get a “bespoke” version in order to have a perfect fit for my company?

2. Don’t rely soley on an RFP “process”
   • Focus on the end result and see how much creative effort the banks/vendors are prepared to make to respond to your needs.

3. Don’t set unrealistic completion dates
   • Treasury projects may not be high priority for everyone, e.g. IT, legal, unit controllers.
Treasury Don’ts (4)

4. Don’t be afraid to change
   • As companies grow so does its need for change
     - For small companies – the larger the company the more there is a need for a treasury.
     - For midsize companies – Treasury needs to learn the business.
     - For larger companies – centralization is not enough: forecasting is key
   • Keep it simple: Ex: hedging, bank account structure

5. Don’t forget to measure the rewards from change; make it part of the plan
   • To the business unit – lower operating expenses
   • To the company – less borrowing / expenses
   • To both – less risks or errors; greater certainty about the future

Implementing a transition plan

- Start by catalog treasury’s strengths
  • Staff – a “few good men/women?”
  • Assets managed – how much? How many counterparties
  • Trusted Advisor – banks, business units, etc
- How should treasury view its value added?
  • Efficient processor?
  • Skillful planner / forecaster of cash?
  • Technical expert concerning – GAAP, Tax, SARBOX, etc?
  • Skillful negotiator with 3rd parties (e.g. banks)?
  • Ability to control financial risks?
- Be honest / realistic about weaknesses
  • Staff – too junior? Unfamiliar with company businesses?
  • Information out of date / incomplete?
  • Technology out of date?
Transition Plan (2)

- Assess current situation
  - The problem is never black & white and the solution is not a "treasury thing"; it is a team (i.e. task force) thing
  - Resist the "solution du jour" from vendors

- Establish goals that are:
  - In sync with company’s profitability plans
  - In sync with business users / suppliers of cash
  - Identify what:
    - MUST stay – market forces at work?
    - MUST go – internal constraints (but which ones?)
    - COULD go?

- When transitioning, track outputs from the 4 "flows"
  - Work flows
  - Information flows
  - Cash flows
  - Accounting flows

Transition Plan (3)

- Actual Data (by bank)
  - Invest. Bal. & Transactions + Debt + Bank Transactions + Bank Balances + Mkt Rates

- Forecasted Receipts

- Forecasted Disbursements

- CAPEX

- Operating

- Forecasted Receipts

- CAPEX

- Operating

- Forecasted Disbursements

- FX Exposures (Non-functional currencies)

- FX Exposures (Functional currencies)

- By Organization by period

- Sum Data actual + forecasted cash flows

- Price & Buy

- Price & Sell

- No?

- Positive?

- Negative?

- Decision to Borrow

- Decision to Invest

- Best Accounting entries to G/L (Book Cash)

- Issue Hedge + Transfer Instructions to 3rd Parties

- Get Confirm, Create reports (Treas. Cash)
Transition plan (4)

- A good plan focuses on benefits to the users
  - Tangible vs. non tangible benefits
  - What is the cost of quality?
- Building a business case for change
  - Cash flow benefits vs risk – function of balances, amounts, speed, opportunity.
    - Operating cash flows – from A/R, A/P, payroll, taxes, etc
    - Financial cash flows – borrow, investing, rates, maturity
    - Volatility?
  - Transaction cost benefits – services / prices / performance
    - Bank services – paper vs electronic?
    - In house processing has a cost
  - Staff utilization – tasks, work flows and hours worked
    - Treasury
    - Non treasury (local controllers, tax, audit, etc)
    - What is NOT getting done?

Transition plan (5)

- Relate transition plan to corporate planning process:
  - P & L – bank fees, net interest expense, tax
  - Balance sheet – level of cash, working capital, LT debt
  - Risk management
    - Units responsible for amount of funds;
    - Treasury responsible for cost of funds (i.e. immunize business units from rate swings)
    - Gains / losses, CTA accounts, % in non functional currencies, interest margins
  - Set up “contracts” with other company units
    - Business units – operating profits at set FX rates
    - Financial units – controls (auditors), tax credits (Tax)
- Establish metrics based on clearly defined metrics
  - Liquidity
  - Risk
  - When is as important as how much
Transition plan (6)

- Top 10 tasks to transition from “processor” to “planner” (ranked easy to hardest)
  1. Rationalize bank network
  2. Set target balances at banks
  3. Re-bid bank services to obtain market prices
  4. Work with other financial units to establish joint goals
  5. Upgrade treasury technology

Transition plan (7)

6. Set up pooling or netting arrangement at international locations
7. Create in-house bank
8. Obtain analytical tools to measure risk
9. Imbed performance measures into corporate planning processes
10. Work with business units as “internal consultants”
Q & A

- FECG Contact Information
  - www.thefecg.com

- Bruce Lynn
  - Phone: 203-655-4806
  - Email: blynn@thefecg.com