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Winter 2017

Association for Financial Professionals' Quarterly Magazine

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Why the new COSO framework matters to treasurers

AFP Conversations: How to become a superforecaster

Plus: The newest class of CTPs, CTPAs and FP&As

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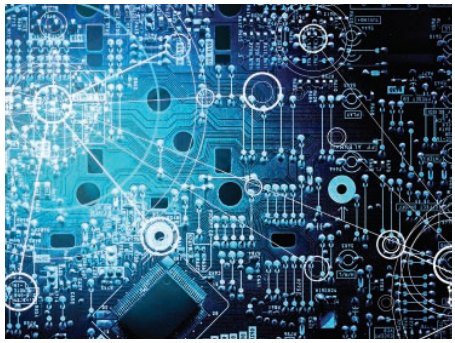
VOLUME 37 NUMBER 4





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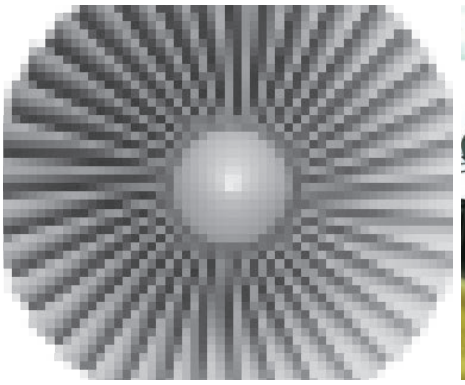
WINTER 2017



JIM KAITZ, PRESIDENT & CEO

COME TOGETHER

Dear AFP Members,

There's nothing like thousands of colleagues gathering in one city, in one building, over the course of four days to boost your professional knowledge.

That's what happened in October in San Diego. Thousands of treasury and finance peers convened in the San Diego Convention Center to discuss, deliberate and perhaps even debate the biggest challenges of the day. It's why the AFP Annual Conference is truly the biggest event in treasury and finance.

Now, I know what you're thinking. You probably think the rest of this column will be about new technology. But there was so much more on tap at AFP 2017.

There were payments professionals grappling with the faster payments initiative. Senior executives confronting leadership and staff development responsibilities. FP&A practitioners searching for answers about the changing nature of forecasts and budgets. Treasury staff pursuing banking, investing and retirement plans. Younger attendees seeking guidance. Experienced attendees seeking new skills. And, yes, everybody was talking about technology.

Everything is being disrupted. Everyone is being challenged. Every day.

But the daunting future doesn't seem so bad when you can commiserate with thousands of your peers. When we come together as we did in San Diego—as we do every year—we can lean on each other for support. More important, we can learn from each other. And we can learn from some of the brightest minds in the profession and beyond.

There's more good news. AFP is launching a new event in March to provide another learning and networking opportunity for finance professionals. FinNext will take place March 18-20 in San Francisco. You can read an interview with the keynote speaker, Dan Gardner, in this issue on page 28. There's more information at www.FinNext.org.

Whether you attend FinNext in March or AFP 2018 next November, rest assured the Association for Financial Professionals—and all your peers—are eager to help you navigate your career path.

Sincerely,

Jim Kaitz
President and CEO

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Bank of America Merrill Lynch

The power to

expand e-payment choices

New student-friendly options for disbursing financial aid funds

Business officers at colleges and universities have more payment choices today when disbursing federal financial aid funds to their students. To move to safer and more efficient disbursement practices, schools are wise to investigate new, innovative electronic payment methods that reflect student preferences. This paper reviews two disbursement alternatives that schools have when managing Title IV Higher Education Act student aid.

A move to electronic payments

Similar to many other businesses and government agencies, institutions of higher education are seeking ways to make their operations more efficient and secure while targeting higher levels of customer satisfaction. This has led to a focus on migrating to electronic payment methods, including when making payments to students.

Recent U.S. Department of Education amendments to Title IV Higher Education Act cash management regulations have placed a spotlight on one area of student payments in particular, the disbursement of federal financial aid funds, such as Pell Grants, federal scholarship and student loan dollars. Colleges and universities receive these funds from the federal government and then, after applying a portion for direct expenses such as tuition, disburse them to their students. Over the years, some schools have implemented electronic options for making these disbursements, including direct deposit to student checking or savings accounts.

However, today there are some alternative, student-friendly options to consider beyond traditional Automated Clearing House (ACH) funds transfers.

Below we provide an overview of two such options—prepaid cards and alias-based payments.

Average internal costs per transaction[1]

Paper check

$3–$6 or more

Electronic payments

$1 or less

Prepaid card

For a college or university, one of the key advantages of any electronic payment method is that it's less expensive than the past default practice of making payments to students by check. The average internal costs associated with making an electronic payment can be $1 or less per transaction, compared to $3 to $6— and sometimes much higher—for issuing a paper check.[1]

As one of the electronic payment options for Title IV financial aid disbursements, prepaid cards can offer both lower costs and other advantages. For one thing, prepaid card is the only alternative that does not require the student financial aid recipient to have a bank account. That's important, because some students are unbanked, they may have a bank account that does not provide local access, or they are uncomfortable providing their account information to the bursar's office.

13%

of 15- to 24-year-olds in U.S. households were unbanked in 2015[2]

According to the Federal Deposit Insurance Corp., 13% of those 15 to 24 years of age in U.S. households were unbanked in 2015.[2] Unbanked students are unable to receive their Title IV payments through ACH direct deposit, and therefore, absent a prepaid card option, generally must accept a paper check. This results in added cost and inconvenience for students when converting their financial aid into liquid funds.

Unbanked students may rely on costly check cashing services to cash their financial aid checks. And since financial aid payments are generally made in lump sums at the beginning of the semester, they also need to find ways to safely store the funds for access throughout the semester.

Even those students with a bank account may find a Title IV prepaid card to be less costly than a checking account from their hometown bank. Non-local bank accounts may come with costs to access funds through out-of-network ATMs on or near campus. In addition, many bank accounts assess monthly maintenance fees unless a minimum balance is maintained or the account holder receives consistent monthly direct deposits.

A financial aid prepaid card can help students avoid some of these issues. They need not take time to cash their checks or pay check-cashing fees. Unlike a check, the funds can remain in the prepaid card account throughout the semester, and if the card is lost or stolen, students are protected.[3] With the amended Department of Education Title IV regulations, students can be assured they will have free and

reasonably convenient access to their funds on the prepaid card when they are on or near campus.

To issue a prepaid card to the student, all a school needs is the student's name, address and one or two additional pieces of information for security purposes, such as a social security or telephone number.

How the new rules impact prepaid card

The amended Department of Education regulations that went into effect in July 2016 establish specific rules and prohibitions on how higher education institutions may use prepaid or debit cards for the disbursement of Title IV financial aid funds. Schools considering using prepaid cards as a method of disbursing such funds need to educate themselves about these rules.

The alias-based payment option

Another cost-effective alternative for making electronic disbursements of Title IV financial aid funds that schools should consider is an alias-based payment. Most students carry a mobile phone or computing device with them 24/7. Alias-based payments — at Bank of America Merrill Lynch we call our offering "Digital Disbursements" — enable a college or university to send Title IV funds to a student using either a mobile phone number or email address. The funds are deposited directly into the student's designated account.

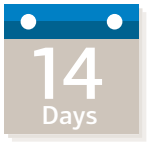
The payments are referred to as "alias-based" because the phone number or email address acts as an alias or identifier that's linked to the student's actual bank account information. Unlike with an ACH payment, the higher education institution doesn't have all the administrative work of updating and maintaining critical bank account information, nor the associated data breach risks.

Digital Disbursements are made in partnership with Zelle℠ (previously called clearXchange), a payment network founded by Bank of America and some of the nation's other leading financial institutions.[4] The registry maintains a digital catalog of consumer mobile phone numbers and email addresses, along with corresponding bank account information. Once a student receives a Digital Disbursements text or email and registers, the network is able to deposit those funds into the appropriate student bank account.

To receive financial aid funds through Digital Disbursements, a student must use a checking or savings account domiciled with a U.S.-based bank and register with Zelle or a bank that participates in Zelle. Registration is a fairly simple process.

In addition to being well received by mobile-savvy students, Digital Disbursements, like prepaid cards, are more secure and less expensive than checks. They are deposited directly into designated accounts, and in most cases, the funds are available in minutes or as soon as the next business day — avoiding delays associated with mailing a check to the wrong address.[5]

Digital Disbursements help schools exceed the Department of Education's speed of settlement requirements.



Responding to innovative new options

A best practice in treasury management these days is giving customers options so they can choose their preferred method of accepting payments. Institutions of higher education can do just that for their students by offering the emerging electronic payment methods discussed here.

By offering both prepaid card and alias-based payment (Digital Disbursements) options for disbursing financial aid funds, schools can meet the needs of both students without bank accounts and those who prefer to manage as many financial transactions as possible using their mobile phones or laptops.

To learn more about Title IV financial aid disbursement alternatives, contact your Bank of America Merrill Lynch relationship manager or treasury management sales representative.

Registering students to accept Digital Disbursements

- Registering students to accept Digital Disbursements payments is as secure as it is fast, and the higher education institution never sees students' critical account information.
- A link directs students to a web page with a list of banks. Clicking on their bank directs students to their institution's online banking, where they use their normal online banking login credentials and complete the registration process. If their bank is not shown, students are directed to click on the "**My bank isn't listed**" link and will visit the *Zelle* website, where they are asked to establish a username and password and provide a few fields of data to register.
- Both registration processes provide students with an authentication code to their email address or phone, and they will need to enter this code to complete the registration process. Once students are registered, they are immediately ready to receive funds directly into their designated account.

Source: [1]2015 AFP Payments Cost Benchmarking Survey; [2]2015 FDIC National Survey of Unbanked and Underbanked Households; [3]Certain requirements must be met in order to receive these protections; [4]*Zelle* and *Zelle* related marks and logos are property of Early Warning Services, LLC; [5]Transactions typically occur in minutes for registered *Zelle* users. If a recipient has not yet registered with *Zelle*, it could take between 1 and 3 business days.

Fail Safe

Planning for failure is necessary for FP&A

BRYAN LAPIDUS, FP&A

A critical component of FP&A's job description is decision support around investments, partnerships, and other initiatives. We study the financial impact, strategic alignment, and operational synergies to select projects that will help achieve the goals of the enterprise, and projects that do not add value are de-prioritized. After all our study and research, some initiatives will not work out.

And that is okay. And, increasingly, management thinks so too.

The view of project failures in the corporate world is changing, driven by numerous forces. The move towards a service and digital economy means that companies often can start and test ideas using relatively less capital than in previous generations, improving the risk/return calculation for experimentation. In manufacturing, advances like three-dimensional printing and computer aided design shorten the time and reduce the cost of testing. The advent of big data provides more information that can be mined or simulated. And there are cultural changes as well that encourage risk taking and accept failure as a necessary step. In Silicon Valley, there's a saying: You can't get funding for a new venture without at least one good failure.

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The implication for FP&A, and our organizations overall, is that we need to know how to handle failure as a routine part of our business. So how should we plan for failure? Here is a guide to get started:

Portfolio approach

A portfolio approach is perhaps the best way to guide FP&A's thinking about failure. In other words, separate "committed" and "experimental" capital spend; what must give a positive return versus what is in the experimentation side.

The nature of being in business is accepting risk. Companies take and generate capital, then allocate that capital to satisfy a market need. In finance, we call this risk capital for a reason. There is the danger that we do not execute on our plans for any number of reasons: a competitor out-maneuvers us, customers choose a different solution, our pricing is wrong, our quality or service is poor, we cannot deliver to market, or regulations change. The danger of failure is part of the equation. Given how much easier it is to test ideas today, the danger is less but the opportunity remains greater. Therefore, we should be testing more often.

"For FP&A, a strategy of multiple small bets will entail many failures in pursuit of success. In creating this business case, it is best to bundle all the bets into a single expense and evaluate the project in its entirety."

Many eggs, many baskets

It is important to understand your company's risk appetite for its investments and then project that onto the portfolio of opportunities. A portfolio approach allows for a diversity of investments that pursue different goals of the enterprise. Some investments are not allowed to miss. For example, implementing an e-commerce platform or building a deep-water oil drilling platform. A different section of the portfolio may be allowed to be more speculative, a chance to experiment, take risks and push the envelope of capabilities. FP&A should separate these two buckets and apply different standards of evaluation. The goal is that the overall portfolio returns acceptable financial and operational goals. Venture capital often works this way; two in 10 investments may hit, but that means the other eight fail.

One way to pursue projects is a top-down, centralized approach where an opportunity is studied by experts and researched, then a plan is formed and executed. An alternative approach is to pursue many paths simultaneously and see which yields the best results.

For example, Unilever wanted to build a new sprayer to improve their detergent manufacturing. They began with the top-down approach and studied the fluid dynamics and built prototypes but could not design an effective tool. Then they pursued an iterative process. They built 10 different nozzles and chose the one that worked best. They then made 10 iterations of that winner and chose the best performing one from that set. They continued this through 45 generations. They admit that they are not sure why it works, but are pleased with the outcome.

For FP&A, a strategy of multiple small bets will entail many failures in pursuit of success. In creating this business case, it is best to bundle all the bets into a single expense and evaluate the project in its entirety.

The philosophy of agile software development has become embedded in many different areas: build a component, get immediate client feedback (testing), adjust and move on to the next sprint or work segment. This can be a guide for FP&A as well. Rather than committing capital in large blocks, assess projects at multiple stages to determine whether the investment is proceeding as it should. What adjustments should be made? Should we continue with the project? Management guru Tom Peters had a mantra for this feedback loop: "Test fast, fail fast, adjust fast." Finance can adopt this outlook as well.

"It is important to distinguish between productive and unproductive failures," said Amy Edmondson, an economist and professor at Harvard Business School. "Simply

embracing failure would be as silly as ignoring it." Investments need to yield something of value for the organization, whether that is financial, understanding, or other insight. The investment process can insure this by documenting what was gained all projects, successful or not. For failures, these learnings are even more valuable so that you can recoup something from your investment.

To do this, all projects require a post-mortem analysis or after-action review to gather learnings and improve organizational efficiencies. Going a step further, when building the business case, include a section about what the expected business learnings would be in the event of failure. Think of it as estimating the salvage value to an asset, or de-risking the investment.

Perhaps my Little League baseball coach put it best: "If you are not getting dirty, you are not trying." Of course, it is easier to say that failures are a part of the game, and that it is permissible to simply end a project and move on to the next one. The truth is that the typical corporate culture sees failure as a potential career-limiting event that can tarnish your reputation.

To change this culture and allow failure requires leaders to publicly embrace the ethos that failure is a necessary partner to success. One example of how to do this comes from X, the idea factory at Alphabet, Google's parent company. At X, a division president lauded a team who determined that their project would not work and decided to end the effort. He brought the team up on stage at a town hall meeting and said, "They completed their project. It failed to produce what they expected. But congratulations, we are giving you a bonus, sending you on vacation, and will give you a new project when you get back."

In other words, failure is acceptable, even desirable, when the work is good and knowledge is gained. To continue with a project once you realize it will not produce desired outcomes?

That would truly be a failure.

Bryan Lapidus, FP&A, is a contributing consultant and author to the Association for Financial Professionals. Reach him at BLapidus@AllegianceAG.com.

For additional insights on FP&A, subscribe to the AFP monthly newsletter, FP&A in Focus.

IRA KAWALLER

State Your Preference

New choices for hedgers using forwards and options

New accounting procedures may now be elected that will likely serve to dampen reported earnings volatility for many companies that hedge with forward contracts or options and, crucially, apply special hedge accounting.

What does "special hedge accounting" mean, and why is it so important? When derivative contracts are used as hedges, they're generally intended to mitigate the earnings impact of some associated *hedged item*. And with this orientation, it makes sense to reflect the two earnings effects, i.e., those of the derivative and those of the hedged item, in the same earnings reporting period. Special hedge accounting delivers this outcome, thus reflecting the economic intent of the hedge. Without hedge accounting, in most situations the two earnings effects would be reported in different accounting periods making the intent of the hedge less transparent.

Unfortunately, hedge accounting is not automatic. Applying it requires satisfying a number of prerequisites, one of which is demonstrating to the satisfaction of your auditor that the intended hedge is expected to be "highly effective" in offsetting the risk being hedged. This concept of offset is critical, and it's also problematic for forward hedges and option hedges. That is, for economically well-functioning forward contract hedges and option hedges, changes in these contract values often *won't* offset the risks being hedged.

continued on page 16

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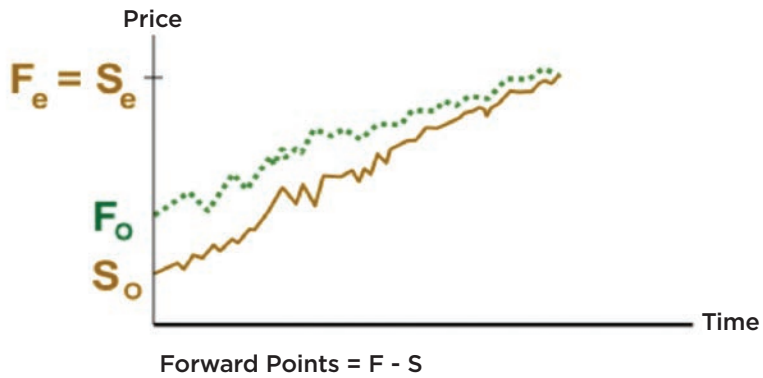
[2] Offshore funds available only to certain qualified investors.

[3] Reference is to certain omnibus interest bearing deposit accounts maintained at MUFG Union Bank and certain branches and offices of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU) including BTMU Canada. MUFG Union Bank, N.A. is a member FDIC and its banking products are insured up to applicable FDIC insurance limits. The Bank of Tokyo-Mitsubishi UFJ, Ltd. is not a member FDIC and its products NOT insured by the FDIC or other government agency. The Bank of Tokyo-Mitsubishi UFJ (Canada) is NOT a member Canada Deposit Insurance Corporation (CDIC) and its deposit products NOT insured by the CDIC or by any other government agency.

Figure 1: Forward Points



Source: Kawaller & Co.

All-in-one hedge

Consider the case of an all-in-one hedge, where the company enters into a forward contract that obligates the firm to take delivery of a commodity or currency at some future value date, at a stipulated forward price. This hedge unambiguously locks in the forward price for the hedger, thereby eliminating any price uncertainty. Economically, it's a perfect hedge.

As a rule, prior to the forward's expiration date, a forward price will almost certainly differ from today's spot price, i.e., the price that would be required to buy that commodity and take possession imminently, But, as shown in the accompanying figure, forward (F) and spot (S) prices will converge as of the forward's expiration date. Given this property of convergence, it should be clear that over the holding period of the forward contract, the spot price change ($S_e - S_o$) will differ from the forward price change (F_e - F_o), with the difference being equal to the starting forward point amount. Unless addressed appropriately in the hedge documentation, this imperfect offset could jeopardize the capacity to apply hedge accounting despite the fact that this hedge perfectly locks in the original forward price on the forward contract.

In a similar vein, an option having the same underlying asset as the exposure being hedged might also provide a perfect economic hedge, assuring that the effective, all-in price (inclusive of hedge results) will be *no worse than* the option strike price, plus or minus the price paid for the option—*plus* if the hedge is a call option designed to protect a purchase price, *minus* if it's a put option designed to protect a sales price.

With options, it's important to understand that the price of an option can be composed of two components: the intrinsic value and the time value. Consider the case of the right to buy widgets (i.e., a *call* option) at a strike price of $50, when widgets are selling at $52 in the spot market. With this hedge in place, no matter how high the price of widgets might reach in the spot market as of the time the purchase is required, the hedger is assured that his/her worst case would be buying the widgets at the strike price of $50, plus the initial cost of the option. On the other hand, if the price of widgets falls below $50 by the intended purchase date, this hedger would allow the option to expire (or else liquidate the contract) and stand to enjoy an effective price that would be cheaper than $50.

In this example, the option's intrinsic value is $2—the beneficial difference between the strike price and the spot price of the widgets from the point of view of the option buyer. With time remaining until expiration, the overall price of the option would be at least this intrinsic value, and then some. In this example, if the full option price were $3 when initially purchased, the intrinsic value would have been $2, and the time value would have been the residual $1.

Ultimately, when an option expires, the time value will erode to $0, and the option will have a terminal value equal to its intrinsic value. Continuing with the example, if the price of widgets were to rise to, say, $55 by the time the option reaches expiry, the option would end up having a terminal (intrinsic) value equal to $5. The change in the spot price over that time would be $3 (= $55 - $52), while the change in the full option price change would be $2 (= $5 - $3)—an imperfect offset.

FASB allows reporting entities to untie these Gordian knots—the seeming accounting ineffectiveness while these instruments are performing as intended, economically—by permitting forward point and option time values to be *excluded* from the assessment of hedge effectiveness. This semantic election is often sufficient to allow the hedger to assert that the offsets are highly effective, thus permitting hedge accounting. Without this election that conclusion would not hold.

Returning to the forward hedge example, by stating in the hedge

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Forward hedges, for instance, FASB allows the effectiveness assessment to compare the forward price implicit in the exposure to the forward price of the derivative, such that forward points are never explicitly excluded.

documentation that forward points would be excluded from the hedge effectiveness assessment, the company can compare spot price changes for both the hedged item and the hedging derivative. This offset would be perfect when hedging a currency exposure with a derivative with a common currency denomination or if hedging a commodity component. Not so, however, when hedging a full commodity price with a derivative, when a non-constant basis applies to the commodity price. In this case, satisfying some additional quantitative test would be necessary to qualify for hedge accounting.

Returning, again, to the option example, excluding time value effects allows the comparison of the change in the spot price for prices above $50 (i.e., $55 - $52 = $3) to changes in the option's intrinsic value (i.e., $5 - $2 = $3). As before, this election, by itself, would likely be sufficient to allow for hedge accounting for certain hedges, but not necessarily all.

Amended guidance

In the pre-amended accounting guidance, those who made this election in cash flow hedging situations had been required to recognize the gains or losses on these excluded items in current income on the basis of the excluded items' mark-to-market value changes. This treatment thus fosters some unintended earnings volatility. More likely than not, the magnitude of these earnings effects would tend to be quite limited and immaterial for excluded forward points, but these effects might be many times larger for option time values. However small or large these might be, to the extent that the hedger's motivation was to minimize income volatility, this mark-to-market aspect of the accounting treatment has been seen as a negative.

Many companies have been able to sidestep this problem by appealing to alternative hedge assessment comparisons. For forward hedges, for instance, FASB allows the effectiveness assessment to compare the forward price implicit in the exposure to the forward price of the derivative, such that forward points are never explicitly excluded. A similar workaround exists for option hedges, as well, under the *terminal cash flow* methodology. Under this method, the effectiveness assessment for an option hedge focuses attention on the final payoff of the option, relative to the intended risk being hedged. In effect, without saying so, this method also excludes the time value of the option as that final payoff is entirely intrinsic value. In any case, for cash flow hedges, the terminal cash flow method under the amended accounting guidance allows for the entire gain or loss on the option—both time value and intrinsic value—to be deferred initially though other comprehensive income (OCI) and later reclassified to earnings coincidently with the earnings impact of the hedged item.

The guidance thus allows for two alternative ways of accounting for forward points or option time values. When these amounts are excluded from hedge effectiveness assessments, the excluded amounts are recognized in earnings throughout the horizon of the hedge. Without adopting this election, forward points and/or time value effects could be concentrated and reflected in earnings at or after the date the hedge terminates, in the period (or periods for caps and floor hedges) in which the hedged item affects profits. Conceivably, then, the exclusion method allows for spreading these earnings effects from forward points or time values over many accounting periods, albeit with some degree of income volatility, while the alternative approach concentrates the earnings recognition is the period in which the deferred gains or losses are reclassified.

In the pre-amendment world, many hedgers preferred not to exclude forward points or option time values from their assessment of hedge effectiveness largely because of an aversion to unintended earnings volatility during the hedge horizon. With the amended standard, however, FASB instituted a change that will likely alter the calculus. Specifically, the new rules now permit the allowable excluded items (forward point effects and option time value effects) to be accounted for in any "systematic and rational method" devised by the reporting entity. For most, this new allowance likely means that companies will choose to exclude forward point and/

"The new rules now permit the allowable excluded items (forward point effects and option time value effects) to be accounted for in any 'systematic and rational method' devised by the reporting entity."

or time value effects. Instead of realizing these effects in earnings on a market basis, though, they'll recognize these amounts using straight-line amortization. The problem of unintended earnings volatility has been solved!

One caveat: For entities that want to take advantage of this new flexibility to spread their hedging costs over multiple periods without introducing any unintended volatility, it's important to realize the combined amount recorded in earnings and OCI must be identical to the total gain or loss of the derivative in every period. Thus, if the earnings impact from any excluded item is determined on the basis of some rules-based algorithm, the balance of the market value change of these excluded items would necessarily have to be posted to OCI—both for fair value and cash flow hedges. (It may be interesting to note that requiring any OCI allocation in connection with fair value hedges is an innovation that may not have been widely anticipated.) Those excesses and shortfalls will be fully offsetting by the end of the process, *provided the derivative is not terminated or offset prior to its natural maturity.* However, if and when derivatives are terminated early and excluded items have been allocated to earnings mechanically, a special final reclassification adjustment would likely be necessary to assure that the aggregated earnings realized for the derivative is identical to its market gain or loss.

Ira Kawaller is a Managing Director of HedgeStar, a consulting firm that specializes in hedge accounting and valuation service.

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Winner Takes ALL

JOHN HINTZE

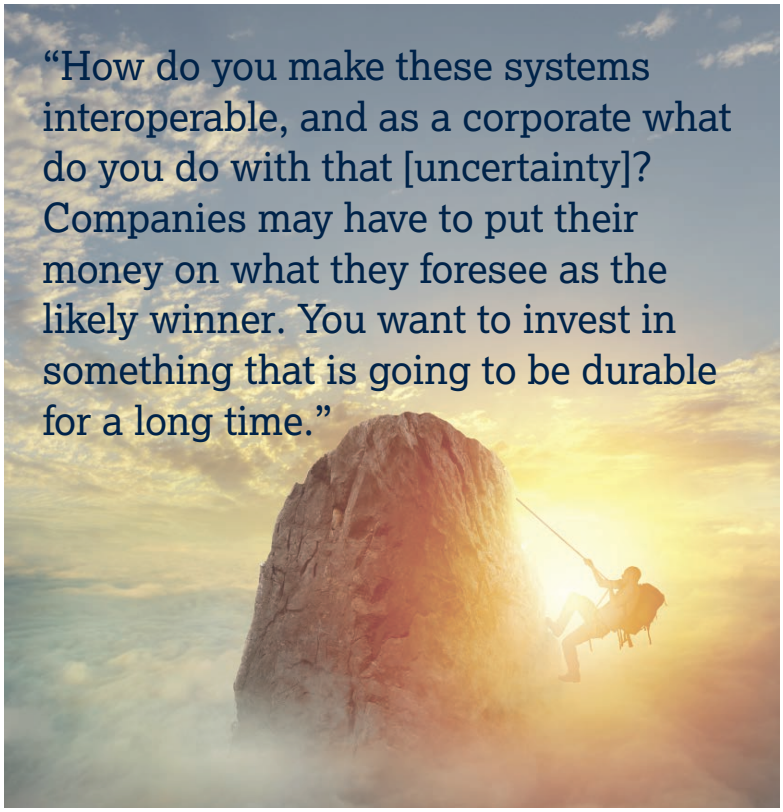
Which faster payments solution currently under development will outshine the others?

A new faster payment system is scheduled to arrive in the United States by 2020—an aggressive timeframe that suggests corporate treasurers should start thinking sooner rather than later about the potential ramifications.

That timeline was set by the Federal Reserve Faster Payments Task Force (FPTF) in its second and final report released in late July, which posed plenty of questions but provided few definitive answers. The task force's report does nevertheless set out 10 recommendations to achieve a ubiquitous faster payment system, in areas including governance and regulation, infrastructure, and sustainability and evolution.

KEY TAKEAWAYS:

- The Federal Reserve Faster Payments Task Force is pushing for industry stakeholders to launch a ubiquitous faster payment system by 2020.
- Given the Fed's ambitious timeline, corporates would be wise to monitor the progress of the governance framework and subsequently how faster-payment solutions are unfolding in the context of the task force's other recommendations.
- Companies will have to consider how to deal with transactions that arrive and are settled at any time in the day or over the weekend.



The governance framework

The report notes that a governance framework is "essential for diverse participants of the ecosystem to effectively collaborate and make decisions," whether to achieve interoperability between the several faster payment systems anticipated to emerge, to address weak links and securities concerns, or to effectively collaborate and make decisions. To that end, the Interim Collaboration Work Group (ICWG) was created as a "critical first step" to establish the governance framework.

"Completion of the work of the ICWG will lay the foundation for a substantial amount of critical work to take place as soon as possible in 2018," the report notes, including the fulfillment of most of the report's recommendations.

Stephen Ranzini, president and CEO of University Bancorp and a steering committee member of the Federal Reserve Bank's Secure Payment Task Force, a separate body from the FPTF that is seeking to design a faster and more secure internet-based, bank-centric payment system in the U.S., reiterated the importance of establishing baseline requirements and enforcing them with rules. "When robust and industry-tested rules are incorporated into baseline requirements, the systems will be more robust and easier to adopt," Ranzini said.

Given the ambitious timeline, corporates may be wise to monitor the ICWG's progress in developing a governance framework and subsequently how faster-payment solutions, 19 of which were reviewed by the FPTF, are unfolding in the context of the task force's other recommendations. Magnus Carlsson, manager, treasury and payments for AFP and an FPTF member, emphasized that unlike faster-payment initiatives in Europe and elsewhere that were largely mandated by a central authority, adoption of the U.S. system will be voluntary.

From an operational standpoint, he said, one of the "pickles" will be implementing standards and baseline requirements in a way that is not overly burdensome and costly. Corporates and other market participants, after all, could instead choose to stay with checks and other existing payment forms. "This is crucial. If a company needs to change all of its files to another format, that can be very expensive, even for a large organization, and senior management may say there's no way the company can do it," he said.

Finding a winner

Another issue for corporates is that the faster-payment initiatives reviewed by the FPTF vary widely. Ripple, for example, is already operational with more than 70 banks globally, and it employs distributed ledger-type technology that resembles the technology supporting digital currencies. The Clearing House (TCH) is preparing to launch its real-time payment (RTP) system after reviewing Sweden's enhancement of its giro system—also used in Austria and other European countries—to create real-time functionality.

"How do you make these systems interoperable, and as a corporate what do you do with that [uncertainty]?" Carlsson said. "Companies may have to put their money

continued on page 24

on what they foresee as the likely winner. You want to invest in something that is going to be durable for a long time."

One of the winners that appears likely is TCH's RTP system. The TCH has been testing it with large banks since last fall and more recently with the technology vendors supporting regional and community banks, in preparation for a launch anticipated later this year. The system enables payments and settlement in real-time. The TCH's existing businesses, including an electronic check-clearing and settlement system, already connects it to most of the banks in the U.S., giving it a significant leg up over other faster payments initiatives.

The RTP system should be especially attractive for B2B payments, since it will permit companies to send significantly more data along with the payment to provide information on what the payment is for and where it must go.

NACHA also ramped up the amount of data accompanying its same-day ACH initiative, which launched last year. ACH payments, however, are still settled in batches, and while that provides an inexpensive and well-worn solution for highly regular payments, RTP appears likely to be the leader for other types of payments.

TCH plans to operate RTP 24 hours a day, seven days a week, 365 days a year, and ultimately that's the goal of faster-payment proponents. So even if the faster payment system emerging over the next few years is sufficiently easy to implement from an operations standpoint, there are still big questions that corporates should start considering.

"What happens when there isn't an end of the day?" said Linda Coven, CTP, a senior analyst at the Aite Group. "When do you sweep these accounts and move monies to cover shortages in one account and overages in another? How does the organization make sure in each individual account or line of credit or investment it has the right amount going in there, and it's not sitting with extra cash?"

She noted that is done automatically now, at the end of the day. But a faster payment environment has no end to the day. Resolving that issues would appear difficult for an individual bank or corporate, but so far this has only been mentioned in passing and not thoroughly addressed.

Carlsson said there's nothing stopping a corporate from deciding on a specific time to reconcile its transactions and invest funds. Nevertheless, companies will have to consider how to deal with transactions that arrive and are settled at any time in the day or over the weekend.

"How and where do you park that money, and how will that affect cash management," Carlsson said, adding those issues will become more relevant when interest rates inevitably rise. "This is something companies may want to start talking to customers and suppliers about, to set up specific times for payments."

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KEY TAKEAWAYS:

- Just getting by with spreadsheets is no longer an option for treasury and finance. The performance advantage gained by efficient analytics is just too large to be without impact.
- Overcoming your fear of change will allow you to acquire the base knowledge you've been missing.
- Inverting the 80/20 ratio is one the goals of digital transformation, achieving the 20-20 is the enabler.

DIGITAL Transformation

Switch the treasury and finance process from propeller to jet speed

GAUTHIER VASSEUR

Efficiency is the essence of progress. Without it, we remain heads down in our daily tasks with limited visibility and latitude to ponder strategy, risk and opportunities. The 20-20 rule reflects the magnitude of efficiency gains that can be delivered on reporting and analytics with efficient data management—from 20 hours to 20 minutes. Let's see how it can be achieved by all of us thanks to training and eagerness to change.

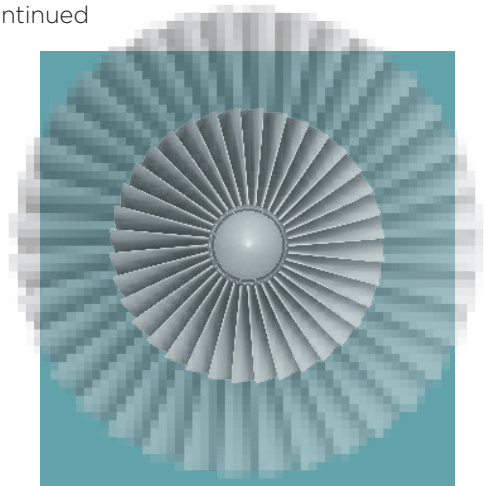
Gaining an advantage

Understanding the sought outcomes of digital transformation is trivial. To some extent, you don't need to connect them to a digital project at all. With the acceleration of economies, the growing complexity of the world interactions and the constant arising of new disruptions, it is evident that agility, visibility, innovation and collaboration will be part of any company survival kit, digital or not.

Saying or writing this doesn't make us any more prepared, though. We all saw the limits of expensive consulting missions leading to these conclusions when we found ourselves with an organization which surely understood the principles but could not execute on them. It is because these notions can't be dictated: they have to be fostered. It is like asking an exhausted jogger to run faster, to loosen his/her stride and think about his/her breathing. He/she knows what needs to be done, but pain and fatigue hinder his/her ability to execute. Setting grand goals is inspiring, but those goals need to be supplemented by an enabling roadmap. And this is where the rubber meets the road. While there is not much changing effort to adhere to the virtue of innovation, collaboration, etc., it is another story to engage in rethinking our daily tasks to support these new praised values.

Just getting by with spreadsheets is no longer an option for finance and treasury. The performance advantage gained by efficient analytics is just too large to be without impact, no matter how smart the analysts are. Following a recent workshop at a banking institution, I observed a sixtyfold time reduction of an analytics process, from 20 hours per month to 20 minutes. Coming back to the running metaphor, it is like competing in a 42.2km marathon gaining a 41.5km advantage over our peers (the ones with manual and spreadsheet-based processes). Even the best athlete won't ever beat you.

With such an advance, any runner would have the time to ponder his/her stride, breathing or pace. Any athlete would have the opportunity to plan the next race and the preparation for it. Any individual would enjoy the opportunity to connect with the crowd and the media. Not only with such an advance, the runner would win by a crushing margin each time, but also he/she would already secure a competitive advantage on the next moves. Sounds like pretty unfair, doesn't it?



In less than a week, she transformed 50 spreadsheets with monthly tabs into a single data table, with well-defined dates and identifiers.

Overcoming the fear of change

What changed in Virginia's (we'll call her Virginia) approach to deliver this dramatic process optimization? How could she shift from 20 hours of lagging reporting production to 20-minute pro-active risk and opportunity analytics that changed her role?

It just took two days of training to trigger this pivoting. None of what Virginia learned was rocket science: like her generation and many before; she just had never gone through classes that actually taught business applied data management. She crossed the chasm, overcoming her spreadsheet induced behavior and her fear of change to acquire the base knowledge she had missed for so long.

Virginia was in charge of supervising bank reconciliation from 50 subsidiaries around the world. The diversity of systems and the lack of process standardization could not deliver full reconciliation automatically. Even though she was aware that not much insight or operational feedback was created by the analysis, she had to deliver it every month.

In less than a week, she transformed 50 spreadsheets with monthly tabs into a single data table, with well-defined dates and identifiers. She set automated data collection where possible or leveraged flat file exchanges when interfaces were too complex to program. She designed automated reports that could then be not only sent to management in an aggregated manner but also to every subsidiary as operation and decision support. She started to secure large data sets that would record the ins and outs on bank accounts, when, how fast and by who they would be reconciled. She naturally started to ask new questions about risk, fraud, compliance. In just a few days, she had already pushed her analytics boundaries to the next level and was already itching to apply

statistics and pattern recognition to her data treasure trove. And all it took was for Virginia to learn notions that were way within her league.

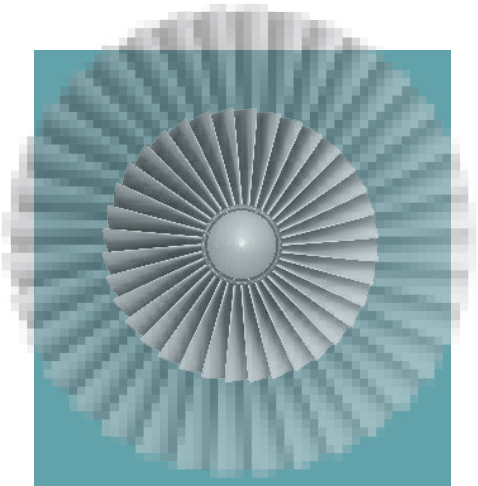
She discovered the data dynamics. Data is like any material. It is collected in different shapes and forms and must be transformed, assembled and delivered to a recipient. There are ground principles that must be known to handle data properly and with efficiency, such as:

- The data supply chain structure from producer to consumer
- The notion of tables, keys and joins
- The concepts of fact, dimensions and master data
- The basics of master data management, data transformation and quality
- SQL language logic.

She opened up to new solutions. Spreadsheets had been her one-trick pony for every analytics challenge so far. She realized that she could easily harness the power of new solutions such as:

- ETL (extract, transform and load) to capture the right data and deliver automated preparation
- Relational databases and data modeling
- Master data management.

She demystified the big data hype and clearly identified what she needed from a business standpoint. For her and all of her colleagues, big data was never going to be about volumes (even 5-10 million rows is small data) or about velocity (analytics could afford the lag of a few hours, if not a day, and the team was not able to react in real time anyway). It was about connecting the dots between all of her information sources and making sense of it. Interestingly, by avoiding the lure of the big data buzz, she could actually become a much stronger and educated supporter of it. She turned into a dependable driver for these projects as she came with not only clear business questions but also curated and connected data she had amassed for her core analysis.



By connecting local operations, HQ management, legal and compliance, she started to spearhead innovative initiatives to anticipate or mitigate risks.

Achieving 20-20

Virginia took a holistic look at her role. By gaining efficiency and sustainability in her process, Virginia gained confidence on her data and analysis. She became more open to sharing her numbers and conclusions with her colleagues, leading to more collaboration. By connecting local operations, HQ management, legal and compliance, she started to spearhead innovative initiatives to anticipate or mitigate risks. Confident on her growing skills, she trained her data providers and recipients to best synergize with her. She gradually removed spreadsheets from the entire process end-to-end, thus making data fluid from first entry to final analysis. As she was becoming data savvy, so were her colleagues and peers interacting with her.

Virginia started to look at her role with a better sense of accountability. She was now empowered to perform her mission properly. With hours saved monthly, she could take the precious time to engage, collaborate and think about how she could best deliver her mission. And she understood that by replicating this dynamic, she would gradually optimize every single aspect of her process, leading to more progress and personal fulfillment.

She knew she needed to reverse the 80/20 rule between data processing and analysis. She had just created a new one: the 20-20 rule where 20 hours of tedious manual analytics becomes 20 minutes of high-value insight delivery.

Inverting the 80/20 ratio is one of the goals of digital transformation, achieving the 20/20 is the enabler.

Gauthier Vasseur is an instructor at Stanford University.

AFP CONVERSATIONS

Super forecasting

A conversation with Dan Gardner, co-author of best-selling book, Superforecasting

IRA APFEL

Can regular folks make better predictions than experts?

Dan Gardner thinks so.

Gardner is a journalist and co-author of the best-selling book, "Superforecasting: The Art and Science of Prediction." Gardner also will keynote AFP's inaugural FinNext conference in March 2018 in San Francisco.

In "Superforecasting," Gardner and co-author Philip Tetlock argue that pundits are notoriously inaccurate at predicting the future, and that ordinary people actually produce better forecasts. In an excerpt from his AFP Conversations podcast, Gardner reveals what makes a superforecaster and how FP&A and finance professionals can turn themselves into superforecasters.

Exchange: What is the Good Judgment Project and how did it lead to the book?

Dan Gardner: The Good Judgment Project is a huge research undertaking led by my co-author, Philip Tetlock, who is an eminent psychologist at the Wharton School. Phil, for decades, has been studying forecasting, particularly from the perspective of psychology, of course. He did seminal research beginning in the late 1980s, the 1990s, and concluding in 2005, which looked at expert political judgments and found that they weren't very good. That's the conclusion.

That research was very influential, very widely noticed, particularly within the intelligence community. Lots of folks have opinions about how good the intelligence community's forecasting is, but that's really all they are. It's never been scientifically tested. About six or seven years ago, some officials within the Office of the Director of National Intelligence said, "That's not good enough. We have to do better." They reached out to researchers and in particular, Phil Tetlock, and said, "How do we do better?"

One of the key recommendations that came back to them, and one of the key recommendations that we make in the book is, "You must practice and score your forecasting." Phil has devised a methodology, which allows people to make forecasts, allow time to pass, and then score the forecast for accuracy.

The intelligence community said, "That's fantastic. Let's do this. Let's create a forecasting tournament." So, what they did was they went to five leading researchers studying forecasting around the world, and they said, " We will ask forecasting questions, and you can create a team of forecasters, and you can use any methods you want to try and answer those questions and make the most accurate forecast possible, and then at the end of this process we can look at who was most accurate, what methods work best, and try to learn and draw some lessons from that."

The Good Judgment Project was the team of researchers created by Phil Tetlock to compete in this forecasting tournament.

Exchange: Who was on the team?

Dan Gardner: The core forecasters were volunteers. What the Good Judgment Project did was they went out and recruited. They went through blogs and social networks and all sorts of ways and said, "Hey, folks, if you're interested in big geopolitical events, and you would like to make forecasts about big real-world events, you can sign up." More than 20,000 people participated, which is pretty amazing. At the end of the four years, the upshot was that the Good Judgment Project won.

Exchange: So, in other words, the folks who were recruited in off the street won. Is that correct?

Dan Gardner: Exactly. The Good Judgment Project found that there were between one and two percent of the volunteer forecasters who were consistently outstanding. They were top of the charts, and so they ended up becoming called superforecasters. So, then the question becomes, "Well, what makes these folks so good?"

And the answer is it's sort of the opposite of what you see among pundits in the news. The person who gets the one right call is crowing about it and saying, "You should listen to me because I made this call." That's not at all the case here. These were people who were consistently good over hundreds of questions over four years, and so because of that consistency, we can be reasonably confident that we're looking more at skill than luck.

What does explain it? These are folks who, to use Charlie Munger's famous phrase, they have a latticework of mental models. They do not have one big idea that they think explains life, the universe, and everything. They try to seek out as many different perspectives as possible. They try to look at the problem and analyze the problem using as many different perspectives as possible. So, they may look at it and analyze it using one tool, and if they've got another tool, they'll use that tool to analyze it a different way. If you've got a different opinion, they want to hear your opinion, and if somebody else has a different analysis, they want to hear that analysis.

So, they're drawing together all these different perspectives, and then they synthesize them into their own view. Basically these people are aggregators and very efficient synthesizers of information, and that's absolutely central to one of the reasons why they're so good. They're also very analytical people. There's something in psychology called the Cognitive Reflection Test, which basically asks, "When you have a strong intuitive sense that you know the answer, do you slow down and consciously and carefully and self-critically examine that answer?" The Cognitive Reflection Test shows that most people in fact do not. When we have a strong intuitive sense, we just go with that answer and that's the end of it.

These people are exactly the opposite. They're constantly slowing it down and thinking carefully, carefully, carefully. They're also extremely methodical. They methodically break down problems. They're not the sorts of people who simply roll their eyes and scratch the back of their head and make a guess. Where did that guess come from? Who knows? No, they break down the problem and say, "What would I need in order to answer this problem?" Then they think about that and then they think about it further and they think about it further.

Exchange: "Superforecasters" starts off with a very simple declarative statement: "We are all forecasters." So how did pundits come about and why do we listen to them?

Dan Gardner: That's a really interesting question. One of the less obvious reasons why the superforecasters are super is because they only ever had one goal and that was to be accurate, to produce the most accurate forecast possible, but so often in life, there are other competing goals, and that's particularly true with pundits. Pundits illustrate this point perfectly.

Exchange: Confirmation bias, in a way?

Dan Gardner: It's confirmation bias. You've got to give them that warm bath of confirmation, and you've got to do that pretty consistently, or you're going to lose your following. You've also got to be entertaining. Very important to be entertaining. If you want to get noticed, then well you change your forecast and make it a little more daring, a little more radical, and if you want to avoid notice, well then you do the opposite. So, there's all these other competing goals.

Exchange: In the book you write, "We will need to blend computer-based forecasting and subjective judgment in the future." Don't business forecasters do this already?

Dan Gardner: To some extent, certainly. The good ones do. Unfortunately, very often that's not the case. Unaided human judgment is unfortunately commonly used, but I think that is increasingly less common, which is to say more and more often we are seeing subjective human judgment combined with the machine. It's man and machine together, and I think going forward we're going to see that much, much more in so many different fields and in so many different creative ways.

Exchange: Do you think forecasting is getting better today or do you think that the growth of big data and a reliance on computer-based data and analytics is making things worse?

Dan Gardner: That's a really interesting question. I think the answer is positive. I think it's getting better because increasingly people are aware that looking at the markers of authority, this person has an impressive title or this person has credentials or this person speaks so authoritatively, that these things just aren't enough, that we need evidence, that we need evidence of performance, that you should have data to support your conclusions before I should give credence to your conclusions.

If you look at the phrase "evidence-based medicine" for instance, that's a movement which really started in the 1960s and transformed medicine as a result. That phrase "evidence-based" is now starting to permeate field after field after field, and it bespeaks a cultural shift as people begin to realize that just because we've always done things this way doesn't mean that's the right way to do it. Just because an authority says this is the way to do it doesn't mean that's the right way to do it. We need to critically examine the evidence.

That in combination with the fact that we are producing more and more data leads me to be hopeful, to say that I think slowly, surely, laboriously, we are going to start asking, "Okay, what's the evidence that you have good judgment and why should I trust you" before we do.

Staying POWER

FP&A professionals actually find budgets useful, a new AFP study shows

BRYAN LAPIDUS, FP&A

Few finance processes are more maligned than the budgeting process. Research has shown that it steals time from other endeavors and produces little payout. Jack Welch summarized this view, stating simply, "The budget is the bane of corporate America."

Yet, the persistence of their existence means that someone wants budgets, and that they do serve a purpose. And when the Association for Financial Professionals asked its FP&A Advisory Board about the most pressing topics facing their business, the question of how budgets were being used came in near the top.

To examine how "the budget," its value, relevance and usage at organizations around the globe are defined today, the Association for Financial Professionals® conducted the FP&A Survey: "How Relevant is Your Budget?" in August 2017. The survey was specifically designed to avoid the contentious questions of whether budgets are the best/worst or most/least efficient tool in business use today. We started from the position that budgets exist, so we wanted to know what are they used for and are they relevant?

Respondents include those who are most involved with the development and maintenance of the budget. The survey generated 606 responses from corporate practitioners employed in the finance function at organizations. These responses are the basis of this report. Results from this survey will provide finance professionals with critical benchmarks on the budget and how it is being used today.

> "The budget is part of a planning process that needs to fit the organization it serves"

Surprising results

In summary, the survey results make clear that budgets are still in use across companies of various sizes and structures—large and small, public, private, and nonprofit/government. In each setting, the idea of the budget is adapted to fit the needs of that organization, leading survey respondents to report high levels of utilization—even satisfaction. These different applications mean that the budget processes can be considered to exist on a spectrum of how rigorously they are developed and applied, ranging from rigid and binding on one end, to non-binding—even non-existent—on the other. Most organizations exist in the middle, having applied some amount of management flexibility and making high-level commitments to the board of directors and owners. Several themes are highlighted here:

Respondents were clear in their support for budgets, finding them effective for themselves and their executives. Nearly three quarters (74 percent) of respondents agree or strongly agree that the budget is a valuable tool, and 82 percent and 86 percent believe their CEO and CFO find the budget to be useful or very useful, respectively.

The budget is defined as the set of financial goals for the businesses and business leaders to achieve over a period of time, linking budgets to planning objectives and, to a lesser degree, operations. A frequent criticism of budgets is that they tie compensation to budget targets, which leads to management by an outdated budget. However, "establish the basis for compensation" was among the lowest responded uses, indicating a separation between budgets and compensation. This aligns the individuals with the interests of the capital owners (shareholders) and is supported by how organizations utilize the budget.

As one survey respondent noted: "When drawing up the budget, one is able to visualize how the different departments intend to work towards achieving the overall organizational strategy. With limited resources to distribute, it's an exercise that highlights which functions will need more support and which can survive with less and still drive sustainable growth."

It is noteworthy that nonprofits and governments over-weighted in "financial control/fiscal discipline."

The intensity of the budgeting process did not impact satisfaction. Satisfaction was reported high at all levels of the budget spectrum from those who spend more time developing their budgets ("Intense Budgeters") to those who spend less time ("Fast Budgeters"). However, respondents who spent more time developing the budget used it more intently. This may reflect something of a self-fulfilling prophecy where enterprises that require it will then rely on it throughout the year.

Budgets have managerial discretion and flexibility built into them. This is a departure from an important past criticism—that the traditional budgeting process promotes sub-optimal behavior by locking managers into a rigid spending paradigm established at the time of the budget, rather than what is best for the company based on the current situation.

This managerial flexibility can only happen because **budgets are distanced from compensation and forecasting**. 20 percent of respondents primarily cited the budget as a basis for compensation, and 73 percent reforecast at least quarterly. This leads budgets to focus on business goals and allows for honest forecasts rather than becoming a proxy for negotiated bonuses, Some respondents were on the tail ends of tightly-managed versus loosely-managed budgets, but most were in the middle where flexibility is driven by setting high-level goals at the revenue and/or profit level, and allowing managers to manage to those goals. There also is a secondary emphasis on operational targets drives non-financial goals.

Another criticism of budgeting is that it can be confused with forecasting for three reasons: organizations do not re-forecast; people do not want to admit when they are missing budget; people want to manage expectations to protect their future spend and compensation. Creating a clean forecasting process is critical to getting an accurate view of where the company is heading, and the gaps to the goals. A bright line separates forecasting from budgeting; the budget is linked to goals, while the forecast is linked to expected outcomes based on current information.

One AFP member, discussing budget flexibility and managerial discretion at a recent FP&A Roundtable, noted, "We knew we were successful in making decisions based on forecasts when people brought money back to the table to reallocate. People don't know yet what they need at the time of the budget. They just know that they will need something, so they put in the request for the future. However, reserving that capital may starve other areas of the business."

Budgets dominate the periodic performance reviews. These reviews demand a significant use of FP&A and business time—60 percent of the respondents hold monthly meetings, and another 21 percent hold quarterly meetings—so it is important to use them effectively. Results show 69 percent of meeting time spent reviewing financial results, and almost half of that is a comparison to budget versus prior forecasts or prior year.

The budget process has room for improvement as 64 percent of respondents agree the budget processis useful but could be streamlined, 22 percent spend more than 12 weeks developing the budget, and about half believe it can be replaced by continuous forecasting.

A critical contradiction

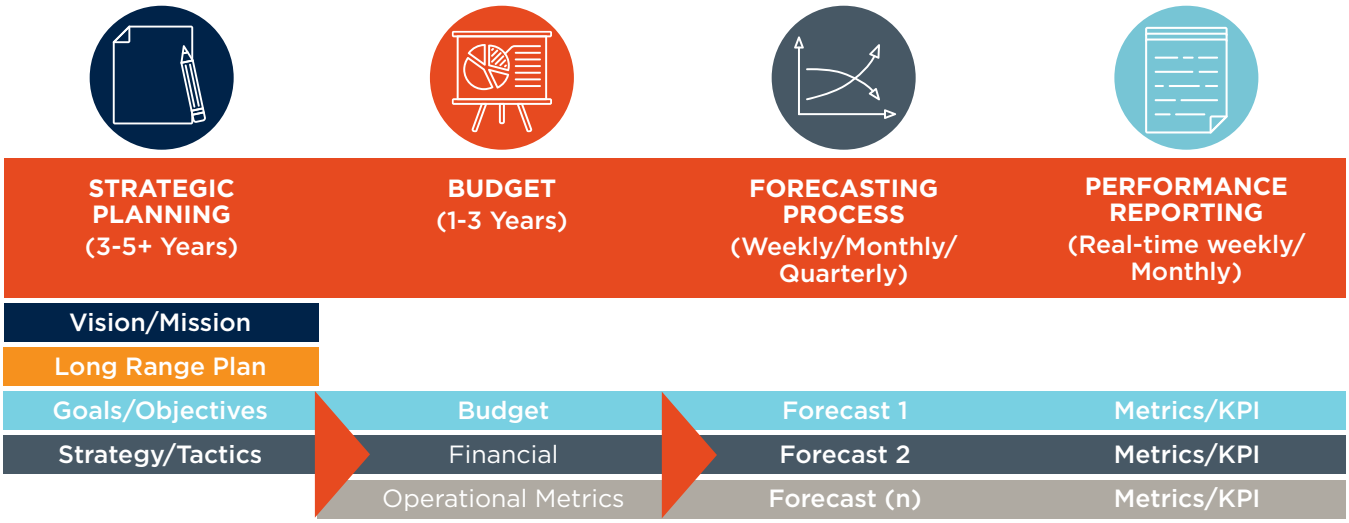
This last point raises an important contradiction. How could the survey show such positive scores for budgeting yet simultaneously indicate a strong willingness to change it? There are many possible explanations:

- One area that has been covered extensively elsewhere and, thus, was outside the scope of this survey is that there is considerable effort required to develop the budget, and perhaps the effort/payoff is not aligned
- Pressure for budgets is still driven by top-down requirements (board commitments, regulations, etc.) rather than operational needs
- If the budget is truly utilized as a basis of comparison, then other forecasts or prior year comparisons could be used as effectively
- Respondents execute the budget and have bought into the system, but would like to spend less time on it.

Putting it all together

The budget is a tool that serves the business needs, not the other way around. This tool can be constructed in different ways to best serve those needs. If laws, regulations, the board of directors or other governing authority requires a rigid budget, then the budget can be designed and implemented accordingly. If the governing bodies want flexibility, rapid reaction and the ability to change course quickly, budgets can be non-binding or even non-existent. In between these ends of the spectrum are numerous variations—commitments at various levels of the organization that allow for trade-offs and managerial discretion,

Planning Process



Source: 2017 AFP FP&A Survey

targets that are ratios or relative to external benchmarks, or even using the budget as a fixed point of reference.

An expansive view of this discussion will put the budget in the context of a larger planning process. Beginning with strategic planning, an organization develops its unifying vision and mission to express where it is going, the measurable goals and objectives to chart progress along the way, and the strategy and tactics to succeed in the market. FP&A professionals were clear that the budget exists to translate financial goals into discrete units where businesses can act on them. The various re-forecasts during the year always reflect the best estimate of where the organization is heading, regardless of managerial or board commitments.

As one AFP member suggested at an FP&A Roundtable, "perhaps the process is the purpose," and the effort of translating strategy to the everyday activities for businesses and managers to act upon. This framework allows companies to ask what they want to achieve from their budget, and what is the most effective way to get there.

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2017 AFP FP&A Survey Results

The survey report includes the executive summary followed by seven key findings. Each key finding page includes the finding, supporting data, and "AFP voices," which includes verbatim responses from the survey as well as comments shared by FP&A Roundtable attendees at AFP 2017 in October.

Access the full report at
www.AFPonline.org/fpasurvey

AFP Aware

Every year, financial professionals show up to make a difference

ANDREW DEICHLER

On October 15, treasury and finance professionals gathered for the annual AFP Aware Community Service Day at AFP 2017. Every year, AFP Aware, sponsored by BBVA Compass, partners with organizations committed to corporate and social responsibility, and hosts community service projects.

AFP 2017 keynote speaker and TV host Mike Rowe gave the opening remarks to kick off the event. He provided some words of encouragement for attendees, noting that "it's okay to feel really good about doing something nice for somebody else."

This is the eighth consecutive year that BBVA Compass has sponsored AFP Aware. "This is something that aligns with our corporate model and our corporate responsibility," said Salethia Moore-Richardson, senior product analyst for BBVA Compass. "Giving back to the community is something that the company really prides itself on. In a nutshell, we do it because it helps out the community, and it gives a face to the company."

Ernie Smith, CTP, FP&A, North Texas treasury management executive for BBVA Compass, agreed, adding that a key responsibility of any bank is to support the communities in which they operate. "[AFP Aware] gives BBVA the opportunity to expand that support," he said. "We also have a great opportunity to support an organization like AFP, so when we saw the opportunity, we just jumped on it.

This year's events

AFP hosted two community service projects this year. At the onsite event, volunteers worked with Promises2Kids, a nonprofit organization that responds to the needs of foster children. The organization annually provides more than 3,300 current and former foster youth with opportunities and guidance to grow into healthy, successful adults. In the early 1990s, Promises2Kids raised $12 million to build the Polinsky Children's Center, an emergency shelter for children in San Diego County.

Twenty-six volunteers turned out for the onsite event and made fleece blankets and birthday cards for foster kids at the Polinsky Center, as well as packed care boxes. Typically when children arrive at the Polinsky Center, they don't have very much, and these care packages help them feel more at home.

For this year's offsite event, AFP Aware volunteers worked with the San Diego River Park Foundation, which aims to improve the health of the San Diego River. Following a sewage spill in 2000, a group of volunteers formed the foundation to ensure that no similar incidents ever happen to the San Diego River again.

Forty-nine volunteers showed up for the offsite event. They participated in the foundation's Coastal Habitat Restoration Project along the San Diego River Mouth, removing invasive plant species, planting native plants, fixing trails and picking up litter.

"This is one of the biggest benefits of AFP's conference, because we're giving back to the community, and it just helps keep people involved," said Marcia Harris, senior treasury and accounting manager for the American Institute of Physics and the AFP Aware Ambassador. "You're coming in and generating revenue in a city that is allowing us to overtake them, and it's just helpful to give back. I think no matter where you are or what you're doing, you should do this."

AFP 2017
PINNACLE AWARDS
Recognizing Excellence in Treasury and Finance

Sponsored by WELLS FARGO

AFP 2017 Pinnacle Award

Inside World Vision's award-winning FX solution

ANDREW DEICHLER

World Vision International was awarded the AFP 2017 Pinnacle Grand Prize, which recognizes excellence in treasury and finance. The global development organization narrowly edged out the two other Pinnacle finalists— Allstate Insurance Company and last year's Grand Prize winner, Hyundai Capital America—with its innovative foreign exchange management solution.

Addressing the problem

World Vision International had a major challenge in coping with sharp swings in currency rates in the many countries in which it operates. Treasury is responsible for identifying and mitigating these risks.

"Due to our vast, global footprint we are exposed to significant foreign exchange risk," said Leon Tompkins, director of global financial risk for World Vision. "To combat that, the team needed solutions to cope with sharp swings in both income and expense currencies."

World Vision raises the majority of money in 18 countries and funds programs in nearly 80 more, explained Kathryn Powers, global treasurer for World Vision. "It really comes down to cash flows," she said. "Foreign exchange risk will exist any time you have cash flows in different currencies and need to move funds to various countries."

To remedy the problem, World Vision centralized its treasury function, which allowed it to have its expertise in one location. Then World Vision's treasury team reached out to its global offices to strengthen relationships and provide education on currency risks. This effort helped the offices become comfortable with the idea of treasury working on their behalf.

The process wasn't without a few bumps in the road; treasury faced some reluctance as it worked to build those relationships and educate its finance people throughout the world. "I think that's just human nature; there is always an element of control involved," Powers said.

The solution

World Vision introduced an active foreign exchange management solution that protected budget rates and passed any extra purchasing power to its field offices—thus, helping the global humanitarian, relief and advocacy organization increase its mission. "What happens is essentially very active management," Powers explained. The process is very straightforward and has been quite effective. Treasury sets and then protects budget rates. Where it makes sense, we set stop-loss orders rather than immediately entering into forward contracts. The team actively monitors the currencies and the stop-loss positions, and when appropriate, moves the stop-loss to its benefit. For example, a currency like the Zambian kwacha, which often devalues against the U.S. dollar, could strengthen rapidly due to the price and production of copper. A rapid swing like that could have detrimental effects on World Vision. So the nonprofit organization is always systematically managing it currency, but allowing for the upside by using stop-loss orders and following the market.

"Just like any corporate in the U.S., we need to create certainty and make sure that we're delivering on our promises to our donors and communities around the world," Powers said. "We have a simple but disciplined approach to smoothing currencies fluctuations over time and creating certainty for our programs."

The results

Powers noted that World Vision's strategy actually increases purchasing power. "Because of that, the funds that are destined for all of these different countries are able to have the same U.S. dollar purchase more of their local currency," she said. "They benefit directly from that, and we're able to do more programming."

All in all, the initiative resulted in $57.1 million in savings in FY16, and $11 million in FY17.

The award

The Pinnacle Grand Prize, sponsored by Wells Fargo & Co., was presented to World Vision at AFP 2017 in San Diego.

"AFP is incredibly proud to honor World Vision International with the 2017 Pinnacle Award Grand Prize," said AFP President and CEO Jim Kaitz. "World Vision's initiative was the kind of inspiring solution that exemplifies what the Pinnacle Awards are all about."

Wells Fargo donated $10,000 to the charity of World Vision's choice, KickStart International, a nonprofit organization dedicated to lifting people out of poverty quickly, cost-effectively and sustainably. David Trotter, executive vice president and head of Treasury Management Sales and Implementation at Wells Fargo, hosted the ceremony.

"World Vision brought forward-thinking ideas to the treasury function and showcased how treasury teams can deliver benefits enterprise-wide through innovative thinking," Trotter said. "Wells Fargo is honored to recognize World Vision, and we are pleased to honor a worthy charity on their behalf."

Cold Hard FACTS

Handling cash continues to be a pain point for retailers

ANDREW DEICHLER

Retail treasury professionals discussed handling cash during a retail industry roundtable at AFP 2017, sponsored by Fifth Third Bank. As usual, armored carrier services continue to be a major pain point for merchants.

"One of the things we talk a lot about are cash and cash solutions," said a treasurer for a major restaurant chain. "We take money how we get it, and for us, a lot of that is still cash. And managing the ecosystem to get cash from our stores to the mothership has been an ongoing challenge. So I'd like to hear what other merchants are doing to manage cash, if you're still accepting it."

A treasurer for a high-end department store responded that cash makes up about 6 percent of the tender her company receives. "That's a minimal percentage but still a large amount of cash," she said. "Dealing with armored couriers is a headache for us. We have therapy sessions often about it."

As a result, the retailer is looking into alternate solutions to get cash to the bank. The company presently uses one of the major national couriers, but is evaluating regional couriers where it operates. "We're looking at it from a risk mitigation standpoint," she said. "If something were to go wrong with the bigger carriers, we feel like we could be in a situation where we wouldn't have the ability to get cash to our stores or from our stores."

The treasurer of a big box retailer noted that he has had some success with regional carriers, "but there aren't enough regionals out there."

As for national carriers, the treasurer noted that the majority of the ones he works with are not only poor in terms of

> "We take money how we get it, and for us, a lot of that is still cash. And managing the ecosystem to get cash from our stores to the mothership has been an ongoing challenge."

service, but they are also heavily resistant to technological advances. "They are really against using any technology solutions for tracking things," he said.

This appears to be a common problem; the restaurant chain treasurer said she has experienced the same issue with her carriers. "They're not service-oriented, and they're not logistics oriented, which is sad because they're transporting our money," she said.

Alternative solutions

To remedy her armored carrier problem, the restaurant treasurer is looking at using the U.S. Postal Service to move cash to and from her stores. "We're going to try and test that to create more flexibility on the pain point of our stores, which is getting money into the stores on change orders without having to rely on the couriers," she said. "If it works, we may expand from there."

She added that USPS will handle up to $5,000, but it does not insure it; retailers either need to get a third-party insurer or self-insure. UPS, in contrast, will insure up to $5,000 of change order delivery or deposits.

Investing in a cash recycler can also make the cash handling process easier. These machines account for cash and store it for future use. Some retailers don't handle enough cash to justify the cost of these machines, but those that do have found that they can be a huge help.

"We've put cash recyclers into every one of our stores in the last couple of years," the big box retail treasurer said. "The savings we achieved were easily enough to pay for it. But our customer base is still using cash primarily. And we did it agnostic of banks and carriers."

Do it yourself

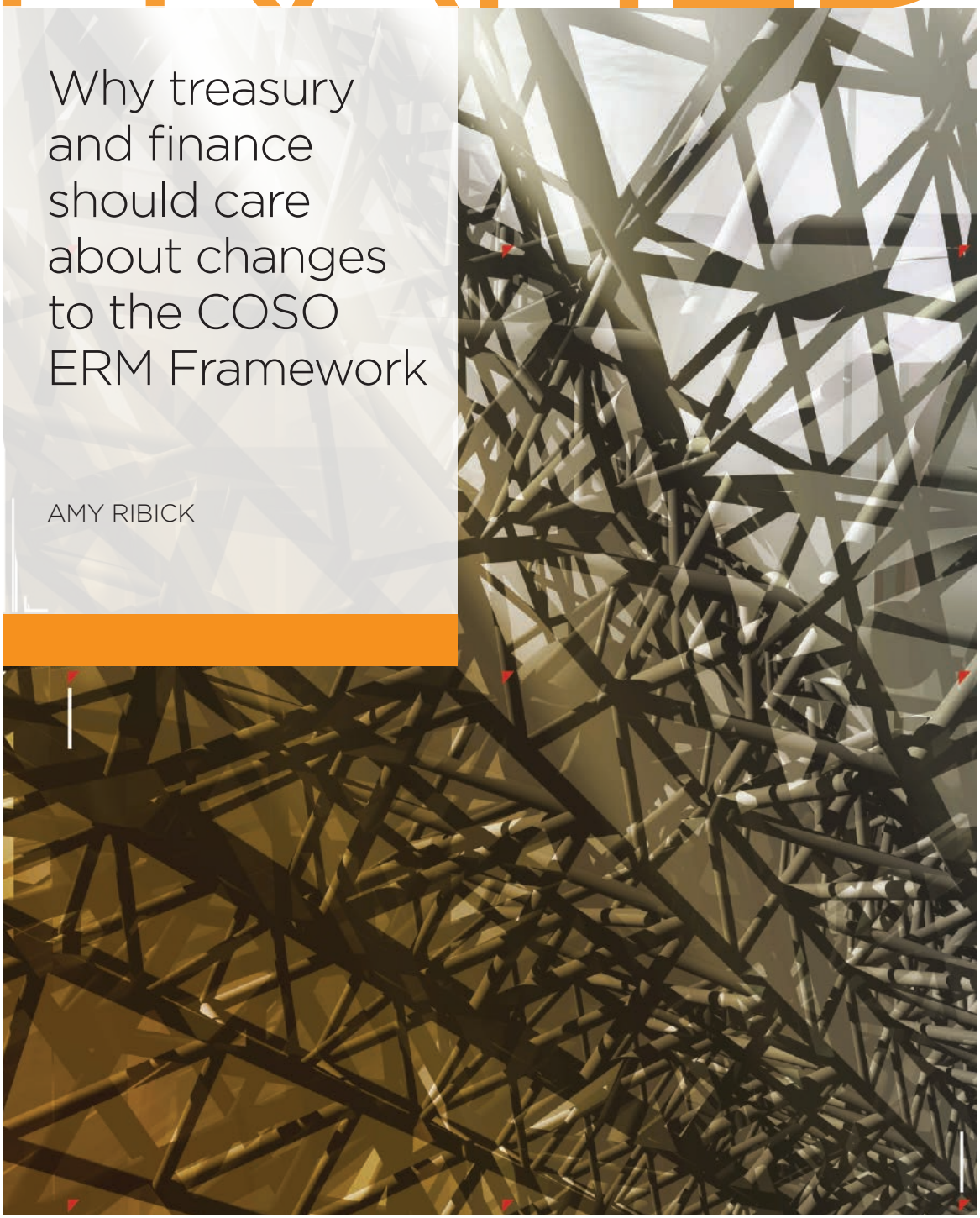
Lastly, there's always the option of taking the money to the bank yourself, as risky as that might be. One practitioner noted that some of her stores employ this method, but only if the bank is less than two miles away.

Another practitioner who works for a company that operates ski resorts noted that armored carriers can't reach many of their locations. "Our internal security department drives the cash to the bank, which might be an hour and a half down the road," he said. "But what can you do? The challenge is trying to find couriers who are willing to drive three hours up a mountain in the winter."

FRAMED

Why treasury and finance should care about changes to the COSO ERM Framework

AMY RIBICK



In September 2017, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released the widely anticipated update to the previous 2004 "Enterprise Risk Management—Integrated Framework." The updated framework, titled "Enterprise Risk Management–Integrating with Strategy and Performance," has been in the making for several years with a significant amount of effort from the committee and with the help of comments submitted by more than 200 individuals. The updated framework comes four years after the release of the COSO 2013 Framework. While synergies between both frameworks exist, each is considered distinct and standalone, yet complimentary, if used together.

The updated framework provides guidance to organizations, regardless of size and type, in designing programs that integrate into the day-to-day operations while emphasizing the importance of risks in both strategy and performance. Whether a nonprofit or a publicly-traded company, the framework is beneficial to help guide organizations in understanding why mission, vision, and core values are pivotal in identifying events that an organization may experience with both positive and negative outcomes. Once events are identified, determining how they will strategically impact the organization helps management react proactively and positively in hopes of enhancing performance of the organization to achieve the desired positive outcome.

The most noticeable difference of the updated Framework is its structure. It incorporates five components and twenty principles, which align to the business cycle.

Defining Vision, Mission and Core Values

Before diving into how you can help your organization address the new framework, the first question should be: Do I have a clearly defined vision, mission, and core values to help drive the organization to success? Having these established does not guarantee success, but without them it's like snorkeling without appropriate gear. While you will be able to observe the environment for short periods of time, you will find yourself constantly coming up for air; therefore, missing the opportunity to dive deeper or enjoy the wonders of the body of water you are in. The organization's vision, mission, and core values define the purpose of the organization to the stakeholders, both external and internal. They express what an organization strives to be and how it wants to conduct business.

If you do not know if your organization has these statements, ask. If the answer is no, champion the creation of a committee to develop them, possibly even seeking outside guidance. Once these are established, you can begin to align your strategy around achieving your mission and vision, while applying your core values. As noted in the Framework, enterprise risk management (ERM) does not create the organization's strategy, but it influences its development. By determining the strategy correlated to the mission and vision, management will be able to better identify events that could impact the successful achievement of the organization's strategy.

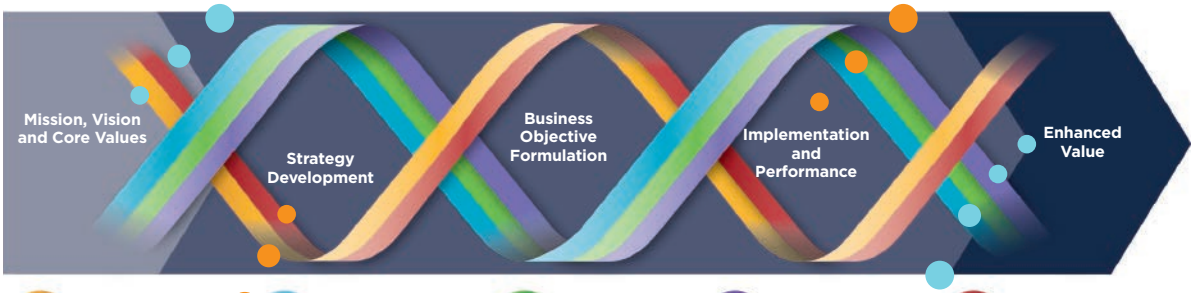
"Being a part of the finance function of an organization is crucial in implementing or revising the ERM program to align with the updated COSO framework."

COSO ERM Framework

Let's discuss the five components and key questions to consider in your role as finance or treasury management to help your organization.

Does your organization have a defined Mission, Vision and Core Values statement?

What events could impact the determined objectives and how you can help alert others regarding their reaction?



Governance and Culture | Strategy and Objective-Setting | Performance | Review and Revision | Information, Communication and Reporting

Do you know how your area of focus impacts the strategy and business objectives?

What is the process of communicating financial results to help monitor enhanced performance?

Governance and Culture

1. Exercise board risk oversight
2. Establishes operating structures
3. Defines desired culture
4. Demonstrates commitment to core values
5. Attracts, develops and retains capable individuals

Strategy and Objective-Setting

6. Analyze business context
7. Defines risk appetite
8. Evaluates alternative strategies
9. Formulates business objectives

Performance

10. Identifies risk
11. Assesses severity of risk
12. Prioritizes risks
13. Implements risk responses
14. Develops portfolio view

Review and Revision

15. Assesses substantial change
16. Reviews risk and performance
17. Pursues improvement in enterprise risk management

Information, Communication and Reporting

18. Leverages information and technology
19. Communication risks information
20. Reports on risk, culture and performance

*COSO ERM Risk Management Principles * Source: COSOS*

Governance and Culture

Governance and culture set the basis for all other components and the tone for the effort as well as the oversight responsibilities. Governance is a shared function between executive management and the Board. Executive management includes the CEO, CFO, CIO, HR, treasurer, marketing and operations and others to bring their areas of expertise to the table.

It takes a team with a strong culture to provide continual support and determine a consistent message to the organization on the importance of the ERM program. Determine what seat you have at the table and begin/continue to positively enforce risk governance and culture in the day-to-day activities. This component has five principles associated with it to help guide you through this process.

Strategy and Objective-Setting

ERM should be integrated into the organization's strategic plan by setting strategy and business objectives. By understanding the business, the organization can determine the events (both internal and external) and their impact to the organization. Events are situations that can get you further along in your strategic plan or halt your ability to achieve your goals. Strategically, your risk appetite will be determined.

Business objectives will guide the day-to-day operations and priorities. It is important to work as a team across all aspects of the organization to help set these objectives. As the finance executive, it will be essential for you to bring to the table all of your knowledge of the financial aspects of the organization. What events could impact a decrease in collection of accounts receivable? What events could increase the amount of spend? Brainstorming these events and identifying the impact as it relates to the entire organization, not just your department, will help further develop ERM. This component has four principles associated with it to help guide you through this process.

Performance

Once objectives are determined there are events, both positive and negative, that could impact the performance of the objectives. There are risks and rewards every minute of every day that influence an organization and their past, present, and future. The impact of these events should be to serve as a tool to alert management when to react based on the risk response. Risks are inevitable, so as an executive of your organization, you should never consider yourself or your department exempt. As finance, your department will most likely provide the other departments the results of the organization's performance in conjunction with operations. By articulating risks associated with the strategy and business objectives, a portfolio view can be developed to assist management in further integrating ERM into the day-to-day activities. This component has five principles associated with it to help guide you through this process.

Review and Revision

Some organizations are successful through luck, which is not an ideal long-term strategy for growth. Finance can play a key part in your organization's formulated success by continuously assessing substantial changes that affect the strategy and business objectives.

In finance, you must ensure the organization has financial results that other levels throughout the organization by other levels throughout the organization, to assist in determining how new or existing risks may be identified through the financial aspects of the organization. How does the frequency of financial-reporting tasks completed by your team impact the stakeholders? This is one of several key questions to help determine how your position impacts the program. This component has three principles associated with it to help guide you through this process.

Information, Communication and Reporting

Based on technology and the magnitude of data maintained by organizations today, having a process to manage the data as it relates to the risks it very important, which will in turn help to maintain focus on the objectives that support the mission, vision, and core values. It is important to determine the most appropriate method for communicating reports on the risk, culture, and performance of the organization. Due the consistent reporting that a finance department has in place, it isn't uncommon for finance to help manage the reporting in conjunction with IT. This component has three principles associated with it to help guide you through this process.

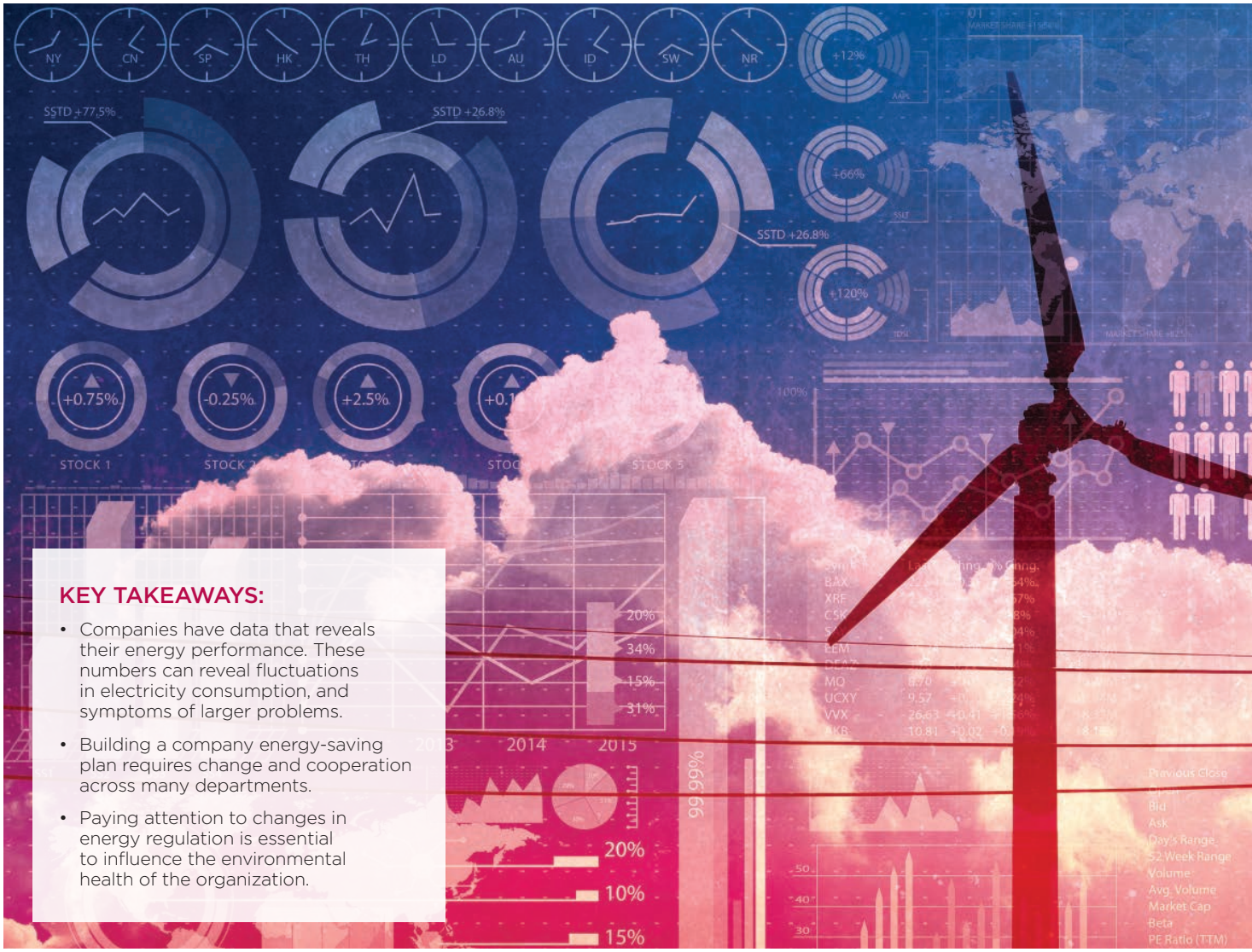
Being a part of the finance function of an organization is crucial in implementing or revising the ERM program to align with the updated COSO framework. The communication with the board and other executive management will help determine the objectives of the organization as well as the risks and how to react at the onset of the risks. From your view, the financial data can showcase significant aspects of the organization to help others continuously evaluate the risks associated with their department.

Amy Ribick is an Advisory Principal with Brown Smith Wallace.

Put Your Foot DOWN

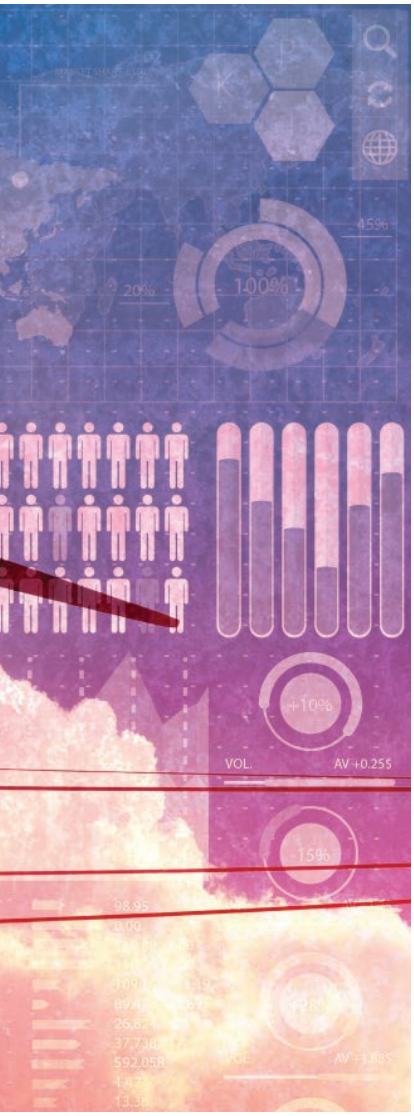
Three ways to help reduce your organization's carbon footprint

VINCENT MANIER



KEY TAKEAWAYS:

- Companies have data that reveals their energy performance. These numbers can reveal fluctuations in electricity consumption, and symptoms of larger problems.
- Building a company energy-saving plan requires change and cooperation across many departments.
- Paying attention to changes in energy regulation is essential to influence the environmental health of the organization.



It wasn't long ago that carbon reduction was nowhere near the top of a CFO's list of concerns or considerations. That isn't the case any longer. Today, there's a growing consensus that financial and environmental performance go hand-in-hand and, as such, more CFOs are stepping up to the challenge of setting the carbon reduction strategies for their organizations.

As CFO of an energy and sustainability company, I can say that I've been privileged to be part of that growing trend. Over the years, I've witnessed many finance peers leading their organizations toward a healthier future by taking action and proactively addressing climate change challenges.

Last November, I attended an event which brought together energy, facility and finance leaders across 75 organizations for the pure purpose of knowledge sharing. During the event, one of the common themes that kept surfacing was how much we as CFOs are counted on to be pillars and champions of our organization's carbon reduction and overall sustainability strategies. But we know that a lot is involved when it comes to being that champion—especially in a landscape that seems to be continuously evolving.

We know that there is no easy path to reducing an organization's carbon footprint. There is no one-size-fits-all approach to success. But over the years, there have been some solid best practices that have surfaced. Here are three ways finance leaders can take advantage of the demand for more sustainable business operations and navigate the regulatory changes on the horizon.

Put data to work.

As financial professionals, we rely on numbers to guide recommendations—and the same principle applies to putting energy numbers to work. Just like organizations today have quarterly financial reports and billing statements that indicate their financial performance, they also have data that reveals their energy performance. This data is found in utility bills and increasingly in reports from connected sensors and operating systems about equipment energy usage and performance from the plant floor to the corporate office. Utility bills can reveal fluctuations in electricity consumption, and connected machine or Internet of Things (IoT) data can reveal symptoms of a larger problem, such as alerts indicating that a warehouse door is continuously left ajar, causing the AC to expend extra energy to cool the facility.

An example that comes to mind is Timothy Lezgus, a manager at Con Edison, an electric, steam and gas utility that delivers energy to New York City. Lezgus used Ecova's advanced energy analytics technology to analyze huge energy savings for more than 1,000 utility customers. The 176 Gigawatt hours (GWh) these tools identified is equal to the energy usage of 13,061 homes in one year. He recognizes that the data his organization has available can be put to work to save money and increase operational efficiencies—and the same can apply for companies in all industries.

Without the hard utility data, managers would be blindly implementing energy saving measures that might align with a company's financial and sustainability goals, but have minimal impact. Either on their own or as a pair, utility and IoT data can be the backbone for first assessing current energy usage and environmental impact and then instituting company-wide goals to reduce carbon emissions.

Build new lines of communication.

Building a company energy-saving plan requires change and cooperation across many departments, including finance. As CFOs, we have a unique role here; we not only need to manage the financial risks of implementing energy-saving measures, but we also need to communicate those risks and rewards to internal stakeholders—starting with company leaders.

CFOs play a critical role in a carbon reduction campaign, particularly for global corporations, where there may not be a system in place for financial leaders to be briefed on every business action that would affect carbon emissions goals. A business development team, for example, might look to build a new facility to house a growing research team. That's great news for the company as a whole, but unless there's a line of communication from the business development team to the finance team, the financial benefits of adding energy-saving measure to the new facility might not be realized until it's too late. Communicating from the beginning gives the CFO an opportunity to work energy-saving and energy–monitoring measures into any major business plan.

This includes not only communicating with department heads, but also ensuring the information is disseminated to all employees. A study by Ernst & Young revealed that employees are the second most important stakeholders to support a company's sustainability initiatives, behind customers and ahead of shareholders, policymakers and NGOs. By communicating the value of sustainability initiatives, all internal stakeholders can understand and begin to support the company-wide goals.

Pay attention to regulatory changes

Employees and customers are demanding more sustainable business operations, forcing financial and business leaders to align their goals to see how they can adjust in a financially sustainable way. As financial leaders, our efforts support carbon-cutting goals, but we also recognize that we aren't policy or energy experts. A few groups have recognized this need, and are sharing information to help businesses navigate policy changes. One of these groups, the Task Force on Climate-Related Disclosures (TCFD), focuses on disclosing climate-related risks to businesses.

Two additional groups, the Carbon Disclosure Project (CDP) and the We Mean Business Coalition, launched the Carbon Pricing Corridors initiative, which aims to define the carbon prices needed for large market players to meet the Paris Agreement. The group plans to release a report that's focused on the power sector, and the range of carbon-related price signals needed through 2030. More than 1,000 forward-looking businesses have also adopted, or plan to adopt, a policy of voluntarily implementing an internal carbon tax, understanding an increasing demand for such initiatives from the public and from changing policy. Paying attention to the resources offered by these groups is a sure way to help organizations better anticipate what's coming in energy regulation.

Because corporate responsibility initiatives are only one aspect of our role as finance leaders, it can be a challenge to keep up with all of the moving parts of the energy and sustainability landscape—particularly when it comes to reducing an organization's carbon footprint. This is where I see peer-to-peer sharing opportunities to be of huge value.

- **Keep your ear to the ground and follow the experience.** It's not hard these days to find articles, events and other networking forums that are intended to either offer peer-to-peer advice or offer CFOs the opportunity to share experiences, challenges and successes.
- **Don't be afraid to reach out.** With your ear to the ground, you'll likely come across finance leaders who seem to be leading the charge on carbon reduction goals and progress. Leverage these peers. Reach out! More often than not, we want to help each other out—particularly when it comes to something as complex as carbon strategy.
- **Pay it forward and share your experiences.** Just as you and I appreciate learning from our peers, your peers appreciate the learnings that you bring to the table as well. As CFOs forge into uncharted waters with carbon and sustainability strategy, our collective experience is one of our greatest assets.

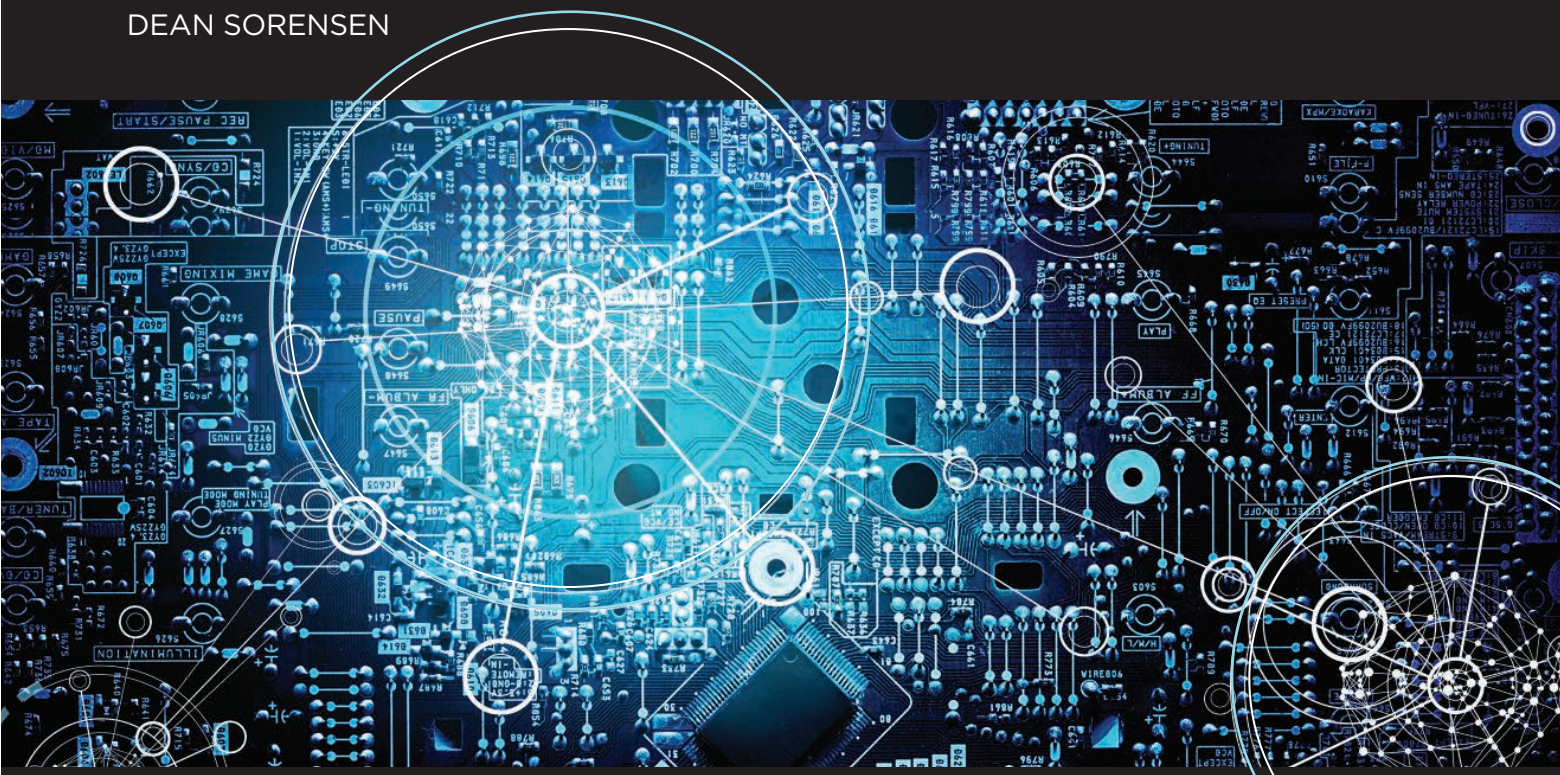
As CFOs, we are in a prime position to prompt change in our company's sustainability initiatives. By putting data to work, building new lines of communication and paying attention to regulatory changes, we move closer to having the tools we need to influence the financial and environmental health of their organizations.

Vincent Manier is CFO of Ecova.

Closing Integration and Complexity Gaps

How FP&A and treasury can increase profits by five percent of sales

DEAN SORENSEN



Research estimates the cost of complexity at up to five percent of sales[1] for global organizations. What's more, most executives[2] view internal complexities as a key barrier to growth—one that needs to be better managed. By extension, complexity management is a challenge that's becoming of similar importance to Finance executives—especially those in treasury and financial planning and analysis (FP&A) roles.

One major obstacle stands in the way of more effective complexity management: the processes and structures that organizations use to plan, manage and govern their business. More specifically, immature and outdated ones that obscure risk, reinforce functional silos, suboptimize resource allocation and impede change. The underlying problem: inadequate integration.

Exhibit 1: Despite technology investments, complex organizations have difficulty achieving interconnected planning and performance management objectives, while also making these processes more effective and efficient

Achieve Interconnected Objectives...	...While Making Process Effective and Efficient
Improve	**Minimize**
• Accuracy of profit and cash flow forecasts • Scenario planning that provides risk visibility • Tax and foreign currency exposure planning • Cost, profit and working capital management • Product & customer portfolio management	• Process and solution complexity • Time to learn and master software • Reliance on key individuals and consultants • Time & cost to implement and update solutions • Cost of both financial and operational processes
Establish	**Maximize**
• Operationally-realistic rolling forecasts • Profit-based sales and operations planning • Cross functional coordination and alignment	• Process speed and flexibility • Front line ownership of plans and targets • Productivity of Finance and Operations Staff

Integrating enterprise planning and performance management (P&PM) processes is not a new idea. In fact, it's an explicit objective of many organizations. However, few achieve mature processes that fully integrate strategy, finance and operations. One reason is that legacy software tools don't always support them.

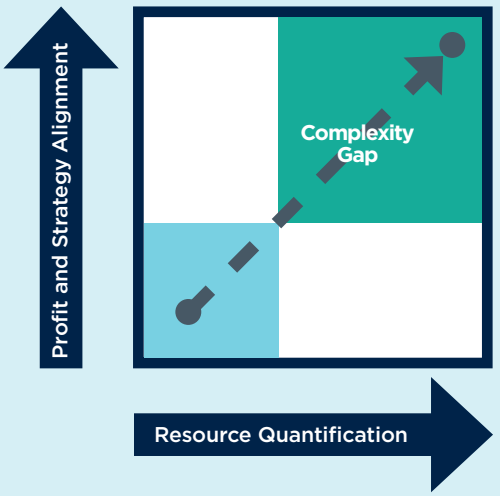
These experiences vary by sector, as each has its own integration challenges. None more so than manufacturing—the sector that institutionalized Integrated Business Planning (IBP) as a business term. Like most global manufacturers, one used a combination of sales and operations planning (S&OP) and strategic corporate performance management (CPM) tools to support IBP. While they were satisfied with basic budgeting, reporting, consolidation and S&OP processes, they have difficulty achieving more advanced and interconnected objectives, like those shown in exhibit 1. And doing so, while also making planning and performance management processes more effective and efficient.

Stalled maturity

Such experiences are not uncommon – especially when they involve the use of legacy P&PM tools. They expose one reality for complex organizations. Their efforts to improve and integrate strategic, financial and operational P&PM processes have stalled. They've been unable to make meaningful improvements to resource quantification and strategy and profit alignment—two objectives that define the degree of P&PM process integration and maturity. These terms are summarized below and illustrated in exhibit 2.

1. **Resource Quantification:** Quickly and accurately quantify financial and operational resources that support desired revenue, profit, cost, service and quality targets, across multiple functions and entities.
2. **Profit & Strategy Alignment:** Quickly reset targets and rewards, while reallocating resources across functions and entities to fund objectives and optimize operating results and project portfolio ROI.

Exhibit 2: Global organizations often lack four critical capabilities that impair their ability to manage complexity, thereby exposing common symptoms of processes and technologies that are not fully integrated



A. **Resource Quantification**
   1. Integrated Scenarios: Inaccurate, incomplete and immature planning models and processes that don't expose financial and operational risk
   2. Connected Outcomes and Tradeoffs: Strategy and related targets disconnected from financial and operational plans and underlying assumptions

B. **Profit & Strategy Alignment**
   3. Cross Functional Governance: Static and functionally-focused budgets & rewards reinforce silos and promote decisions and behaviors that undermine performance
   4. Concurrent Processes: Fragmented and sequential processes take too long, thereby impeding change responsiveness

See more at: **http://bit.ly/ZiqzVNU**

Despite investments in software and other management approaches, capability gaps remain. This is depicted by the difference between points X and Y on the chart. I call this the "complexity gap." While many factors comprise this gap, I will focus on four. These factors expose critical flaws in legacy P&PM software tools, while also highlighting incremental capabilities supported by newer and innovative ones.

Who owns the performance of key business processes, like order to cash? For most companies, the answer to this question is not always obvious.

Capability 1: Integrated scenarios

The first of these capabilities is integrated scenarios—collaborative processes that simultaneously evaluate the financial and operational impact of potential actions or events, on all aspects of a business, across multiple functions and legal entities. What distinguishes these processes from traditional ones is that they are enabled by integrated models that are shared by financial and operational applications and processes.

Integrated models come in two forms, classic examples of which come from the manufacturing sector. The first and more basic type uses operational modelling logic such as planning bills of materials and routings to drive P&PM processes. The second and more advanced model uses prescriptive analytics—tools with highly advanced activity, supply chain and financial planning logic. For example, these processes provide the means to quantify how revenue, direct and indirect costs, enterprise capacity, direct cash flows, working capital and foreign currency exposure would be affected by the following events:

- Loss of a major customer
- Changes in demand volume or mix
- Replacing a domestic vendor with a foreign one
- Moving a major product launch forward or backwards.

The capabilities underlying such scenario planning processes go well beyond those of legacy P&PM software tools. The best evidence of this lies in cash flow forecasting. It remains one of the least developed and most problematic financial processes in global organizations. One reason is that legacy P&PM tools aren't equipped to support them. They lack modeling capabilities that can accurately adjust for changes in volume, mix and operational constraints. What's not always appreciated is that the models needed for mature cash flow, working capital and tax planning and forecasting are the same ones that support mature supply chain planning processes.

The key point is that global organizations require advanced planning models that can cope with complex supply and demand relationships that often span multiple functions and entities. What's more, these models need to be shared by finance and operations as part of a single work flow, one that integrates rolling forecasts and sales and operations planning. What results from such integration are vastly superior scenario planning processes that effectively identify and respond to risk.

Capability 2: Cross-functional governance

Who owns the performance of key business processes, like order to cash? For most companies, the answer to this question is not always obvious. In fact, in many cases, it's no single person. While you may have process coordinators that maintain flow charts, procedures and measures, you don't have process owners with decision rights, ones that have the authority to change processes and targets, while reallocating resources across multiple functions and entities to fund these changes.

The foundation for such ownership lies in the ability to provide business process cost information that people believe is accurate. At a minimum, this means that actual and budgeted process costs must be always reconciled to all financial records. This also means that P&PM processes must also incorporate business process management. In other words, they must support what I call matrix planning. This capability is beyond what legacy P&PM tools support.

The absence of this capability is one of the primary reasons why only twenty percent of organizations achieve effective cross functional alignment[3] and why seventy percent[4] fail to achieve improvement targets related to lean and six sigma. After all, you can't govern what you can't plan!

Capability 3: Connected outcomes and tradeoffs

Optimizing enterprise performance is a key role for senior executives. But do you have a formal mechanism for doing so? Tradeoffs between cost, quality and service govern virtually every aspect of enterprise performance. Yet most lack the ability to explicitly manage them. Going back to the order to cash example, most organizations don't explicitly:

- Manage tradeoffs between targets for cost per order, perfect order fulfillment and days in receivables
- Translate these targets into the activities and tasks that comprise processes, across functions and entities
- Embed tradeoff target-setting and translation process into financial and operational planning and forecasting.

Fully integrated processes enable organizations to explicitly translate balanced scorecard objectives and targets into the processes that deliver customer value propositions. This translation process drives strategy execution by exposing key assumptions that underlie the targets comprising strategic objectives. What's more, it enables cost structures to more effectively adjust to changing market conditions.

The absence of such capabilities is one of the primary reasons why complex organizations have difficulty managing costs. In fact, 90 percent[5] fail to sustain cost reductions for more than 3 years.

Capability 4: Concurrent processes

While technology has certainly improved P&PM processes, cycle times remain long. Technology-enabled integration of work flows and prescriptive analytics does three things to address this:

- Model ownership can be distributed to front line employees
- Non-value added activities caused by fragmented processes can be eliminated
- Planning activities can be done concurrently, rather than sequentially.

The absence of this capability is one of the primary reasons that organizations experience difficulty executing effective sales and operations planning and rolling forecast processes within monthly cycles. By collapsing cycle time, they can address this issue, while also enabling rapid and effective mid-course corrections. In so doing, these processes can play a pivotal role in enabling enterprise agility objectives.

Redefining full Integration

These four business capabilities comprise the key differences between fully and partially integrated P&PM processes. They also highlight the importance of technology innovations that enable greater process maturity. More specifically, how they support three things that legacy P&PM tools do not:

- Combine strategic, financial and operational applications into a single P&PM process
- Execute these processes and manage performance horizontally across functions and entities
- Embed prescriptive analytics into these processes and applications.

The persistence of these capability gaps exposes one reality: P&PM processes that are supported by legacy tools don't always provide the basis for effective complexity management, either on their own or when combined with others as part of a process. This is because they are based on outdated views about what full integration entails, why it is important and what it is worth!

While newer technologies address these gaps, three factors limit their use. First, they aren't well known, as most are less than 5 years old. Second, they don't fit neatly into existing categories used by technology analysts, like S&OP, strategic CPM and Business Intelligence. Third, and following from the second, organizations continue to design P&PM processes and buy software to meet functional needs, not enterprise ones.

Capitalizing on opportunity

Fully integrated P&PM processes enable step-change improvements to how organizations plan, manage and govern their business. By extension, they also enable similar improvements to the ability of finance functions to drive business value as a more effective business partner. In the process, they address key challenges of treasury and FP&A executives.

Capitalizing on these process innovations cannot be done in silos. It requires an enterprise-wide approach to P&PM process definition, standardization and governance – one that focuses on these four business capabilities and the technologies that can support them.

One way to organize these efforts is through a center of excellence that coordinates these activities across strategy, finance and operations. Those leading the COE will need to look beyond functionally-driven biases to objectively assess the opportunities and risks associated with technology innovations. They will be in the best position to leverage integrated processes to address challenges of `all stakeholders, especially complexity-related ones of senior executives.

Sources:

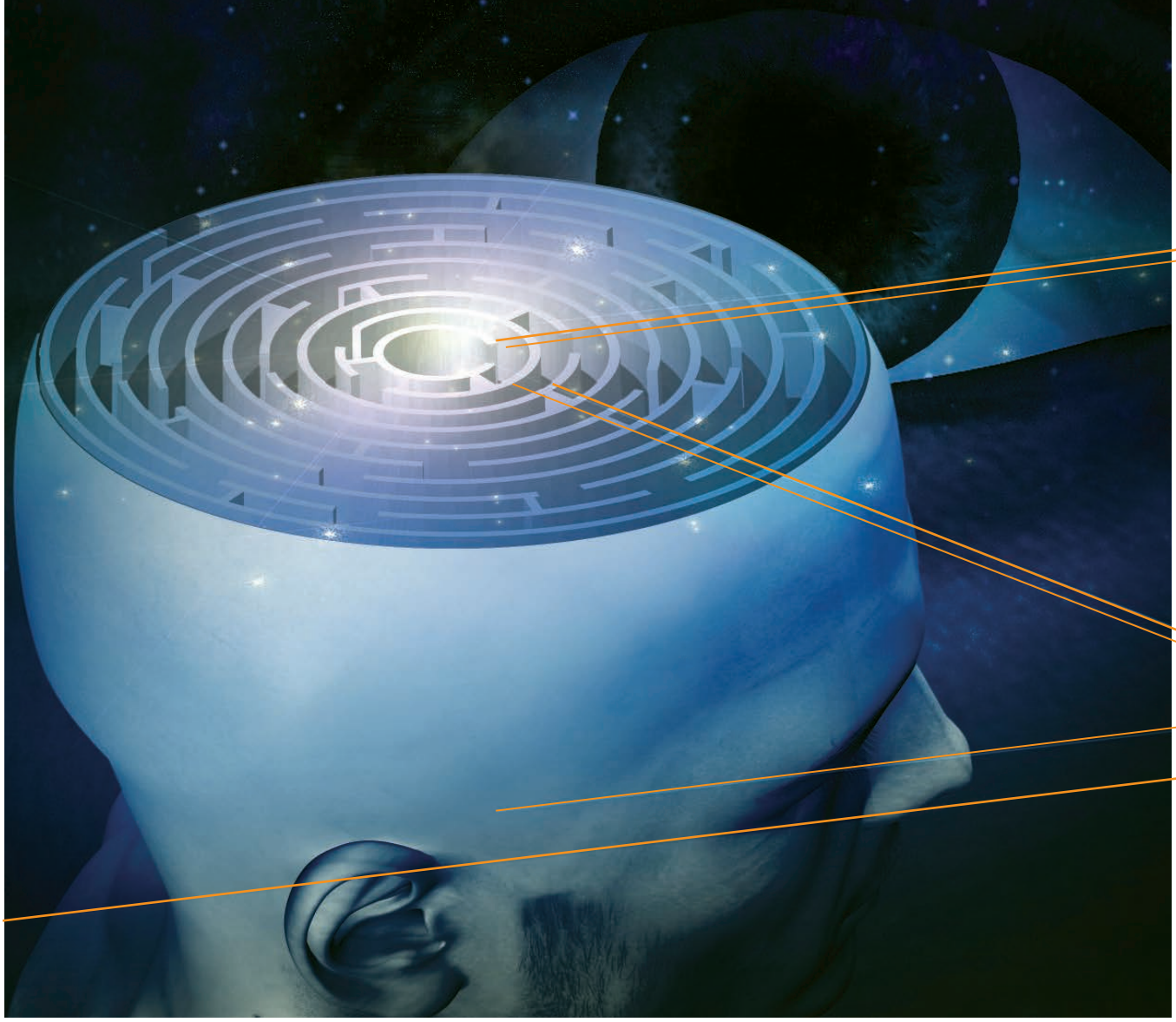
1. AT Kearney, How much does complexity really cost?, 2007
2. Harvard Business Review, The greatest barriers to growth, according to executives, Zook, May 2016
3. Harvard Business Review, Why strategy execution unravels – and what to do about it, Sull & Homkes, March 2015
4. Alix Partners, Survey on the effectiveness of manufacturing-improvement programs, June 2011
5. Corporate Executive Board, Dynamic Market-Paced Resource Allocation, 2008

Complexity Definition:
Complexity costs come in two basic forms: external and internal. External sources are those the company can't control, like regulations associated with operating in multiple countries. Internal complexity – the focus of this article – is driven by the number of products, customers, suppliers, processes and entities within an organization. More specifically, by the degree of variability, interdependecy and non linear relationships between them. Internal complexity costs, therefore, are those resulting from decisions (and non-decisions) that (knowingly or unknowingly) may improve performance of one part of a business, at the expense of another.

UNBIASED

How cognitive bias affects FP&A—and what to do about it

BILL MYERS



What's Your Bias?

Here are a few examples of cognitive bias:

Dunning-Kruger Effect: When people over-estimate their expertise in a subject area. There's also a corollary that truly expert people tend to underestimate their own expertise.

IKEA Effect: Attaching higher value to an object or project just because you worked on it.

Planning Fallacy: Consistently under-estimating how much time a task or project will take, despite mounds of previous data.

Sunflower Bias: The tendency to follow the boss' ideas and suggestions no matter what.

Champion Bias: The tendency to follow someone else's suggestions or ideas because they've got a good track record.

Confirmation Bias: Listening more carefully, or even cherry-picking, information that supports our previous conclusions.

FP&A practitioners are used to volatility. But not all unpleasant surprises are external. Sometimes, the enemy can come from within in the form of blind spots.

"Cognitive bias" is the phrase that some scientists give our blind spots. Broadly speaking, cognitive biases can take on many forms (See above). You can probably think of plenty of examples on your own of companies or groups that either thought they knew something (and didn't) or should've known something (and didn't).

Even worse, these blind spots can lead to cascading errors.

"FP&A professionals will have to deal on a daily basis with cognitive biases, both their own and the business partners they work with," said Barry Huisman, FP&A, a finance manager at a multinational company. "As a result they need to be more aware than others whether or not they are dealing with biased information. A good example here is dealing with a business partner that believes that the trend will improve, especially when though decisions need to made."

Huisman recalled how, in a prior job, he was confronted with frequent cost overruns from one of the business units. Initially he believed that they could recover the overrun, but that did not happen. "This had a serious impact on myself and the management team of the unit, with our corporate center coming down hard on us," he said. "My reaction in future years was that I was ultra-skeptical when it came to plans of recovering from an underperformance position and it was really hard to convince me that it was possible, so I was holding on to funds for improvement longer than needed."

So how are FP&A professionals to know what they don't know when the very atmosphere seems choked with unknown unknowns?

Hard-wiring problem

The fault may well be in our evolution, said Philip Fernbach, a marketing professor at the University of Colorado. "People didn't evolve as corporate financial analysts," he said. "There are many, many biases that end up getting people tripped up."

Fernbach, who will keynote note AFP's inaugural FinNext conference next March, is one of the social scientists who shy away from using the term "cognitive bias." He prefers the term "heuristic" to refer to problem-solving models our primitive brains developed hundreds of thousands of years ago. Those problem-solving models our brains run to help us make judgments and decisions can serve us well. But sometimes they emphatically can't—especially when those models are very large and complex, such as supply-chain forecasting.

For Fernbach, the biggest threat to careful planning is overconfidence. "A lot of overconfidence has to do with preferentially processing information in a way that favors our pet hypothesis," he said. "We see evidence that's consistent with it we take it and move on."

The good news, Fernbach and others say, is that FP&A professionals are in a place to do something about them. Just as the brain can play tricks on us, we can play tricks on it, too—with profitable outcomes.

'Where has the money gone?'

Take the case of RWE, the German electric utility that found itself short about €10 billion in the late 2000s. "In the business cases underlying these decisions," CFO Bernhard Gunther told McKinsey for a profile last May, "we were betting on the assumptions of ever-rising commodity process, ever-rising power prices. We were not alone in our industry in hitting a kind of investment peak at that time."

When RWE's board inquired—"Where has the shareholders' money gone?" Gunther quoted them as saying—officials at RWE had to do some serious re-thinking. "What became obvious is that we had fallen victim to a number of cognitive biases in combination," he recalled.

In response, RWE adopted a formal, top-down overhaul with more formalized roles for team members to help guard against biases. There are certainly several concrete steps that practitioners can take. (See right)

How to Prevent Cognitive Bias

Here are some concrete steps you can take to guard against cognitive bias:

Devil's Advocate: A formal position where somebody on a team is tapped to criticize any given plan or set of assumptions.

Red Teaming: Designating a group that constantly tests the larger organization's strategy and tactics. It grew out of the U.S. military after the Iraq War in 2003.

Pre-Mortem: Before starting a project, talking about all the ways it can fail.

Consider the Alternatives: A slightly less formal process than Devil's Advocate, but, in essence, leadership asks (and encourages) staff to come up with alternative explanations for data, or alternatives to plans being aid out.

Consider the Unknowns: Slightly less formal, this technique requires some time set aside during strategic planning for people to come up with ideas for what we're all missing.

Soft skills

Guarding against blind spots doesn't have to be formal or even complex. It may be just a matter of getting out of the office, said Larry Serven, owner of the Buttonwood Group, a consulting firm.

"The FP&A people themselves know an awful lot about financial modeling, accounting, about Excel," he said. "They know a lot about these areas so they're good to go. The skills the people really need to learn to go the next level are the soft skills—relationship-building, how the business works."

Recently, Serven worked with a senior analyst who thought she knew the business well but decided to go on a series of "ride alongs" with the company's road crews.

"She thought that was only going to last about a month or so," Serven said. "And six months in, she realized this was the best thing she had ever done. She had a much deeper, better understanding of what these crews were all about, the challenges they face, how they organized their time, how they prioritized. It went miles beyond what she was able to glean from the spreadsheets."

The lesson, Serven said, is clear: "I think we all gravitate to things that we do well. As an analytical people we tend to gravitate to spreadsheets and financial models. And that's great but I think if we're going to get to the next level in terms of our analysis and the value we bring to the business, we have to go beyond that. We have to develop our soft skills so we can effectively partner with the business and in partnering with the business and much better."

Phil Fernbach is a keynote speaker at FinNext, March 18-20, in San Francisco. Learn more at www.FinNext.org.

What's Your BHAG?

Let's talk about Big Hairy Audacious Goals

BRYAN LAPIDUS, FP&A

KEY TAKEAWAYS:

- A big hairy audacious goal (BHAG) is a goal that is big enough to lift us out of our short-term focus and set our sights on an exciting horizon.
- A well-designed BHAG should be at the intersection of your company's vision, the capabilities that you have or want to develop, and financial sustainability.
- Setting a BHAG based on accounting goals carries risks; it can be an invitation to manipulate the books, or sacrifice good strategy for revenues and profits.

"A true BHAG is clear and compelling, serves as unifying focal point of effort, and acts as a clear catalyst for team spirit."

In 1963, when President John F. Kennedy proposed his goal of landing a man on the moon and returning him back to earth, it was literally and figuratively an out-of-this world proposal. In today's vernacular, it was a big hairy audacious goal: the Soviet Union had fired Sputnik into orbit and it seemed like we were behind. Yet it galvanized the imagination, put forces and resources into motion that are comparable in scope to the Manhattan Project, and ultimately was successful. In the process, it expanded known science, created new technology, and stretched our capabilities as a nation and as the human race.

The term "big hairy audacious goal" (BHAG) comes from the 1994 book, "Built to Last: Successful Habits of Visionary Companies," by James Collins and Jerry Porras. Kennedy's moon shot is held up as the prime example of a BHAG. But what makes a good BHAG, how does it relate to other planning tools, and what are the dangers if it is used incorrectly?

What is a BHAG?

A BHAG is a goal that is big enough to lift us out of our everyday thinking and short-term focus on the month, quarter and year, and set our sights on an exciting horizon. For Collins, it is an emotional calling to an organization: "A true BHAG is clear and compelling, serves as unifying focal point of effort, and acts as a clear catalyst for team spirit," and would have to satisfy a few criteria.

- The goal should be set 10-30 years in the future.
- There must be a real chance of failure (Collins says 30-50 percent). If the goal is a certainty, then it fails to stretch the imagination and propel real change.
- The goal forces a transformation; current tools, processes and methods will not be sufficient to deliver on the goal. It should pull everyone out of their comfort zone.
- It should be exciting. Quoting from the book, "A BHAG engages people. It reaches out and grabs them in the gut. It is tangible, energizing, highly focused. People 'get it' right away; it takes little or no explanation."
- The goal should be specific enough so that people will know when it has been achieved.

Relationship to other planning tools

This may seem like one more fuzzy consulting buzzword to mix in with strategy, mission, vision, purpose, and of course, regular goals. A well-designed BHAG should challenge all of the above by being at the intersection of the following:

- The vision of what your company wants to accomplish in the world, and to the mission in order to be relatable to your employees, shareholders and customers. If not, then it may not fit under the umbrella of your current company.
- The capabilities that you have or want to develop, thereby including your strategy of how to compete in the market. The BHAG may require you to transform your capabilities (people, process, technology).
- Financial sustainability.

The BHAG may not necessarily tie to your current strategy and goals; a transformational vision may demand a similarly transformational approach to achieving it, and your current strategy may not get there.

Stretch goals are not the same as BHAGs. A stretch goal may be go beyond your stated goal by 5 or 10 percent, to do a bit more of the work that is currently under progress, perhaps by working a bit longer or being more efficient in what you are doing. A BHAG might be a 30 or 50 percent improvement, which is not something you can do by putting in a few more hours at the office.

Dangers of doing it wrong

Setting a BHAG based on accounting goals carries several risks. Since there is some discretion in accounting, this can be an invitation to manipulate the books to achieve the goals. Also, revenues and profits can come at the expense of good strategy; a company can cut prices to boost volume and achieve a revenue goal, at the expense of an income goal. Also, accounting goals do not tie to a vision and mission, and therefore may not engage the broader company as much as those who get a bonus for reaching the goal.

Similarly, a BHAG that does not align with strategy can seem incongruous. If it is too narrow, it will put focus on one section of the company to the detriment of others. If it is too general, it may have no relevance to strategy and operations, leading to confusion. A goal should not compromise other critical company elements that also motivate employees, such as corporate philosophy and principles. And selecting a size BHAG should not be considered a substitute for strategy, but if you do set a giant target in the distance, it will shape your strategy. In some cases that is desired; in others it is a problem.

The BHAG approach calls for a 10 to 30-year goal; how many goals are constant or relevant over that time period? Some successful BHAGs are, such as wiping out polio (nearly there!) or malaria. But businesses find that the technology and landscape change so quickly that it is hard to set such an audacious long-term goal that will hold up over time without limiting your options. What if your company needs to pivot, sell itself, or divest? Will management toss out the BHAG?

An example of doing it right

Some successful BHAGs include the following:

- Stanford sets a goal to become the "Harvard of the West."
- Boeing sets a goal to bring the world into the jet age.
- Merck sets a goal to change from a chemical manufacture to preeminent drug-making company.
- Nike sets a goal to "crush Adidas."
- Walmart sets a goal to become a $125 billion company in 10 years.
- Subway sets a goal to open 1,000 stores in the next decade.

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Toyota North American Parts Organization tackled their three-part goal

Here is a link to a short article that explains how Toyota's North American Parts Organization tackled their three-part goal around cost reduction, inventory reduction and customer service improvement (although a BHAG purist could claim this was a stretch goal, the approach is instructional).
https://www.americanexpress.com/us/small-business/openforum/articles/how-to-set-a-bhag-1/

Toyota then disaggregated the goal to smaller objectives that would meet the goal, and to force themselves to think differently, they set contradictory objectives—reduce inventory and reduce backorders (usually reducing one increases the other), reduce package and reduce damage, reduce freight and reduce lead time, etc.

BRYAN LAPIDUS, FP&A

What Are the Advanced Excel Skills Required of FP&A?

Job descriptions for financial planning and analysis (FP&A) positions tend to list advanced Excel skills among the requirements. But what are the key skills required? Let's look at three broad areas where FP&A might interact with Excel.

Data and data analysis

There is a running joke in BI communities that the most used feature in any business intelligence solution is the 'Export to Excel' button." That is because Excel is flexible, and allows you to immediately review your data and test it by building models off the extract.

FP&A must be fluent in looking at data via pivot tables and data tables, and then sorting and sifting through data using filtering functions. A higher level is to add the Power Pivot add-in to your base installation of Excel so that you can, in the word of Microsoft, "mash up large volumes of data from various sources, perform information analysis rapidly, and share insights easily."

Microsoft has worked hard recently to expand Excel's ability to obtain and manage data. It has always been easy to create or import a flat text file, such as a CSV or text delimited file, where rows of data are put into a single row separated by a comma, paragraph mark, semicolon or other notation. Excel has expanded its "Get External Data" to "Get & Transform" functions in the 2016 version, calling its steps as follows: Connect to a data source, starting with a new query to pull data from a file, database, online or cloud source; Transform, or simple editing functions you can perform on your data; Combine, or create tables from a single or multiple sources; and Share, in which you save or send, presumably using the MS Office tools. This is designed to imitate a data vendor's ETL functionality: extract, transform and load.

Extra credit for building regressions to help determine covariance and key drivers.

Building models

The process of building models may start with the very data set just imported. There are sets of functions that FP&A should know to manage the data, whether it is for analysis or application into a model. Some include picking out data points, including HLOOKUP, VLOOKUP, OFFSET, CHOOSE and INDEX, MATCH, COLUMN, ROW. Prepare text and date data using CONCAT and logical (IF, AND, OR, LEFT, MID, RIGHT) formulas.

FP&A must be fluent in best practices of building models, including: separating inputs, calculations and outputs; never hard-coding a formula; and color-coding your variables and parameters to rapidly identify them. Then, we should add error-proof checks into the model, and use the formula auditing tools to navigate through it. To enhance collaboration, and since we often share models around the enterprise, we need to add security features to lock sheets or cells, and establish drop-down menus for users.

Advanced modeling also includes using GOAL SEEK from the ribbon bar's What-If Analysis; extra credit for getting familiar with the ribbon bar's Forecast Sheet to automatically make projections based on historical data.

Reporting

In many ways, reporting is equal parts art and science, but advanced skills here include the ability to build dashboards, knowing which graph tells the story best, and presenting your information in the clearest way possible—clear message, uncluttered graphs, consistent formatting of font style and size, decimals, alignment, etc. The reports and exports should be able to tell a story if they were read by your boss without you there to explain the page.

With 750 million installations of Excel worldwide, it is clear that we will be using Excel alongside other specialized tools for years to come; it is our responsibility to use it well.

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In the Meantime

When does using interim treasury resources make sense?

JON SCOTT

There are several reasons why an organization might quite suddenly require a significant expansion of its treasury capabilities, including:

- In relation to corporate activities such as acquisitions, spin-offs or carveouts, add-on acquisitions, IPOs or MBOs
- Business expansion into new regions or during a restructuring of a company
- Sudden departure of key treasury staff or even planned temporary absences such as maternity leave, sabbaticals and management rotations
- A change in senior management, such as a new CFO, can lead to a need for new capabilities or skillsets which may only be efficiently fulfilled in the short term by interim resources
- Treasury undertaking a major initiative, such as a bank relationship overhaul or selecting and implementing a new TMS, requiring the seconded participation of permanent treasury resources, resulting in a need for interim professionals to back-fill and handle day to day operations.

Many corporate events result in urgent requirements to establish or modify a functional treasury operation, quickly and effectively. Treasury may well not have been a priority during the negotiation and closing phases of the transaction, but once the close of the deal looms, the new finance team may become aware that establishing or bolstering the treasury function is in fact an important requirement. The need for strong controls around liquidity and operational risk, and the management of financial exposure, are compelling reasons to act quickly.

Capable treasury staff can be hard to recruit and retain, especially in regions remote from significant commercial and financial centers, and it's certainly not something that happens overnight. In reaction to an urgent demand, there is likely to be a frustrating lead time in writing the necessary job descriptions, and organizing and completing a hiring exercise, not to mention notice periods and onboarding processes.

It can be difficult to attract expert treasury analysts, let alone risk managers and senior or group treasurers. Additionally, the skills and requirements needed to define, design and set up a treasury function are not the same as those required to maintain day to day operations. While you need an experienced and strategic person to set up operations, your long-term solution may require less, or different, experience that may be achievable in a much more cost-efficient way.

Similarly, while you will need a treasury function of sorts throughout the process, the permanent requirements are often not initially defined, may evolve as the company settles down or will change as a result of initial work carried out. But an event-driven need is not always the driver. In today's world of cost control and doing more with less, a corporate hiring freeze is not unusual, and using interim resources can be a way of continuing to operate and achieve change initiatives. Interim resources can not only provide strategic thinking, but also take ownership for decisions and deliver hands on operating capabilities, unfettered by the restrictions of independence or scope-limitation that define the role of many advisors.

Resource levels

Hiring interim resources provides the immediate benefit of putting qualified people on the ground, to establish a competent treasury team very swiftly. With the right partner, the team will be comprised of proven and experienced individuals, who are used to getting to work quickly and effectively, who understand the essential requirements, and get down to productive cash and risk management work.

One of the beauties of interim resources is that they can take on any number of roles and responsibilities, at different levels, depending on the demands of the situation. The scope of the role of course depends on the scale of the requirements and the capabilities and capacity of whatever team is already in place. An interim solution offers the flexibility to provide the level and degree of expertise to fit the requirement:

Senior Professional

New interim leader or head of specific activity (e.g. risk manager, debt manager)

- Brings leadership skills and experience
- Likely to have strategic and operational capabilities
- Always willing to step into the detail, but capable of delegating
- Act in a position of management, as a partner to the company's finance leaders.

Mid-level Professional

Manage a specific operational task or initiative that requires a particular skill-set or level of responsibility

- Likely hands-on and practical.

Lower-level Professional
Practical, flexible, likely over-qualified to be able to fill specific requirements

- Back-filling or covering for a specific operational resource
- Providing the arms and legs for a specific initiative (e.g. setting up bank accounts, implementing forecasting or a new treasury management system).

In an acquisition

New ownership often leads to changes in the range of demands placed on treasury and the way it operates. These changes can be a result of the financial structure put in place to support the acquisition, the compliance and regulatory environment governing the business, or a change in the appetite for risk and accounting performance variability. The new requirements inevitably amplify the demands on the treasury team, and often lead to the need for additional staff or skillsets, as well as the use of more advanced or differently focused treasury management technology.

Treasury operational areas often heavily impacted by a change in ownership, especially when moving to a more highly leveraged, and possibly privately-owned environment include:

Cash Management:

Cash is king, especially to a new owner that, initially at least, tends to want to closely monitor the lifeblood of its new business. This is often exasperated during an acquisition, when cash balances are swept to minimal levels, and means it is essential to have timely access to up to date cash position and outlook information. This initially typically involves a hands on solution combined with establishing appropriate reporting tools, to track liquidity in each location across the organization, and enable treasury to ensure there is adequate liquidity in each location to meet its commitments. This initial manually intensive approach is tailor made for an interim resource, until a longer term, more sustainable approach is implemented.

Cash Forecasting:

New owners are always eager to get as much forward-looking information as they can, to hopefully confirm their expectations regarding the performance of the business, so quickly establishing cashflow forecasting is often a high priority. This will also enable management to project likely liquidity needs further into the future, to plan for the deployment of surpluses to best effect or minimize borrowings. Experienced interim resources are well suited to design and put in place this process as the transaction closes.

> "Business acquisitions tend not to be driven by the goal of creating a world-class treasury department (unfortunately!)."

Risk Management

A change in ownership often leads to a different risk profile, a new appetite towards financial risk, and variations in the objectives of managing the company's exposures. It's important for the company to quickly put in place a process to identify its likely future exposures, draw up a policy reflecting management's risk appetite, and implement a structure and process to enable treasury to hedge the exposures. An interim resource with this expertise can quickly achieve these goals, execute the initial hedges, and transition the responsibility for the ongoing risk management program to the treasury team.

Business acquisitions tend not to be driven by the goal of creating a world-class treasury department (unfortunately!) so treasury invariably needs to navigate a balancing act to rapidly deliver the required treasury performance within budgetary constraints and often shorter-term investment thresholds. Accordingly, an interim solution offers an attractive approach to implementing a solution quickly while avoiding longer term cost commitments.

A practical, expeditious solution

Interim resources are a way to leverage highly experienced, skilled people to provide professional treasury services, especially as a first response to a staffing or organizational crisis following a corporate transaction. They provide a practical and flexible means of achieving urgent or critical capabilities or a sound platform upon which to build an appropriate, permanent organization over time – or indeed prove to be the preferred solution for the medium term.

Jon Scott is Managing Director, Global Treasury Operations, PMC Treasury.

AFP would like to recognize all of the newly designated CTPs & CTPAs from the 2017A (June 2017 – July2017) testing window

When working in treasury and finance, achieving the Certified Treasury Professional designation denotes credibility in your profession. These are professionals who have demonstrated the required knowledge, skills and abilities to meet this global standard of excellence.

The following financial professionals have successfully completed the rigorous examination requirements to earn their CTP or CTPA designation. They should be congratulated for their achievement and praised for reaching this level of finance professionalism.

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IN MEMORIAM

AFP *remembers* Don Hollingsworth

ANDREW DEICHLER

"Don Hollingsworth was a leader and a gentleman. As chairman of the Payments Advisory Group, he provided strategic direction for the group's agenda, but more than that, he created a congenial and inclusive environment that encouraged members to contribute their views and participate in the group's output. Working with him was a pleasure and a privilege."

Donald Lee Hollingsworth, CTP (Retired), a longtime member of AFP, passed away in September in Glencoe, Mo. from cancer. He was 70.

A graduate of the University of Missouri – St. Louis, Hollingsworth had a long career in treasury. He served as assistant treasurer and manager, banking and investor services for Ameren Corp. in St. Louis, Mo., before retiring.

A member of AFP since 1992, Hollingsworth served as chairman of AFP's Payments Advisory Group (PAG), now known as the Treasury Advisory Group. He was also member of AFP's board of directors.

"Don Hollingsworth was a leader and a gentleman," said Arlene Chapman, CTP (Retired), who worked with him as an AFP staff member supporting the PAG. "As chairman of the Payments Advisory Group, he provided strategic direction for the group's agenda, but more than that, he created a congenial and inclusive environment that encouraged members to contribute their views and participate in the group's output. Working with him was a pleasure and a privilege."

Carole Hunt, who also served as assistant treasurer for Ameren, echoed Chapman's sentiments that Hollingsworth was a true gentlemen. "You never heard him say anything negative about anyone," she said. "He was very conscientious. When we were implementing different programs at work, while his utmost concern was for the company, he would always consider what it would mean to the employees in his department. He was just a joy to work with."

Hollingsworth was also very forward-thinking when it came to treasury. Hunt noted that when bitcoin and virtual currencies first began to gain attention in the business world, he was very interested in how they could apply to the treasury space. "He was always looking into the future to see what was next," she said.

Outside of work, Hollingsworth was very active in his church, and was known for his love of music. "In addition to the treasury profession, he was an accomplished guitarist," said G.M. Stetter, a retired treasury professional who worked with Hollingsworth both on the PAG and the board. "Members of the board and the Payments Advisory Group put together a little jam band, and actually played at one of the conferences."

Added Stetter: "He was a great asset to AFP and the Payments Advisory Group—he always came up with good ideas."

Denise Laussade, CTP, director, office of treasury operations for Purdue University, called Hollingsworth a thoughtful and knowledgeable member of AFP's board of directors. "He had insight to many of the issues facing our membership, and was dedicated to supporting AFP's development of the profession," she said. "More than that, though, he was a kind and gentle man, a musician, a husband and a father—and a good friend. He will be missed."

Hollingsworth was husband to Donna Lee Hollingsworth (nee Wessel), father to Jeffrey (Laura) Hollingsworth and the late Matthew Hollingsworth. He was the grandfather of Katherine and Emily Hollingsworth; son of the late William and Edna Hollingsworth (nee Frerking); brother of Jeri (Fred) Westerhold and the late Susan (Oris) Petri.

"The person Don was in his professional life mirrored the person he was at home, humble, kind and caring," said Donna Hollingsworth. "He always saw the best in people. His presence is greatly missed by our family."

Marathon Man

IRA APFEL

Every AFP staff member has an important job to perform at our annual conference. For AFP 2017 in October I had a new job that was arguably the most unique, arduous and stressful of my career.

Over the course of two days at AFP 2017 my job was to host and record 20 podcasts. I had to interview nearly 25 guests on 20 different topics—from U.S. politics to purchasing cards, forecasting KPIs to bank relationship management, best-selling authors and cable news analysts to bankers and treasury analysists. While thousands of attendees walked by and stared. Each podcast had to run at least 30 minutes. From 8 in the morning until 5 in the afternoon.

Do the math; I had no extended food or bathroom breaks.

I had to be on for every podcast. That meant sounding like an animated talk show host—because that's what I was. I also had to be an active listener so I could speak extemporaneously and formulate questions on the spot.

Long story, short: I survived. The podcasts are rolling out, and you can download them on your app of choice. Just search for "AFP Conversations."

Because this was such a distinct task I spent months preparing and obsessing over it. I learned a lot along the way, and I believe anybody can apply these lessons.

First, ask for help. Even with the most challenging professional task of my career that had no template to imitate I was not alone. Two co-workers who oversee AFP 2017's educational sessions, John Gibson and Marcia Solomon, booked the guests. And, as usual, fellow AFP staffer Glenn Douglas served as audio engineer and made everything sound great.

Next, prepare, prepare, prepare. I wanted to leave as little to chance as possible. So I spent hours in August and September researching guests and writing entire scripts and questions to ask. I printed the scripts and emailed them to myself just in case I lost the hard copies. This calmed my creeping sense of dread somewhat.

I adjusted my mindset as the podcasts drew closer. It wasn't exactly resigning myself to my fate like a prisoner on death row. But, really, there was no point in worrying. Rather than fret and obsess I chose to see the podcasts as a singular event, and that I would surely gain some interesting insights from guests.

Before Day 1 **I got a good night's sleep.** Crucial. I grabbed eight hours of rest and felt sharp when I woke. I also ate a light breakfast to fuel my day. At home I rarely allow myself eight hours of sleep and a good breakfast. Maybe I should start!

I switched on for guests and I was an active listener. It's so easy to sleepwalk through meetings and client visits and still seemingly do an adequate job. Have you ever tried really listening? Instantly analyzing what the other person was saying, and simultaneously formulating new ideas, questions and suggestions on the fly? Not easy. Especially 10 times in a day. But the podcasts don't sound scripted; they sound like conversations. And the guests appreciated the chance to talk shop.

Now you don't have to subject yourself to 20 podcasts in two days, but you probably will face a stiff challenge in your career at some point, and it may well be something only you can do—or something you may not want to do. But if you follow my five podcast prep rules you'll triumph.