Policymaking

How strong policies support best practices in treasury

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A treasury department is only as good as the policies and procedures it has in place. Whether they are formal, specific policies or just general guidelines, treasury needs to have a cohesive framework to execute on key strategies. Policies may differ greatly depending on company size, structure, location, and industry, but they are undoubtedly a key resource for treasury.

A new Treasury in Practice Guide, underwritten by Kyriba, looks at how policies around cash management, payments and risk support best practices in treasury.

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The need for treasury policies

In 2004, AFP released the AFP Manual of Treasury Policies: Guidelines for Developing Effective Control, in response to requests from members for sample policies they could adopt for their organizations. In its research, AFP ultimately found that many organizations lacked formal written policies, or had not updated their policies in years.

Since that time, as the corporate treasury function has risen in prominence within most organizations, formal policies have become much more prevalent, and are updated more frequently. Indeed, with recent advancements in technology, as well as rapidly escalating threats like data breaches and payments fraud, it is imperative that treasury policies need to be kept current. However, treasury departments must also take into consideration that policies need to be broad enough so that updating is limited to only major needs.

"You want to write your policies and guidelines to help protect the company and provide people with the basis of interpretation and how to handle situations—how to handle what to do and what not to do," said John Nielsen, treasurer for Henniges Automotive. "Given that we're in an environment now where technology is rapidly changing, the perspective that I would take is that when you write a policy, if you go into the nth detail, it can open you up to new risk."

Jennifer Dale, CTP, assistant treasurer for Sprint, noted that many companies of similar size to hers still don't have formal policies. But for perspective, having a policy is very helpful. "I don't think it's 100% necessary, but from a control perspective, it's nice to have that document to fall back on," she said. "If anything, you have no gray area when you have a policy."

Establishing and writing policies

Nielsen cautions against being too specific when creating policies because that can result in people looking for loopholes to work around certain standards. And again, with technology advancing, there could be big changes that are coming—though not necessary in all aspects of treasury. "For example, policies around payment systems are the types of policies that you should be looking at yearly," he said. "But maybe you don't have to look so much at your cash management policy or an overall treasury policy so often. Still, you should be at least looking through it and making sure that there's nothing in there that needs to be updated."

When crafting policies, one of the biggest challenges that treasury teams can face is trying to determine how much needs to be ironed out at the start. Many treasury organizations try to capture everything at the outset so that they don't have to frequently refresh their policies. The problem is that there's only so much you can predict about the future. "One of the hardest things that people have in writing policies is you think, 'Well, okay, if I write this policy now, what happens when we get a better handle on Same Day ACH? Should I start to write some stuff in there now? No… I'm just going to wait another two months to do this until I find out a little more,'" Nielsen said.

All too often, however, that day never comes because treasury practitioners either get busy with other tasks or don't want to acknowledge that policies may need to change over time. "I think that is part of the problem; people get scared of just moving forward and putting a marker in the sand and saying, 'You know what? I'm okay with having to update and refresh my policies,'" Nielsen said.

Establishing policies also depends largely on support from senior leadership and how the delegation of authority works within the organization. For example, at Henniges, both Nielsen and the corporate controller are responsible for a number of the policies, because they revolve around the controls of the organization. He noted that if both parties agree to a policy change, the CFO is highly likely to sign off on it. "If we get together and we're fine with things, the CFO will perceive it as, 'Go ahead; get it rewritten and put it out on our intranet. Send a message out to the people that need to know and say that we've got an updated policy, and here's the section that has changed,'" he said.

In contrast, some treasury organizations must go to the board of directors every time they make policy changes. Needing that kind of constant approval can be quite onerous. "And really, your board of directors isn't supposed to be your operational know-it-all," Nielsen said. "They're supposed to be strategic. Maybe it's appropriate for certain treasury policies like foreign exchange or risk hedging, because then you're dealing with the strategic direction of the company. But a lot of your other policies shouldn't have to go all the way to the board for approval."

Communicating policies

Communicating your policy to your staff can also be a challenge. Unless you are part of a large, multinational company, treasury is generally a skeleton crew, and it may be difficult to build out time to talk to your team members about your policies. "We're a $5 billion company, but I just literally have five people doing different things, including capital markets activity," said Jim Gilligan, CTP, FP&A, assistant treasurer for Great Plains Energy, Inc. "So it's a challenge to find time to sit down and talk with people."

However, communicating these policies is a necessity when you bring new people on board, because you need them to understand how treasury does things, and why. "You can't just bring somebody in and expect them to know everything in a relatively short period of time," Gilligan added. "This is a complicated world that we live in, and understanding treasury's role is overwhelming for a lot of people, especially if they get turned over in a position quickly."

Cash management and payments

Policies around cash management and payments can differ from company to company, depending on the structure and size of the organization. According to the AFP Manual of Treasury Policies, a formal policy should communicate treasury's objectives to the company and establish linkages between cash management practices and the company's overall business management objectives. It should define the roles, responsibilities and cross-functional relationships of various departments involved in cash activities and promote consistent, uniform practices throughout the organization.

For cash collection specifically, relationships with other departments are especially important; it can be influenced by factors outside of traditional treasury. Input is often needed from sales and marketing, billing and accounts receivable. Treasury must have input into policies and practices that "touch" the cash collection and concentration process but are not actually under treasury's control. The manual thus recommends appointing a "champion" to oversee the policy development process; this is typically the treasurer, assistant treasurer, cash manager or an appointed committee.

For Bob Whitaker, CTP, senior vice president of corporate finance for DHL and chairman of AFP's Board of Directors, policies around cash management are fairly high level. DHL has operations in many countries, so its policies are mainly around which banks the company's local operations should use. In most cases, they

should be working with global banks in DHL's bank group, as opposed to smaller local banks.

Treasury's role then is essentially governance over the company's operations in a whole host of countries, because it is not actually executing the local work, except the United States. Whitaker noted that cash management policies for those local operations can get pretty granular. "We require that they get our approval before opening a new bank account, and then they have to send us the bank account details," he said. "Then, you get into more of the procedural stuff, like, who can open bank accounts? Who decides who are signers on bank accounts? Who approves payments? That sort of thing."

When it comes to excess cash, many organizations use key performance indicators (KPIs) to measure the effectiveness of policies around the amount of total cash used for working capital. For example, the policy may be to use no more than 10%, and the KPI would reward treasury for getting below this number. Furthermore, a policy may specify what is an acceptable level of idle cash in accounts, perhaps distinguishing between remotely managed accounts by regional controllers, compared to operating accounts that treasury controls.

"We see many clients have policies around how to invest excess cash, with certain investment instruments or categories of instruments permitted," said Bob Stark, vice president of strategy for Kyriba. "Some industries, such as insurance, will also document how to invest operational cash differently than nonoperational cash, which can be provided to in-house investing teams to achieve a higher return on cash. A policy may state that treasury must have visibility and control of all corporate bank accounts, with approval rights on all openings and closings."

When it comes to payments, the goal of treasury policies are specifically focused on protecting against fraud. For a huge company like DHL, that means keeping a database of all its bank accounts around the world. "The goal is to prevent someone from stealing your money," Whitaker said. "So it's just really trying to put in all the controls you can."

As fraud threats have continued to escalate, CFOs and CIOs have begun to direct treasury to not only digitize payment policies, but also ensure their payment systems are set up to enforce those policies. Examples include real-time screening for duplicate payments, whether the right individuals have approved high dollar payments, or holding payments with modified delivery instructions for another level of validation.

DHL's guidelines include applying the four-eyes principle. This is essential with the epidemic of business email compromise (BEC) scams that has plagued treasury departments in recent years. Additionally, treasury at DHL doesn't allow anyone to direct debit its accounts, with a few notable exceptions. "Basically we try and secure our accounts, so we put debit blocks on them and positive pay," Whitaker said.

John Dourdis, CTP, vice president and treasurer for Conair, agreed about the importance of having strong polices, particularly around wire payments. "We make sure that we impress upon our colleagues that, you just can't take wire instructions over the phone," he said.

He added that these policies need to be cross-departmental so that everyone is in lockstep with one another. "Those particular departments should have their own policies and procedures, but we certainly support that," he said. "Safeguarding the company's money is obviously an important role."

For more insights and actual examples of treasury policies, download the Treasury in Practice Guide, How Strong Policies Support Best Practices in Treasury, **www.AFPonline.org/publications**