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30
**AFP Research:
2018 Compensation Survey**
Treasury and finance enjoyed
a lucrative 2017
AFP Research Department

36
What's Your Story
Doug Stevenson explains the
importance of story telling
Ira Apfel

40
Your Move
Four steps treasurers should
take in response to tax reform
*Paul DeCrane, CTP
and Marc Monyek, CTP*

44
Class in Session
How Marsh & McLennan
strategically invests in its
finance team
Ira Apfel

47
The Net Effect
Considering net investment hedges
Ira Kawaller

50
Breaking Through
How treasury can manage change
Andrew Deichler

52
On the Rise
New regulations will impact
loan pricing
John Hintze

54
Give and Receive
What does the end of 'cheap
money' mean for receivables?
Matthew Hill, PhD, CTP, FP&A

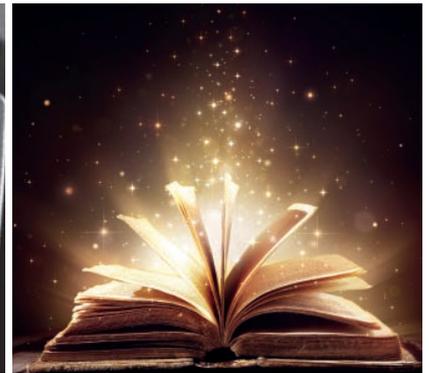
57
Re-Structuring
A new tax will impact MNC's
financial structures
John Hintze

60
Picasso or Einstein?
Building a financial model—
art or science?
Meredith Hobik

64
From Billables to Budgets
Helping management consultants
transition to FP&A
Meredith Hobik

66
**AFP Research:
2018 Payments Fraud
and Control Survey**
The 2018 AFP Payments Fraud
Survey breaks new records
AFP Research Department

70
**December 2017-January 2018
Certified Corporate FP&As**



4 From the President & CEO

Jim Kaitz

7 Global Treasurer

Handling debt and capital markets
Andrew Deichler

14 FP&A Foresights

Is Excel like your rolling pin?
Geetanjali Tandon

18 Risk Column

Does your risk strategy address
U.S. sanctions?
Megan Barnhill

22 Treasury Essentials

Credit agreement refinancing
considerations
Kimberly MacLeod

26 Payments Essentials

Building an atmosphere
of fraud prevention
Eric Newberg

72 The Bottom Line

Tell a Tale
Ira Apfel



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JIM KAITZ, PRESIDENT & CEO

THINGS CHANGE

Dear AFP Members,

When it comes to your career, it's great to have a plan. Sometimes, though, it's even better to work hard, ask good questions, and seek out an influential mentor.

That's what I thought about when I heard Stephanie Uhl on the latest AFP Conversations podcast. You can listen to her episode at www.AFPonline.org/conversations.

Stephanie had a good plan. She was attending community college as a Criminal Justice major with the goal of becoming a parole officer. To help pay for school, she took a job as a receptionist at Forest City, a publicly-traded REIT.

But, as the saying goes, life is what happens while you make plans. In this case, the then-assistant treasurer, Linda Kane, noticed that Stephanie was bright, hardworking, and showed great potential—enough so that she promoted her from teenaged receptionist to assistant cash manager. Stephanie recalled on the podcast, “She kept telling me, ‘You have a real talent for this. This could be a great career for you.’”

Stephanie took the plunge and switched careers. To improve her treasury skills and knowledge, and to demonstrate her abilities to the industry, she took the Certified Treasury Professional exam. There were challenges along the way. Passing the CTP certification is no sure thing. And some folks still doubted her resolve. But Stephanie passed on the first try. Today, she is assistant treasurer of Forest City.

Stephanie's story is incredibly inspiring—and it holds great lessons for young professionals and executives alike.

First, create a career plan; Stephanie actually had two. Studying to become a parole officer is a fine plan, but once she decided to switch careers she took the time to develop a new one.

Second, be the absolute best at your job and seek ways to add value to the organization. No job is too small—not even a floating receptionist. Stephanie came to her boss's attention by asking smart questions about treasury and helping out any way she could.

Third, accelerate your treasury career and demonstrate your knowledge and skills by taking the CTP. The research is clear: Treasury professionals who hold the CTP earn up to 16 percent more than their peers.

The lessons for executives are clear, too. Don't overlook talent right in your back yard. Job titles are less important if the employee demonstrates the right attitude. And when you identify high-potential employees take time to mentor them. Developing a great young staffer in a job market where finance talent is scarce makes it all worthwhile—for them and the organization.

Sincerely,

Jim Kaitz
President and CEO

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AFP EXCHANGE, Summer 2018 (ISSN 1528-4077), is published quarterly at \$90 per year for nonmembers by the Association for Financial Professionals, 4520 East-West Highway, Suite 800, Bethesda, MD 20814. Periodicals postage at Bethesda, MD, and additional mailing offices.
POSTMASTER: Send address changes to AFP Exchange
4520 East-West Highway, Suite 800,
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Top Treasury TASKS

Handling debt and capital markets

ANDREW DEICHLER

KEY TAKEAWAYS:

- Using a corporate model to project cash flows and finance needs can be a big help for treasury, but bear in mind that the further out you project, the less accurate it will be.
- Centralizing your debt and capital markets activity in one location can help treasury better understand spreads and movements to support a comprehensive funding strategy for the entire company.
- Keeping spreadsheets that track reporting requirements that need to be done on a weekly, monthly, quarterly and annual basis can aid in complying with debt covenants.

The following is an excerpt from the latest Treasury in Practice Guide, Navigating the Top Tasks in Treasury, underwritten by GTreasury.

As treasury's role has become more strategic, functions such as debt issuance and conducting capital markets activities, which traditionally are under the purview of the CFO, have now fallen to treasury, according to the 2017 AFP Strategic Role of Treasury Survey. These tasks tend to be the responsibility of the assistant treasurer.

“Doing a financing requires board approval and regulatory approval, and anything else in our world that needs to be done ahead of time—selecting attorneys, filing with the SEC, etc. All of that can typically take months, so we need to be looking ahead throughout the year.”

Great Plains Energy

For Jim Gilligan, CTP, FP&A, assistant treasurer for Great Plains Energy/Kansas City Power & Light Company, handling debt and capital markets comprises at least half of his duties. “We’re very capital intensive as a utility; we’re in the capital markets, usually, multiple times a year,” he said. “So for us, capital markets activity consists of debt issuances, redemptions, new common stock, preferred stock and buybacks.”

Great Plains’ treasury team’s capital market issuance needs are typically identified in one of two ways. First, the utility may have a debt maturity that it needs to refinance. Second, the utility may need to raise new capital to fund capital expenditures or other cash needs. The company uses a corporate model to project cash flows and finance needs up to five years in the future. Gilligan noted that the latter is an inexact science, as projections can only be so accurate the further out they go. But that model is Great Plains’ primary planning vehicle for capital markets activity, and from it, treasury knows whether it needs to issue stock or debt.

“Then when we get closer to a financing on the debt side, we’ll pick underwriters and decide on the tenor and those sorts of things closer to the actual issuance date, depending on market conditions—maybe 30 to 45 days out,” he said.

That process is fairly pedestrian and straightforward; the hard part, according to Gilligan, is doing all of the projections and planning in advance. “Doing a financing requires board approval and regulatory approval, and anything else in our world that needs to be done ahead of time—selecting attorneys, filing with the SEC, etc. All of that can typically take months, so we need to be looking ahead throughout the year.”

Volkswagen Group

For Volkswagen Group of America, medium to long-term debt issuances are executed in collaboration with its parent company in Germany. “We each have our roles within the debt issuance process,” said Per Larry Tolep, CTP, treasurer, who served as the assistant treasurer until 2015.

By centralizing much of its debt and capital markets activity in Wolfsburg, Germany, Volkswagen is able to better understand spreads and movements to support a comprehensive funding strategy for the Group. “You just don’t want too many different entities engaging the market at different levels and then leaving so much interpretation as to the overall cost of funds for the Group,” said Jason Prosniewski, assistant treasurer and head of operations. “The capital markets team does a good job of working with the banks as well as using standard capital markets practices to make sure that both the pricing and terms and conditions of the debt instrument being issued is in-line and understood.”

Tolep emphasized the importance of collaborating with the parent company. “My team would deal with lawyers, contact the rating agencies, and other similar activities as it is a coordinated effort,” he said. “We are routinely engaged in conversations with headquarters and providing our perspective based on information and analysis we collect in North America.”

Dunkin’ Brands

Fast food retailer Dunkin’ Brands has a whole business securitization debt structure, which means that the company

is heavily focused on cash collections from its franchisees, which form the collateral for supporting its debt. "On a weekly basis, we need to identify all cash that comes in from each of the assets supporting the debt," said Gina Powers, assistant treasurer. "Once identified, this cash flows through what in the industry is referred to as a waterfall. Through this process, we first pay securitization administrative expenses and principal and interest on the debt. Any cash that is remaining, we use for operational needs."

So every day, Dunkin's treasury team has to identify the different types of cash coming into its bank account and then consolidates that into a weekly certificate. "Then every week, when we send the money to a trustee, we tell her how much to put in for that weekly portion of principal and interest," Powers said. "Then, at the end of the quarter, she pays it out to each of the noteholders on our behalf."

Dunkin's debt structure is less restrictive than a credit facility, but there are still covenants that the company needs to comply with and annual audits that need to

be conducted. To aid in this process, treasury keeps two debt compliance spreadsheets. One tracks all of the various reporting requirements that it has to do on a weekly, monthly, quarterly and annual basis.

"We have a spreadsheet that indicates what the provision is, what section of the document it can be found in, who is responsible for the reporting or compliance requirement, the due date, and a place to confirm completion," Powers said. "It helps when we get audited; we can just hand this to the auditors and say, 'Here's additional proof that we met our requirements under the credit documents.'"



For more insights on debt and capital markets, as well as other key treasury responsibilities, download **Navigating the Top Tasks in Treasury** at www.AFPonline.org/publications

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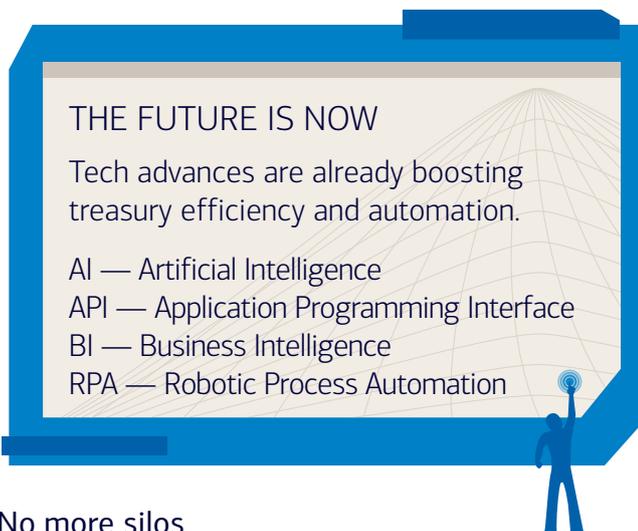
The development of technology that can be brought into the working capital management space has reached a point where, with thoughtful application, a whole new world of benefits can be unearthed. Bruce Meuli from Bank of America Merrill Lynch explores a futuristic world and finds much to benefit from right now.

The speed with which technology is developing in the financial space is both exciting and challenging. The array of new tools being made available could be your opportunity to move your function forward, enabling real value within your organization. Or, if you ignore progress, you could find yourself sadly reading about other peoples' achievements.

This scenario can be applied to the world of working capital management (WCM) where **it is entirely feasible, with the deployment of technologies such as artificial intelligence (AI) and robotics, to change everything, from the structure of the function, right down to its everyday operations.** But first, there must be data accuracy, availability and access.

A business operating within this environment faces two options. It can adopt a firefighting model, where it is in a state of almost permanent data scrubbing, amending or deletion. Alternatively, it can fix the problem at the root (or roots) as part of an overall program of consolidation: only then can it open up the pathway for automation and true optimization.

Centralization of data is perhaps the first goal here. This is often achieved using common platforms, architecture and cloud-based storage facilities or, more industrially, professional data centers, but always the aim is to facilitate standardization and simplification of the data landscape.



THE FUTURE IS NOW

Tech advances are already boosting treasury efficiency and automation.

AI — Artificial Intelligence
API — Application Programming Interface
BI — Business Intelligence
RPA — Robotic Process Automation

No more silos

Siloed data has long been an issue for many corporates. Companies evolve, acquire and divest and so this is almost to be expected. But the problems arising from a fractured landscape are often most notable around data validity and accuracy, where version control is, at worst, impossible.

Adding value through data centralization

Common platforms and architectures ally with cloud-based storage facilities or professional data centers to deliver standardization and simplification of the data landscape. What next?

Where treasury has centralized data, unlocking access to additional power from that single source is readily achievable. Direct connectivity through solutions such as Bank of America Merrill Lynch's CashPro Connect provides the bridge between online and traditional host-to-host connectivity for any payment origination and reporting reconciliation.

Use the source

Once confidence in data is achieved, using multiple data sources within the business intelligence (BI) environment becomes the next realm of possibility. Today, in the context of a centralized data warehousing structure, using BI tools to process multiple data sources is entirely possible. BI provides analytical power but also affords a more comprehensive workflow structure, of which more will be discussed later.

As might be expected, data has to be continually harvested and processed to ensure progress. Gratifyingly, technology evolution is providing access to previously “trapped” data.

Bank of America Merrill Lynch’s own Intelligent Receivables (IREC) solution pulls data from different sources, translating it into a common format enabling the matching of receipts with open AR invoices, before handing it back to the client to be automatically ingested into their ERP systems.

Advances in optical character recognition enable text (an invoice, for example) to be scanned and the required data elements recognized and validated for processing, regardless of format. Web-bots, with appropriate prior agreement, may also connect to third-party sites. These can robotically harvest and augment records with missing remittance information.

[The possibilities around automating processes that were previously uneconomic to do so suddenly become real.](#)

As API standards develop, the ease with which they can be deployed across business networks renders them increasingly attractive. Once the authority is given to a third party to access information on your behalf, data can be automatically captured and aggregated.

Single source, multiple opportunities

A single source of data begins to open up new working capital opportunities, with Bank of America Merrill Lynch’s Supply Chain Finance and Virtual Card solutions capable of extending DPOs and driving real WCM optimization.

Robots and AI

Accessing and using different types of data (both structured and unstructured) and advanced algorithms are where the disciplines of robotic process automation (RPA) and AI have real currency in WCM. [By using more advanced algorithms capable of “fuzzy” logic and learning to seek and process data, the power of automation is notched up another gear.](#)

In a WCM context, the cash application process (often managed in a shared service center) could see a low primary match rate. This first-pass rate excludes the involvement of humans in the matching process. Unmatched items would then be manually matched. It is slow, laborious and costly. The historical response to this has been to leverage labor arbitrage and outsource this process.

However, with the rise of digitization, the ability to harvest more data and put it into a usable format is entirely possible. The creation of algorithms or business rules to generate rapid-fire automated decisions on those exceptions is feasible.

By applying these kinds of AI tools, the formation of these decisions will progressively steer the process toward greater accuracy and efficiency and increased straight through processing (STP).

Advances in cognitive learning could push the boundaries of possibility even more. Whilst far from mainstream, powerful cognitive systems (such as IBM’s Watson) are now being used to aid decisioning where multiple data sources and large datasets would otherwise be unmanageable. One of the first WCM challenges being tackled with this rapidly evolving capability is to improve the accuracy and usefulness of cash forecasting.

[Arguably, the application of data and AI in the realms of more complex analytics and decisioning is a logical progression. The convergence of improved technology, cognitive capability and business process management is powerful.](#) This is evidenced by the number of Business Process Management (BPM) software vendors developing and acquiring AI capability to further enhance intelligent automation offerings.

When managing liquidity, a target- or zero-balance sweeping model is common amongst large corporates, being typically managed by relatively fixed business rules. But what if those rules become more dynamic? When a major payment from an account is imminent, it would be desirable to leave the required amount and sweep any surplus. As a continuous and dynamic approach (assuming the times and amounts vary) it requires the ability to execute each transaction and source data up- and down-stream of that transaction to know that it will take place, to define its values and to assess its impact on the business.

Then consider the benefits of a real-time BI dashboard, allowing the treasurer to preview the various flows across multiple data sources and make business rule changes through an online interface. Extending this concept could involve decisions being made to optimize these flows, with AI utilizing rich data and simulation modeling. This changes the role of treasury to managing the data flows, the model and reviewing outputs.

Optimal modeling

The notion of “treasury as a bank” is quite advanced in some corporates. [Capital allocation modeling and cash forecasting is being used to better understand the management of enterprise working capital.](#) Again, visibility of data across all processes is vital before optimization modeling of this nature is properly achievable.

In practical terms, we know that the true cost of a product held in stock, for example, and its impact on the cost of sales, are typically separate calculations because transparency of cost of capital and cash is not commonly possible. Using advanced BI and analytics to give the visibility of non-optimized cash that is effectively “trapped” in that stock allows “what if” scenario modeling, the aim being optimization — or at least cost transparency.

The process can be applied to the value of cash at any stage, whether tied up in goods, in a bank balance, in a different currency or even in the secondary value of obsolete stock. The “trapped” cash can now be built back into costing. From here, real capital allocation modeling is possible, allowing treasury to assume the role of managing and assigning working capital.

In practice, as the ability to digitize the physical supply chain increases (through bar codes, RFID, drones, warehouse robots and so on) so opportunities to manage and reconcile with the financial supply chain improves. This could open up new WCM opportunities from a process optimization and financial solution perspective, and even reveal another viable and valuable financial asset.

Predict, not react

[The technologies discussed here potentially move treasury more from a reactive to a predictive function.](#) This is already the case in other sectors. In the RegTech space, for example, trading systems can record and monitor real-time on-screen actions. They are looking for and learning from incorrect or possibly unauthorized activity, creating an ever-expanding set of scenarios and rules.

In the treasury context, with more real-time payments being executed, it is becoming necessary to implement checks and balances at the input level, and certainly before a payment reaches the banking system, where it may be too late to stop.

Controlling from the front

The conversation around the relationship of banks to clients through APIs is now being propelled into the consumer space by European PSD2 Open Banking regulations. As banks and technology vendors respond to increased awareness and need, APIs are rapidly gaining ground in the commercial space too. With corporate clients gaining direct digital access to their banking partners, treasurers are now able to initiate transactions through their in-house treasury management system (TMS) or ERP, passing instructions to the bank for back-office execution.

Banks are also beginning to use APIs to expose their front-ends to clients, allowing those clients to manage the rules and the flows themselves within the banks’ own technology environment and to act as an aggregator for the client’s other banking partners. This level of progress suggests there is a need for treasurers seeking advantage to understand what business process options are available, and what the benefits and consequences are of each.

With rules-driven stop-processes in place (generated by the monitoring of data points along the process), improved risk management is possible. With AI-based learning, every process flow and exception can be re-routed to safety before an issue arises. A similar predictive model could be achieved through the kind of pattern analysis tools already used by banks in an anti-fraud context.

STP, but faster

The adoption of Robotic Process Automation (RPA) could already have facilitated the removal of many simple, repetitive tasks, driving speed and STP by removing the ponderous stop-start gaps and “swivel chair” processes that manual interventions inevitably create.

[With the arrival of safe real-time processing, the use of business rules-based workflow systems by treasury could soon see a shift from batch to continuous processing.](#) Linear progression of tasks will shift toward execution of multiple tasks simultaneously, from data input, to parallel processing, to system control, to output. This notion of “concurrency” is a key element of robotics in advanced industrial settings.

In treasury, driving data flows and exceptions management in this way, or using workflow tools as an overlay on other systems, facilitates faster, safer and cheaper completion of every end-to-end sequence. **In WCM, concurrent and continuous processing could positively affect the speed of reconciliations, for example. The immediate knowledge of how receivables are coming in, and in what format, drives down error rates.** As a result, cash application and cashflow forecasting are improved.

A caveat: Treasurers need to ask whether there is real value in more real-time continuous processes, and if their business and risk model requires that level of operational capability.

Start now

The automation of simple repetitive commercial tasks is well underway. Increasingly, automation investment is focusing on more complex processes that require broad knowledge and cognitive capability. These processes were previously thought “out of scope” and not the domain of the machine. This evolution is reinforced by recent studies on the scope of automation and robotics, such as the OECD’s October 2017 publication, *Computers and the Future of Skill Demand*.

But the role of treasury has changed significantly with the maturing of shared services and centralization. The next technological impacts will further evolve the role. To benefit, the treasury discipline needs to have a good understanding of these impacts, and at least be developing commensurate skills and knowledge.

The key to material success in this rapidly evolving landscape though is to become involved in the ongoing debate now so that these systems really do enable the kind of progress being envisioned.

A new treasury model?

Already many operational aspects of treasury reside in shared service centers. However, policy, process design, bank relationship management and risk management remain in treasury.

With data access assured, and manual process workflows understood and mapped, many SSC operational aspects could be subject to automation, leaving just exception management at this level.

As the operational element is minimized, the significance of decisioning and strategic value-add at the pure treasury end of the spectrum increases. With access to new and more powerful tools, treasurers could play a larger enterprise role, perhaps reviewing the value and true cost of capital and cash, and making risk-based allocation decisions internally and enabling business strategies.



Author

Bruce Meuli

Treasury Advisory Executive
Bank of America Merrill Lynch

Know Your ROLE

Is Excel
like your
rolling pin?

GEETANJALI TANDON

KEY TAKEAWAY

- New tools can perform reporting and analytics in a significantly more automated manner than Excel can.
- In this new paradigm, the level of analysis done in Excel will change, but it still will be the go-to choice for several of us in the financial world.
- Investing in business intelligence and planning systems allows analysts more time to dig deeper, performing insightful analysis that will help in decision-making.





Anyone from India knows what roti is. For those of you who are not from India—roti is a flat whole-wheat bread made fresh daily in Indian homes, specifically in the Northern part of India. Variations, though, are made all over India. One can find the staple tools for making a roti in every household—rolling pin, chakla (a flat board made of stone, steel or wood on which to roll the rotis) and tava (a concave-shaped Indian frying pan). These are the essential tools to make rotis while the essential ingredients are whole-wheat flour and water.

You might be wondering why am I talking about making rotis in an article about finance and how is this related to Excel. So here we go.

Roti and Excel evolution

Recently, an innovative couple based in Singapore automated the roti-making process and developed a robotic machine called “Rotimatic.” This machine has revolutionized the centuries-old process of roti making and saved time for women who spent an average of one to two hours a day making the dough, cooking the rotis and then cleaning up the mess. There are several people in the camp of “it’s too expensive, the rotis are not the same, we can buy pre-made roti (which have preservatives).” But the point of this automation is that it has made life easier for Indian women and saved us time. It has given time back to us while maintaining the healthy eating lifestyle we enjoy.

“We will find that the analyst’s time is freed up from tasks like finding and cleaning the data and instead spent understanding the problem, extracting the right data from the system, and doing deep-dive analytics to find a solution to a problem.”

So now let’s go from *rotis*, which I love eating, to finance, which I love working on. Excel is a quintessential tool of finance professionals. When Excel was introduced in the early 1990s, it revolutionized analytics and made it easy for anyone to create models and perform data analysis. Excel is a tool that helps us convert our data easily and quickly into a usable/presentable format. In a short timeframe, Excel has become like the rolling pin, *chakla* and *tava* for financial analysts everywhere.

However, with the foray into more complex analysis, many new tools have been introduced that can perform the simple reporting and analytics previously done using Excel in a significantly more automated manner. But we love our Excel. An article recently published by The Wall Street Journal, “Stop Using Excel, Finance Chiefs Tell Staffs”, garnered passionate reactions from financial professionals around the country and globally. But, by transitioning to the use of more automated tools, will we completely stop using Excel?

Using a Rotimatic has not made me discard my essential roti-making tools—rolling pin,

chakla, and *tava*. I still use those to make more complicated flatbreads, correct some of the dough ball errors that come out of my Rotimatic, and teach my kids how to make *rotis* by hand. We need to think of Excel in the same way.

Automation makes repeatable reporting and simple analytic tasks easier. But Excel will remain the tool of choice to conduct ad hoc complex analysis. Excel is not discarded, but the questions asked and how they are answered will change. We will find that the analyst’s time is freed up from tasks like finding and cleaning the data and instead spent understanding the problem, extracting the right data from the system, and doing deep-dive analytics to find a solution to a problem. The level of analysis done in Excel will change, but Excel still will be the go-to choice for several of us in the financial world.

Freeing up time

PwC found that best-in-class finance organizations run at a 40 percent lower cost than their peers, but spend 20 percent more time on analysis versus data gathering. Investing in business intelligence and planning systems can help save precious time for the financial analyst who will spend less time “ticking and tying” each number extracted by various systems. The analyst would be able to dig deeper and do interesting and insightful analysis that will help in decision-making.

The Business Intelligence (BI) systems today can help answer such questions as “what happened and why did it happen?” and it is the next level of analysis that leads to answering more futuristic questions, such as “will it happen again?” Excel may be used to develop the simplistic models/prototypes to help answer those questions and investments can be made to automate the process as needed.

Today, with current systems, a financial analyst extracts data from an ERP system and from a database management system sitting on top of it. The analyst then cleans the data and organizes it in the way the

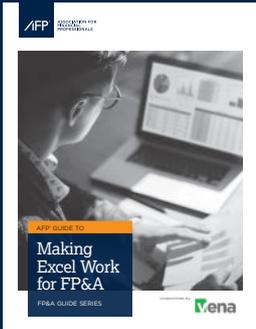
analyst wants to report it. Most of the time spent is to clean the data, check it for errors and then prepare it for reporting.

The analyst digs deeper into the data if some trends are not as expected, but that is limited to the extent the data has been cleaned and organized. This time and resource limitation does not allow the analyst to understand the data and perform a predictive analysis of the trends, but only allows digging in as-needed based on any variances. Automation of data organization and reporting will not bind the financial analyst to the limitations of the BI system but rather would free up time to do what the BI system cannot. Excel will still be the tool used for higher-level analysis.

It's very much like when I use my Rotimatic; I am more creative with the ingredients than I was when I made everything by hand, because I did not have the time to think about creativity but only preparing, getting basic *roti* cooked, and then cleaning up.

Automation cannot answer every question, but it can help give back time to the analysts so they can spend it answering more complex questions. Don't let the fear of losing of your rolling pin hold you back from investing in a financial *roti* maker.

Geetanjali Tandon is global IT finance lead for Monsanto Company.



For more insights on how finance professionals can get those most out of Excel, be sure to download AFP's new guide, Making Excel Work for FP&A, underwritten by Vena Solutions at:

www.AFPonline.org/publications-data-tools/reports/guides/fpa



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OFAC Highlights

KEY TAKEAWAYS:

- A central element of any compliance program should be processes for screening counterparties and transactions to confirm that they do not involve persons or destinations subject to sanctions.
- Compliance programs should address risks related to the prohibitions under U.S. sanctions on actions that evade the sanctions, that facilitate an activity that would be prohibited, or that cause a violation of the sanctions.
- In certain circumstances, activities by companies located outside the United States, including non-U.S. subsidiaries of U.S. companies, may be subject to OFAC jurisdiction.

Does your risk management strategy address U.S. sanctions?

MEGAN BARNHILL

When thinking about risk management strategies for your company in 2018, don't forget about risks associated with U.S. sanctions compliance. The potential penalties violating U.S. sanctions are significant; in recent years, settlements between companies and the U.S. Treasury Department, Office of Foreign Assets Control (OFAC) have included penalties in the hundreds of millions of dollars. Ensuring that your compliance program adequately addresses risks under U.S. sanctions is critical to minimizing such penalties.



In 2017, OFAC entered into 15 settlement agreements and issued one penalty assessment and three findings of violation. Penalties assessed by OFAC in 2017 totaled \$119,527,845, with the largest settlement amount being \$100,871,266. These settlements involved entities in the following industries: financial services, medical device and equipment, shipping, oil and gas, telecommunications, and retail and wholesale goods. The financial services, healthcare, shipping, and oil and gas industries made up the largest portion of enforcement actions, with 13 of the 19 settlements and findings of violation involving those industries.

OFAC's 2017 settlements provide valuable insight for companies across all industries regarding the agency's priorities and highlight areas of potential risk that risk management and compliance professionals should consider when evaluating the adequacy of their compliance programs. The following are some key themes from OFAC's published settlements in 2017 to consider when evaluating sanctions risks and reviewing and updating your compliance programs.

1 Does your compliance program address screening and due diligence related to counterparties and transactions?

A central element of any compliance program should be processes for screening counterparties and transactions to confirm that they do not involve persons or destinations subject to sanctions. Screening only the name of a particular counterparty might not be sufficient; screening should also identify and address whether individuals with whom you will deal are designated under U.S. sanctions and whether there are red flags that those individuals or the transaction are associated with sanctioned persons or destinations.

OFAC's settlements underscore the importance of screening and conducting due diligence of counterparties and transactions. In July, OFAC published a penalty assessment in which it stated that there is no distinction in a designation between an individual's personal and professional capacities and that entry by a

U.S. person into a contract signed by a Specially Designated National (SDN) individual constitutes a prohibited dealing in the services of an SDN, even if the contract was signed by the SDN on behalf of a non-designated entity. To address the risk of providing a prohibited service to an SDN in such circumstances, companies should identify and screen individuals with whom they will deal and who will be signatories to contracts or other legal documents in addition to the entities with which they conduct business.

In addition, OFAC's settlements indicated the importance that companies include in their screening any references to a sanctioned destination or any red flags that a transaction may involve a sanctioned destination. In one settlement, OFAC cited the failure to include in a company's screening system the names of countries subject to comprehensive sanctions; in another, OFAC referenced the failure to screen for a possible nexus to a sanctioned destination prior to processing a transaction through the U.S. financial system.

Companies should ensure that their compliance processes screen counterparties and business partners for references to a sanctioned destination, whether in a company name or other information related to the transaction. Companies should also conduct due diligence regarding the ownership of potential business partners or counterparties to confirm whether any flow down blocking requirements will apply under the 50 percent rule and identify whether any activities of current or potential business partners give rise to risks that a current or potential business partner could itself become a target of U.S. sanctions.

2 Does your compliance program address risks associated with facilitation, evasion, and causing a violation of the sanctions?

Compliance programs should also address risks related to the prohibitions under U.S. sanctions on actions that evade or avoid the sanctions, that facilitate an activity that would be prohibited if performed in the United States or by a U.S. person, or that cause a violation of the sanctions. These prohibitions encompass a broad range of activities—some examples of prohibited

Processes should also ensure that U.S. persons, regardless of their location or whether they are acting on behalf of a non-U.S. company, do not provide approval for transactions or activities involving sanctioned persons or destinations.

facilitation cited in 2017 settlements include involvement in discussing, arranging and executing export transactions, and reviewing, approving and initiating payments by foreign subsidiaries to service providers located in sanctioned destinations. Examples in 2017 settlements of actions that implicate the prohibitions on evading, avoiding, or causing a violation of the sanctions include ordering goods specifically intended for a sanctioned destination and providing such goods to that sanctioned destination, despite language in relevant documents stating that the goods could not be provided to such destinations and obfuscating or misrepresenting conduct with respect to sanctioned destinations, including in connection with financial transactions denominated in U.S. dollars.

Companies should ensure that their compliance programs address the risks associated with these prohibitions, including the risk of personnel engaging in or assisting indirectly activities in which they cannot engage directly. For example, processes should address activities like referring inquiries received from individuals located in sanctioned destinations or conducting activities through a party in a third country where the ultimate recipient is in a sanctioned destination.

Processes should also ensure that U.S. persons, regardless of their location or whether they are acting on behalf of a non-U.S. company, do not

provide approval for transactions or activities involving sanctioned persons or destinations. For example, if a U.S. person member of senior management or of the legal department gives approval for an activity involving a sanctioned person or destination, such approval could be prohibited facilitation. Compliance programs should also include protections against personnel modifying or avoiding an approval process in order to avoid a requirement that a U.S. person approve a transaction; changing the approval process for a transaction involving a sanctioned destination could itself be prohibited facilitation.

In addition, companies should ensure that their compliance programs include provisions to prevent personnel from omitting, obscuring, or concealing information about a transaction. For instance, processes should be in place to ensure that the documentation related to a transaction contains accurate and complete information. Such processes should include provisions to guard against the omission or changing of information in instructions or other documentation related to payment.

3 Does your compliance program address risks related to operations outside the United States or activities by non-U.S. subsidiaries of U.S. companies?

In certain circumstances, activities by companies located outside the United States, including non-U.S. subsidiaries of U.S. companies, may be subject to OFAC jurisdiction, even if they occur entirely outside of the United States. Five OFAC settlements in 2017 cited activities by non-U.S. subsidiaries of U.S. companies, and another seven involved activities by companies located outside the United States. Companies should ensure that their compliance programs address such risks.

Companies located outside the United States should be aware of any U.S. persons that they employ and ensure that their compliance programs reflect the prohibitions that apply to such persons in their individual capacity. Companies should ensure that U.S. persons are not involved in transactions involving sanctioned persons or destinations and do not engage in prohibited facilitation. Further,

companies should be aware of other potential circumstances in which the United States may assert jurisdiction over a transaction, including, for example, the involvement of a U.S. bank at any point in the transaction.

U.S. companies with subsidiaries outside the United States should ensure that their compliance programs address circumstances in which activities conducted by non-U.S. subsidiaries may be subject to U.S. jurisdiction, including the extension of the prohibitions under certain U.S. sanctions programs (i.e., Iran and Cuba) to activities by those non-U.S. subsidiaries. For Iran, this might require putting in place processes to ensure compliance with the requirements of General License H. For other sanctions programs where the prohibitions do not extend directly to the activities of non-U.S. subsidiaries of a U.S. company, companies should ensure that their programs address the circumstances in which a transaction could nonetheless be subject to U.S. jurisdiction (e.g., it involves goods originally sourced from the United States).

Non-U.S. subsidiaries of U.S. companies should also ensure that their compliance programs address considerations related to shared administrative resources. To the extent that a non-U.S. subsidiary relies on resources that are based in or performed from the United States (e.g., legal, accounting, IT, etc.), companies should ensure that they have mechanisms in place to prevent those U.S.-based resources from being used to support activities related to a sanctioned person or destination.

Understand enforcement actions

OFAC's enforcement actions can provide valuable insight for companies seeking to develop or update their compliance programs to ensure that they are effectively managing relevant risk areas. Reviewing and understanding enforcement actions can give companies insight into OFAC's priorities and expectations and help them identify best practices and incorporate them into their processes and procedures related to sanctions compliance.

Megan Barnhill is a partner with Bryan Cave Leighton Paisner LLP.



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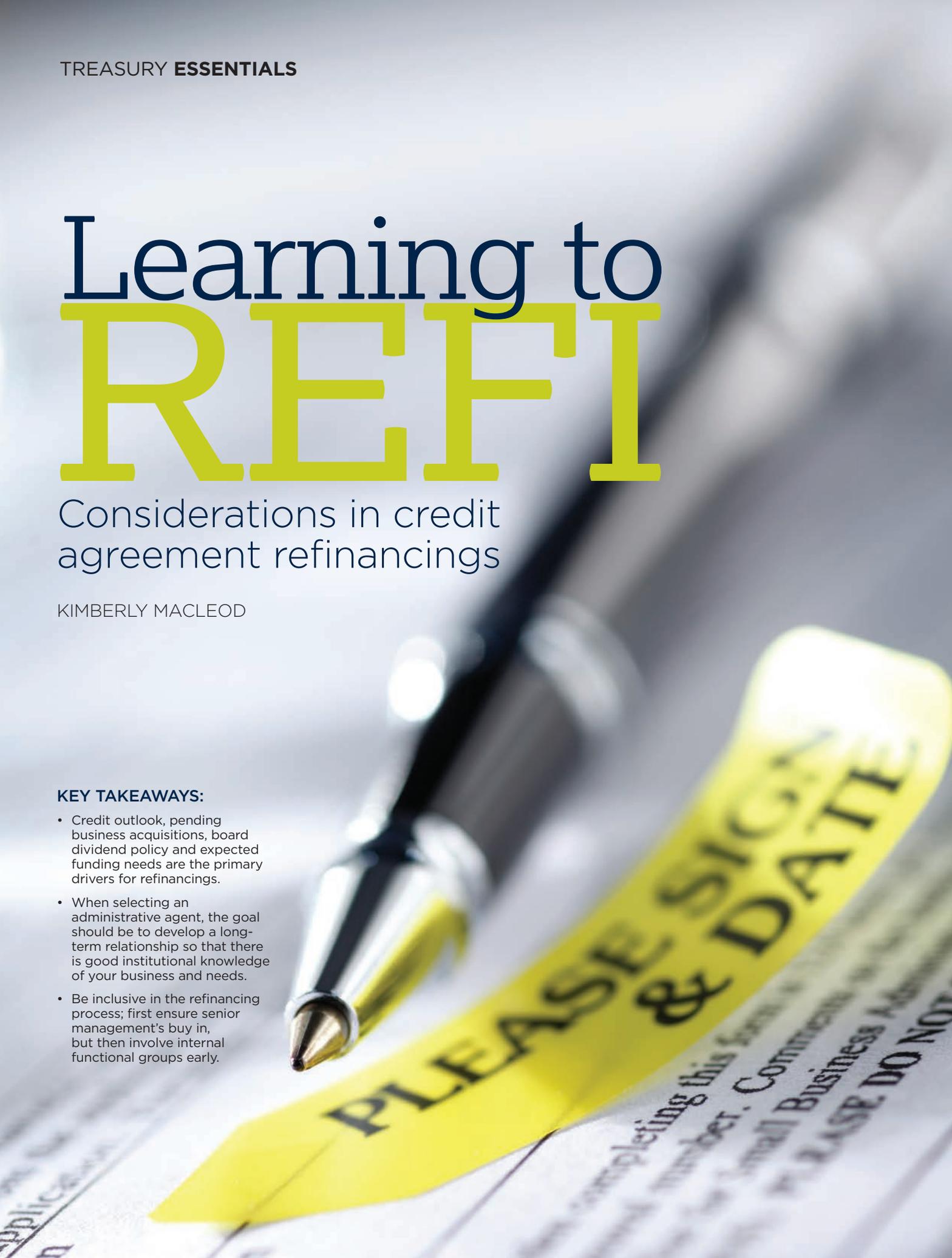
Learning to REFI

Considerations in credit
agreement refinancings

KIMBERLY MACLEOD

KEY TAKEAWAYS:

- Credit outlook, pending business acquisitions, board dividend policy and expected funding needs are the primary drivers for refinancings.
- When selecting an administrative agent, the goal should be to develop a long-term relationship so that there is good institutional knowledge of your business and needs.
- Be inclusive in the refinancing process; first ensure senior management's buy in, but then involve internal functional groups early.



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A number of factors drive a company's decision to discuss refinancing its credit facility, including pending maturity dates and changes in interest rates. With interest rates on the rise, what other considerations are important to CFOs, treasurers and cash management professionals and how do they manage the refinancing process as it unfolds?

Lawyers, especially outside counsel, are not often privy to early conversations about refinancings. So I recently sat down with Frasier Brickhouse, II, treasurer of Tredegar Corporation; Jeff Fender, treasurer of Performance Food Group, Inc.; Candace Formacek, treasurer of Universal Corporation; Pete Graham and Neal Petrovich, CFO and Senior Vice President of Finance of PRA Group; Jonathan Leon, treasurer of Owens & Minor, Inc.; and Cameron Warner, treasurer of NewMarket Corporation; for an insider's view on how companies approach the refinancing process and the insights a trusted banking partner should provide. Because the roundtable participants are speaking based on their own experiences, both with their current companies and with prior employers, I have not attributed any answer to an individual.

1 An upcoming maturity date is undoubtedly a big factor that drives refinancings. What would you say is the next most important consideration?

Other than M&A or other strategic drivers, I would say potential for change in credit conditions or credit outlook—either for the banking market or the company itself. If the company is approaching a strategic cycle that requires more certainty of lending, then it can be helpful to get in front of that. Similar drivers may lead to an “amend and extend” approach—often to simply push out the window of liquidity access certainty—sort of a hedge against unforeseen circumstances.

A refinancing may also be driven by upcoming changes in the regulatory environment that could change a bank's lending strategy. Another primary consideration is timing needed to maximize achievement of an optimal capital structure, especially for infrequent issuers looking to combine or change levels or form of debt/equity that may require different issuance size.

2 How much of a move in interest rates piques your interest and leads you to begin thinking about weighing the costs and benefits of refinancing?

While it is difficult to pin it on an absolute number, it is easy to keep a calculation of “breakeven” for rates, fees and other hard costs. But there is always an element of uncertainty when launching a refinancing that requires judgment based on the likelihood of success and access to the current market, which ebbs and flows. Of course, for frequent or strong credit issuers, this may be much easier to estimate. There is also the matter of timing—specifically, whether the refinancing fits with other maturities, payoffs and issuances planned in the capital structure.

We look at the overall trend in interest rates and the global factors related to those movements. In the current interest rate environment, I would say that an actual or expected change of 50 basis points over our planning horizon would pique my interest.

For those of us that have consistently used bank financing for working capital purposes, there may be a need to occasionally “term out” bank debt, especially if a meaningful increase in the size of the revolving bank facility is not available or desired (or I have simply targeted how much bank debt I’m willing to have before terming out).

3 In your experience, what other events or business drivers have spurred refinancing conversations?

Pending business acquisitions, board dividend policy and expected funding needs are the primary drivers for refinancings. Improved credit quality permits improved terms, such as covenant, capital expenditure and acquisition flexibility, and may also spur refinancing talks. And certainty of longer facility maturity dates is key, should there be concerns of a bank market dislocation.

For those of us that have consistently used bank financing for working capital purposes, there may be a need to occasionally “term out” bank debt, especially if a meaningful increase in the size of the revolving bank facility is not available or desired (or I have simply targeted how much bank debt I’m willing to have before terming out).

4 Do you typically approach your current administrative agent and key relationship banks with a refinancing wish list or proposed business term sheet?

Normally, I will have tested the current markets with a few key banks so that I have some idea of what to expect, and can then start a specific conversation with the banks to vet my expectations on desired terms and pricing.

I keep a file of key aspects of deals of peers of similar credit quality that are of interest and make sure that, if there are terms in a peer’s deal that are attractive, I include it in early conversations with the arrangers. Also, we research potentially contentious points in an effort to find precedents where the agent or a large portion of the bank group have given such issues to others. This can be a lot of work, but has proven very effective.

5 How do you size a facility and determine the allocation between committed amount and accordion? Are there factors you would cite as important considerations in addition to the cost of undrawn line fees?

For us, the sizing is mainly about a match with our business strategy. I need enough to fund global operations and potential working capital. That can vary with currency and product pricing, so I am willing to pay for some cushion. Accordions are a good feature to have as they offer flexibility to expand without a full refinancing, but they are not a sure thing. Because we cannot offer a lot of ancillary business for our bank group, undrawn line fees help keep the relationship attractive to our lenders.

6 What factors do you consider and weigh most heavily in selecting an administrative agent/lead lenders for a refinancing?

We like to develop long-term relationships so that there is good institutional knowledge of our business and needs. For example, we have a few atypical definitions in the credit agreement that are understood and supported by the credit side of the lead bank. For us, the top banks need to be international and offer access to strong internal resources with expertise and knowledge in a variety of financial markets. They also should be able to attract other banks to participate in the group.

I like to have enough lead lenders so there is some competition among them, but not so many that ancillary business is spread thin and not interesting to them. The administrative agent needs to have reliable back office support, but generally any of the “majors” can do this. The administrative agent role is mainly earned through a combination of relationship and larger commitment dollars.

7 In addition to guidance on market conditions and terms, what do you expect your administrative agent and lead lenders to bring to the table?

For us, the lead banks should understand our business model and credit drivers and play a key role in helping the rest of the bank group to understand them. They should also bring access to quality teams supporting other ancillary requirements—such as FX and interest rate derivatives and trade finance.

8 Do you expect your key banking relationships to stay current on your competitors' credit facilities or otherwise have a sense of what "market" is in your industry? Is that something you track, to the extent that information is publicly available?

I expect periodic updates of what is market, but it all comes down to conditions at the time of the final negotiation. I try to get market updates from as many sources as possible to form my own view before that time comes, and also to keep executive and board members aware of the direction of the market so there will be no surprises if the refinancing terms look different than what we discussed.

9 Talk to me about putting a bank group together—what considerations are at play in awarding titles, invitation amounts and allocations?

There must be an adequate complement of banks that meet the company's future needs. For example, if there is an upcoming move into a new region of the world, we ensure that the bank group includes providers that give the company options when procuring services and possibly borrowing in that part of the world.

Consistency in a bank's willingness to use its balance sheet is also critical. It becomes quickly known among treasurers if a lender is becoming fickle with its balance sheet and there is evidence of a bank exiting deals. I always have a bench ready to backfill those lenders I am not confident will step up and commit at the invite level.

10 Does your need for treasury management services in foreign countries weigh in the balance of deciding which banks will be invited to participate in a new deal?

Having a limited set of strong global banks to support foreign local accounts or uncommitted lines is one way to support ancillary business needs and to streamline new account KYC, and compliance requirements. We cannot, however, compromise local service requirements by insisting on using only banks in our group because sometimes our needs exceed our bank group's jurisdictional reach and capabilities.

11 When and how do you involve your in-house and outside legal teams in a refinancing?

We generally want to keep counsel apprised of potential transactions within the next six to 12 months, but focused work happens closer to the refinancing kickoff. It is always good to allow enough time to review your current credit agreements with counsel ahead of the bank discussions to get their take on current market conditions and to highlight particular baskets or covenants that may be desirable to renegotiate.

12 What is some advice you would give to a colleague about managing the refinancing process?

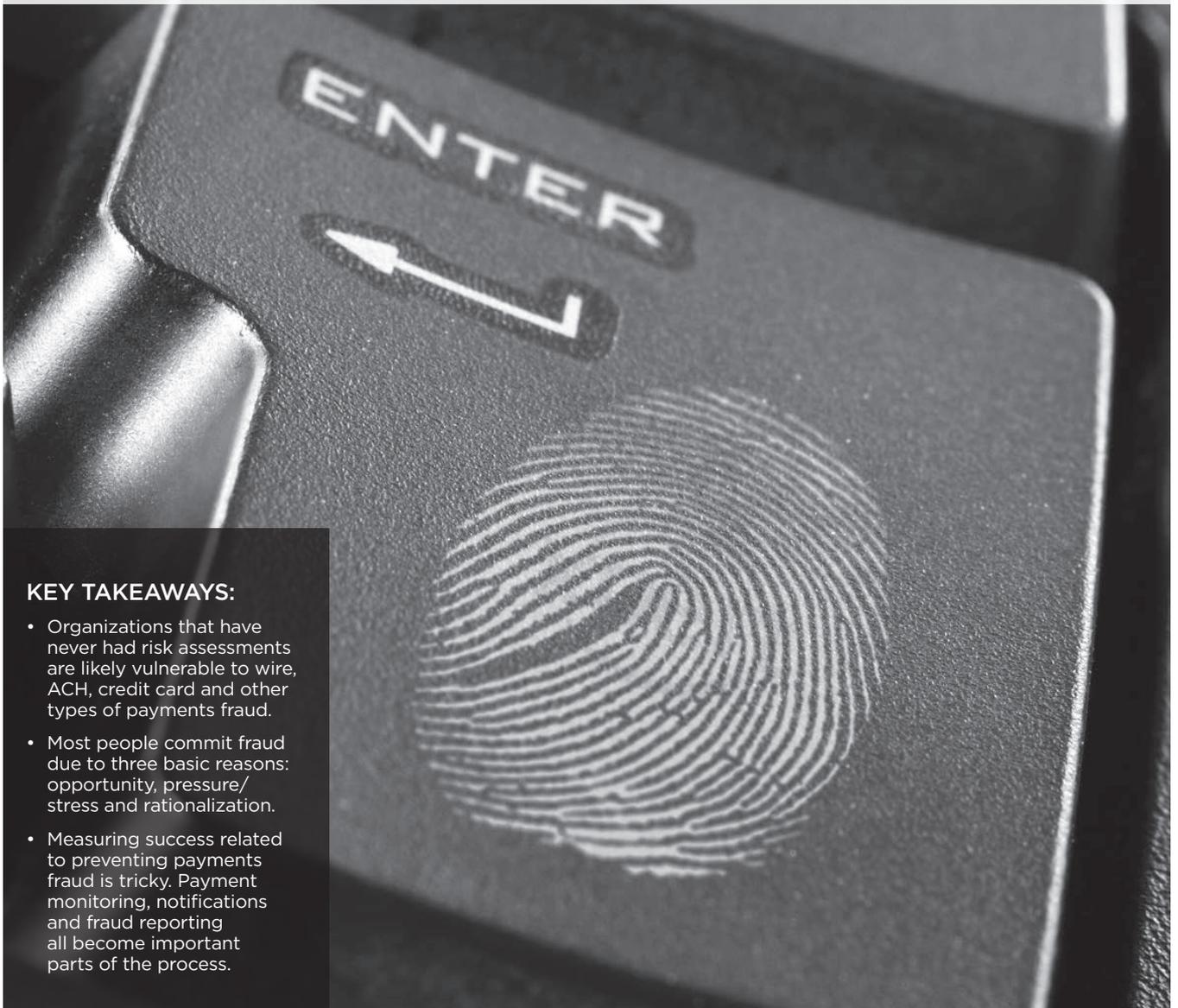
Be inclusive in the refinancing process; first ensure senior management's buy in, but then involve internal functional groups early. Engage outside counsel on the front end of the process to share strategies and obtain insights on credit agreement trends. Also, before you execute commitment documents, socialize your "asks" with major lenders in your group to obtain input on what is possible and gauge their level of support.

I always recommend independently watching the market and leafing through specific deals within your credit quality bans, whether you are close to entering the market or not. It is very easy to screen for relevant deals on Bloomberg, watch for activity at selected peers or ask a bank partner for a screening—although the later may bring with it an undesired conversation.

Kimberly MacLeod is a partner with Hunton & Williams LLP.

KNOW your FOES

Building an atmosphere of fraud prevention



KEY TAKEAWAYS:

- Organizations that have never had risk assessments are likely vulnerable to wire, ACH, credit card and other types of payments fraud.
- Most people commit fraud due to three basic reasons: opportunity, pressure/stress and rationalization.
- Measuring success related to preventing payments fraud is tricky. Payment monitoring, notifications and fraud reporting all become important parts of the process.



One doesn't need to look hard to find recent news of cyberattacks on what is hoped to be secure and private data. Just since last year, data breaches and attacks making headlines include Equifax, Yahoo, Uber, Whole Foods, Sonic Verizon, Kmart, Gmail, and many others. If we were to look at the entire list of organizations for which breaches occurred, that list would include all organization types, small and large. Now more than ever, it is critical to secure and protect your organization's customer data as well as your organization's own data— especially anything financial, such as credit card numbers, social security numbers, online account and personal computer access information, and most critically, bank account and electronic payment information.

In order to address electronic payments fraud, companies must build an atmosphere of fraud prevention. It must be a team effort, involving payment and non-payment areas alike. No one can predict which angle, soft spot, or individual will be the vulnerable area breached.

Risk assessment

The first step is to conduct a risk assessment of the entire organization. That may seem like a lot of work, but if a risk assessment has never been completed, your company is likely vulnerable to wire, ACH, credit card and other types of payments fraud. This analysis must include assessing operational, technical and organizational risks that are both external and internal. Once identified, these risks must be minimized, if not eliminated. External fraud occurs when a fraud attempt comes from outside the organization; internal fraud involves the attempted act being carried out by an employee or a consultant.

Beyond simply understanding why fraud is committed, it's up to you to orchestrate the “who, what, where, when and how” of this companywide risk assessment. Both internal and external fraudsters find backdoors to payment areas. Therefore, anyone outside of the operational area responsible for initiating and or approving payments (electronic, paper check, and other formats) should be included. For example, if there's a weak link in your procurement, warehouse or your sales department, that can be an exploitable vulnerability.

Staff members in just about every department must be aware of what the risks are. Tap into their expertise and their team spirit. Allow them to buy into the companywide culture of fraud prevention.

The “Why”

The reason why most people commit fraud can be broken down to three basic reasons.

1. **Opportunity:** Ineffective or nonexistent internal and security controls/firewalls provides fraudsters with opportunities.
2. **Pressure/stress:** Employee personal financial problems along with unattainable performance goals can quickly led to unethical and illegal behaviors.
3. **Rationalization:** Fraudsters seek personal gains and find justification for their intentional acts (e.g., employees feel unfair compensation accompanied with a company's profitability and success or simply the need to “teach” a company a lesson for not addressing inadequate or antiquated controls).

The “Who”

Look at management and staff—both the quantity of members and the quality of each member. Put together possible and actual bios and assess their backgrounds; there could be some team members at various levels of the organization with security and/or fraud-related experience that can be drawn upon later. There may be some sinister types, also.

Match the level of experience necessary against what is available, and identify gaps as a risk. Review your bench strength— those individuals in neighboring departments, contractors, and vendors' staffs that can be called upon in a pinch. This need may only occur during time of peak staffing levels, or in typical vacation and holiday time periods when the first team is out.

The “What”

Gather every payment and payment related risk assessment, audit, and examination that has been completed in recent years. It will give you a history of what is in place versus what needs to be. Organization charts are more revealing than meets the eye—especially staff with “payments,” “electronic,” “business” and the like in their titles. Determine what role they play in the ACH and wire transfer process—and whether they should continue to play that role.

Another vital part is transaction volumes over time—do they fluctuate, is there seasonality, are they steadily increasing in volume or dollar amount? Patterns can be identified easily by algorithms, time-studies, or regression analysis. Build parameters into these, and plan on human reviews of anomalies.

The “Where”

Draw a flowchart of “a day in the life” of an ACH item, a wire transfer, a physical corporate credit cards or even a paper check. Where does its journey begin and end, and who touches it? Here’s where dual approval takes place—one person/system to set it up and another person/system to approve/release it. Each step should be independent of the other, with divided responsibilities. This network diagram may uncover holes or weaknesses that were never dreamed of. Why? Because no one could see the big picture; they only knew their own part of the process.

The “When”

Measuring success related to preventing payments fraud is tricky. How do you know you’ve stopped an attack if you never saw it occur before, during or after-the-fact? You may only see the legitimate ACH items or wires that come through and discover the failed attack after the fact. Payment monitoring, notifications and fraud reporting all become important parts of the process. Identify those type of real-time monitors and reports that are vital to decision-making and payment workflow; don’t produce reports for volume’s sake.

Speak with your vendors and ask for their advice—they have seen many more instances of successful and unsuccessful fraud attacks. They

will even help with attacks that are in the making because of precursors that looked legitimate at the start but have tell-tale markers identifying them as bad.

The “How”

All of this work is useless unless the payment process is properly documented with tasks, responsibilities, and owners all tracked in order to measure progress. Use whatever tool(s) you are familiar with as the framework. Microsoft Excel is fine; more sophisticated tools can work if everyone knows how to use them. Work towards the least common denominator. You will find it works best in the long run.

Build a chart with tasks that emanate from the staff assessment. Your data gathering experience will undoubtedly reveal the need for a number of remedial and preventive steps. Build a business process chart for those steps and the individual/personas tasks that will be needed to accomplish them. Assign responsibilities. Include due dates, contact information and backups. The professional backgrounds that you reviewed and assessed previously will help in placing people in the right tasks.

Shaking up the process

While you and your team are deliberating how to work through the process of examining existing payment-related operations and processes, consider if there is an optimal organizational structure that should be combined with process. Ideally, there should be a “payments czar” who oversees the existing process and recommends changes as new payment methods are used by clients. Through this process you will uncover common pitfalls that can help you refine your internal and external policies and procedures. Make sure to complete in-depth examinations of each step in a given payment process to uncover pitfalls and risks. Once a comprehensive policy is established, ongoing training and education across departments will be critical to communicate how to recognize and prevent payments fraud.

Eric Newberg, Senior Product Manager, GTreasury



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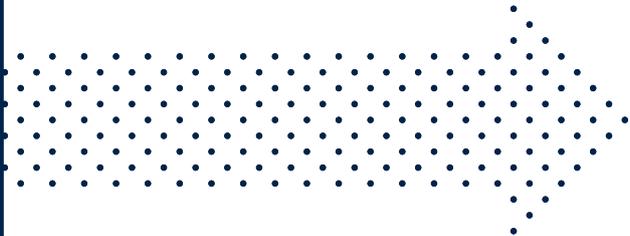
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Treasury and finance professionals enjoyed a lucrative 2017, according to the new *AFP Compensation Survey*

AFP RESEARCH DEPARTMENT

In its ongoing effort to provide members with relevant and accurate information and resources that can support and advance their careers, AFP has produced the *2018 AFP Compensation Survey*. This is the 30th annual edition of the AFP Compensation Report. It provides detailed job description and salary information for 20 different job titles in seven different industries across the four major census regions of the United States. Also included is an examination of the skills and competencies of finance professionals as well as talent and skill gaps that may exist.

Full results of the *2018 AFP Compensation Survey* are available at www.AFPonline.org/compensation.

In February 2018 AFP conducted its 2018 AFP Compensation Survey. More than 3,700 professionals responded. AFP thanks all the respondents who participated in this research.

Salary information

Finance professionals enjoyed a 4.3 percent gain in their base salaries in 2017. Both executive and management-tier professionals garnered an increase of 4.4 percent. Finance professionals in the staff tier earned an average increase of 3.5 percent. Among the executive-tier positions tracked, the CFO garnered the highest average base salary increase of 5.7 percent. Within the management tier, the financial reporting specialist position gained an average salary increase of 6.9 percent—the largest increase for all 20 job titles tracked.

FP&A analysts earned the highest increase within the staff tier (4.0 percent).

Bonuses

In 2017, 71 percent of organizations awarded bonuses to their employees—a slightly smaller share than the 74 percent that granted bonuses in 2016. Of those organizations that did give bonuses to their finance professionals in 2017, 93 percent awarded cash bonuses and 30 percent awarded stock options. Of the three job tiers, executive-tier finance professionals received the largest average bonuses in 2017, both in terms of dollars and as

Figure 1: Average Compensation by Job Title

	2017 BASE	2017 BONUS	2017 TOTAL	2018 BASE	% BASE SALARY INCREASE*
EXECUTIVE TIER					
CFO	\$215,160	\$91,970	\$280,530	\$227,401	5.7%
VP of Finance	\$189,395	\$63,389	\$242,877	\$198,072	4.6%
Treasurer	\$194,908	\$86,294	\$260,588	\$201,777	3.5%
Controller	\$130,182	\$26,130	\$147,934	\$134,489	3.3%
MANAGEMENT TIER					
Director of Treasury/Finance	\$146,428	\$34,975	\$175,199	\$151,879	3.7%
Assistant Treasurer	\$152,930	\$40,386	\$192,232	\$156,732	2.5%
Assistant Controller	\$104,172	\$17,177	\$115,241	\$108,957	4.6%
Manager, Treasury/Finance	\$109,773	\$17,016	\$125,685	\$114,066	3.9%
Director of Risk Management	\$160,740	\$48,313	\$197,932	\$169,624	5.5%
FP&A Director	\$150,604	\$33,618	\$179,750	\$157,923	4.9%
FP&A Manager	\$110,308	\$14,925	\$122,582	\$115,169	4.4%
FP&A Senior Analyst	\$83,330	\$8,510	\$88,643	\$87,411	4.9%
Financial Reporting Specialist	\$75,521	\$9,470	\$82,830	\$80,759	6.9%
Accounting Manager	\$94,351	\$12,477	\$109,263	\$98,389	4.3%
Cash Manager	\$96,378	\$14,526	\$107,152	\$100,429	4.2%
Assistant Cash Manager	\$80,064	\$9,709	\$87,446	\$83,266	4.0%
STAFF TIER					
Senior Accountant	\$70,236	\$6,377	\$76,088	\$72,646	3.4%
FP&A Analyst	\$67,563	\$6,862	\$71,494	\$70,273	4.0%
Accountant II	\$56,867	\$4,486	\$59,400	\$58,644	3.1%
Accountant I	\$48,357	\$3,465	\$49,419	\$49,918	3.2%

*Percentage Base Salary Increase from January 1, 2017 to January 1, 2018

Figure 2: Difference in Average 2017 Base Salaries for Select Job Titles with a CTP

JOB TITLE	AVERAGE DOLLAR DIFFERENCE	AVERAGE % BASE SALARY DIFFERENCE
Assistant Cash Manager	\$11,113	15%
Accounting Manager	\$12,700	14%
Senior Accountant	\$6,904	10%
FP&A Director	\$8,214	5%
Assistant Controller	\$5,602	5%
Director of Risk Management	\$6,228	4%
FP&A Manager	\$3,269	3%

Source: AFP

Figure 3: Difference in Average 2017 Base Salaries for Select Job Titles with a FP&A

JOB TITLE	AVERAGE DOLLAR DIFFERENCE	AVERAGE % BASE SALARY DIFFERENCE
CFO	\$53,450	20%
FP&A Senior Analyst	\$13,810	15%
Cash Manager	\$15,765	14%
Director of Treasury/Finance	\$20,254	12%
VP of Finance	\$23,580	11%
FP&A Manager	\$9,877	8%
FP&A Analyst	\$5,796	8%

a percentage of base salary. The average bonus for executive-tier professionals was \$66,260, or 36 percent of base salary, a 3-percentage point increase from 2016 (\$63,957). The average bonus for management-tier professionals was \$21,228 in 2017—up from \$20,804 in 2016—equivalent to 19 percent of base salary. In 2017, staff-tier bonuses averaged \$5,498 or nine percent of base salary.

Various factors determine the type and amount of a performance bonus. Survey results indicate that in 2017, 62 percent of organizations that awarded bonuses did so based on operating income or EBITDA targets. Forty-eight percent awarded bonuses based on profit or increased profit targets, and 47 percent for completion of specific projects.

Career advancement

A finance professional's potential for promotion is influenced by various factors. The most-often cited criterion for upward mobility is increased job responsibility (cited by 85 percent of respondents). Other factors impacting career advancement include:

- **Contribution to profitability** (cited by 69 percent of respondents)
- **Earning a MBA or other advanced degree** (37 percent)
- **Earning a professional certification such as AFP's Certified Treasury Professional** (24 percent)
- **Earning a CPA license** (23 percent).

Finance professionals who hold a professional certification can claim prestige and credibility in their field. Among the most recognized and respected certifications in the industry are the Certified Treasury Professional (CTP) from AFP, Certified Public Accountant (CPA) and Financial Planning and Analysis (FP&A) designations. For some positions, incumbents who hold certifications tend to have higher salaries than those who do not. The survey data show that Assistant Cash Managers earned, on average, 15 percent more (\$11,113) in 2017 than did their colleagues without the certification. Other titles that benefit from CTP certification include Accounting Manager, Senior Accountant and FP&A Director.

Finance professionals who hold the Financial Planning and Analysis (FP&A) certification provide insights into an organization's financial decision-making process through analysis, financial projections (planning, budgeting and forecasting) and reporting. Those who hold the FP&A certification tend to have higher salaries than those who do not. In 2017, job titles with at least three incumbents holding the FP&A certification earned 16 percent more, on average, than did their peers without the certification. The survey data show incumbents with the following job titles benefit the most from having the FP&A certification compared to their colleagues without the certification: CFO (a difference of \$53,450), Vice President of Finance (\$23,580) and Director of Treasury/Finance (\$20,256).

Skills and competencies

Survey respondents cite a number of business competencies they consider essential in order for finance professionals to be successful in their careers. Over half of survey respondents (54 percent) believe strong analytical skills are a critical competency for finance professionals. Other often-mentioned skills include:

- **Leadership and people management skills** (cited by 37 percent of respondents)
- **Communication skills with internal and external stakeholders** (32 percent)
- **Interpersonal skills with colleagues and vendors** (29 percent)
- **Project management skills** (28 percent).

Even though leadership and other people skills are considered important competencies by finance professionals, both for themselves and their peers, a large share of survey respondents—37 percent—believe that finance professionals at their organizations are lacking these skills. In addition, 33 percent perceive a dearth of strategic and innovative skills among finance professionals at their organizations. Other skills survey respondents believe are wanting in their peers but are key to improving job performance include interpersonal skills (cited by 31 percent of respondents), verbal and oral communication skills (29 percent) and problem-solving skills (26 percent).

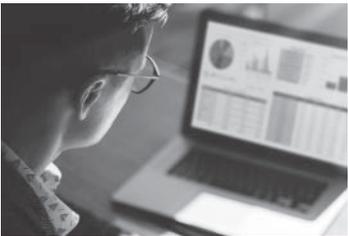
Conclusion

As in previous compensation surveys, results of the *2018 AFP Compensation Survey* continue to reflect the importance of education and professional certification in finance professionals' careers. These factors play critical roles in career advancement and salary earnings potential. Incumbents holding professional certifications such as AFP's Certified Treasury Professional or Financial Planning and Analysis are more likely to gain upward mobility than are their peers who do not hold such certifications. Higher education also continues to play a role in both career advancement and salary earnings. In 2017, finance professionals with a MBA earned nearly 11 percent more (in base salary) than did their counterparts with a bachelor's or high school diploma/associate degree.

Salaries also continue to vary by industry and by region. Finance professionals in the West earned the highest average salary in 2017—\$122,269—slightly more than the average salary in the Northeast (\$122,155). Average salaries ranged from \$105,936 for finance professionals in the Government/Non-profit sector to \$129,176 for those in the Technology Services sector—an 18 percent difference. Large organizations and those with a larger workforce tend to support higher compensation levels, on average.

Finance professionals are cognizant that competencies such as analytical, leadership and people skills are important to have if they want to gain upward mobility in their careers. Thirty-seven percent of survey respondents indicate their peers lack leadership skills, and one-third of respondents reports there are gaps in interpersonal, strategic and innovative skills.

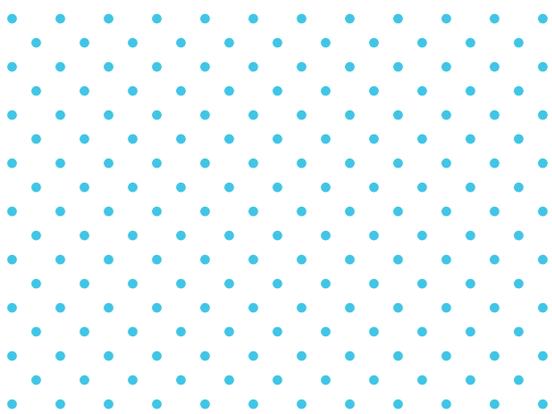
While there are several organizational factors that help determine finance professionals' salaries (industry, size, revenue, location), there are additional factors that play roles in career advancement. The results of the *2018 AFP Compensation Survey* suggest it is worth a finance professional's investment to earn a professional certification or higher degree, since holding those certifications or degrees tends to lead to higher incomes and upward mobility. Additionally, as many finance professionals lack some of the non-analytical skills, but still highly desired, business skills and competencies, they may want to seek the support of their organizations' senior management and Human Resource leaders for training and mentorship in these competencies which will benefit both themselves and their organizations.



AFP ASSOCIATION FOR FINANCIAL PROFESSIONALS

2018 AFP Compensation Report

To download a copy of the survey report visit www.afponline.org/compreport



AFP 2018

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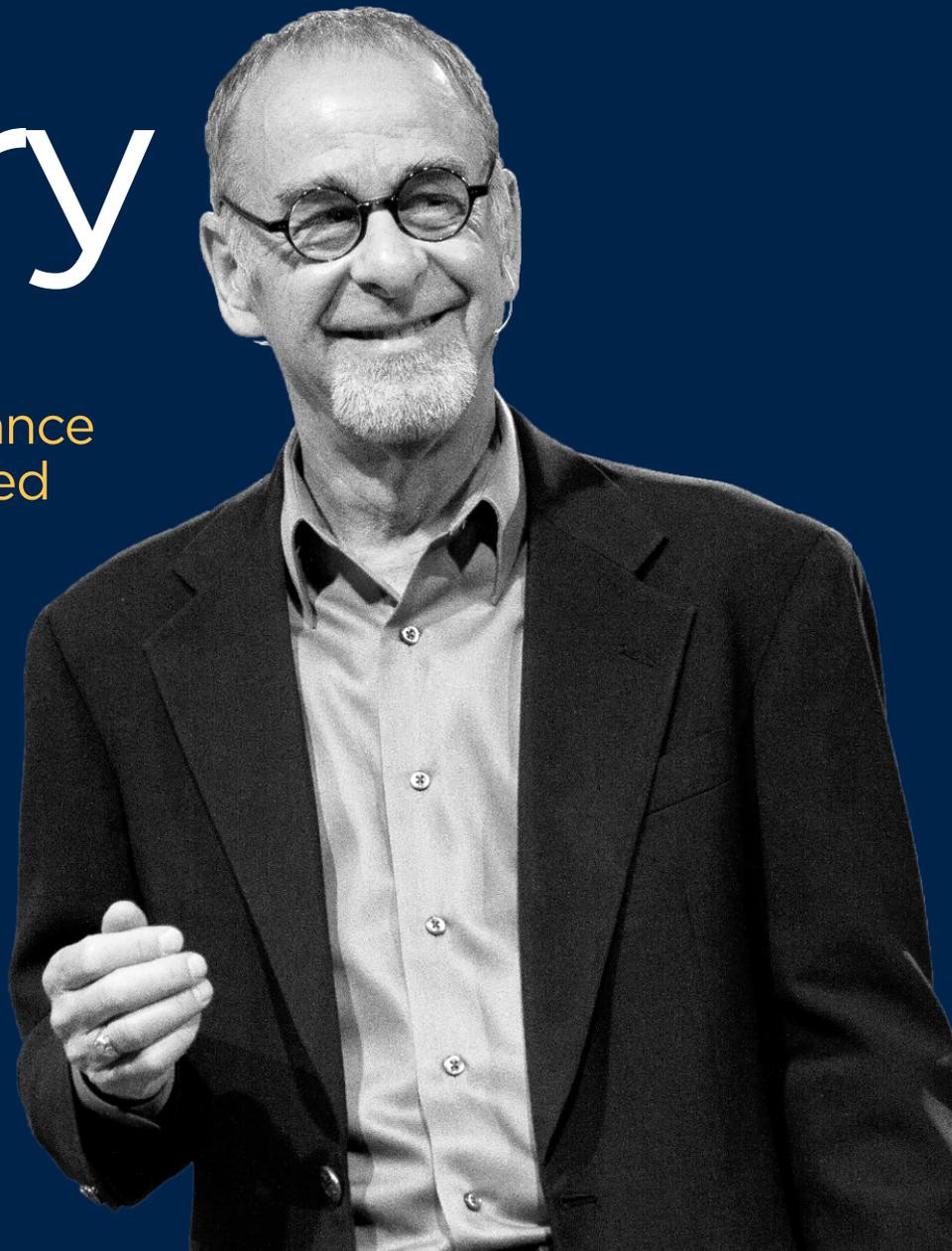
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What's Your Story

Doug Stevenson
explains why
treasury and finance
professionals need
to tell stories

IRA APFEL



So you just gave a big presentation to senior staff. You had reams of data, a beautiful slide deck, and you practiced your speech several times to prepare. And in the end nobody cared. Nobody had any questions. People looked bored. The CEO even yawned. Clearly your audience was not engaged.

What went wrong?

Doug Stevenson thinks you're making a common mistake by not telling a story.

Stevenson is the CEO of Story Theater International and a former actor in Hollywood. As the creator of The Story Theater Method, and a master storyteller and coach, he's taught storytelling to clients at Coca-Cola, Verizon, Deloitte, Google, Microsoft, The Department of Defense, US Bank, NBC, Oracle, Wells Fargo, and many more.

Stevenson will keynote the FP&A Luncheon at AFP 2018, this November in Chicago. You can learn more at www.AFP2018.org. He recently previewed his session on the AFP Conversations podcast.

Here is the lightly edited transcript:

Ira Apfel: Why is storytelling so important for a treasury and finance professional? Isn't it enough to show some data on slides?

Doug Stevenson: Well, the challenge, if you're a financial person and it's all about the numbers, is that numbers themselves are very hard to process. They're challenging, they're very left brain logical linear. But they're not engaging, so in corporate, in an association, in an organization, when you go in to make a presentation, the people sitting in that room are preoccupied. They're busy. And they might've had three or four presentations before you walked into the room, and everybody else did numbers.

Well if you do numbers followed by numbers followed by numbers followed by the next person does numbers, the next person does numbers, pies, graphs, charts and graphs ... Eventually, the bullet points, the numbers, the text on a PowerPoint slide will put people into what I call a "content coma." It has an effect on the brain, the brain starts to get numb. Because it's not easy to continually process left brain stuff.

So if you can walk into a room and you know, "I've got a 90-second little story, it's just a little vignette. It's not some five-minute motivational speaker story, it's just a little story that sets the context." And quite honestly, a lot of the stories that I ask people to tell are not logical and linear to the situation, they're metaphorical. And so you're going to walk

Well, if you're the fourth presenter, they're all going to go, "Oh my God, please tell a story. Do something different."

in and say, "I've got a lot of numbers that I'm going to present here today, you know I came in with numbers, you want the numbers, but what I'd like to do is set the stage for the numbers to create a little context with a 90-second story. Would you give me permission to do 90 seconds of a story to create the context for the content that's going to follow?"

Well, if you're the fourth presenter, they're all going to go, "Oh my God, please tell a story. Do something different." Because they're starting to get numb. I work with corporations all the time where people are going in and everybody's got their five or ten minutes. And the poor Board of Directors or whoever it is, they're sitting there watching 23 people come in, and they're going brain dead. So they want something that stimulates a different brain energy. And stories create the visuals and they create emotional.

Ira Apfel: If I'm going to be reporting the quarterly financials to senior management and I want to tell a 90-second story, do I make something up?

Doug Stevenson: No, you're actually looking for something that has happened in your life that is metaphorical to what we're talking about. So let's say you walk in and you're going to make a presentation, and you know that your need is urgent.

And you're trying to get across to these people the urgency, not just that you need the money or you need the staffing or whatever it is that you're going to present. It's the urgency, that's the message you're trying to get across is urgency. So now you tell a story about going to the airport, the one we just talked about. You tell a story about going to the airport, arriving a little bit late, walking up to the counter, and it's like, "Oh my gosh, there's like 30 people in front of me

in the check-in counter, and half of these people don't know what the hell they're doing. And one person has already been up at the counter for 20 minutes, and I gotta get going, and I gotta move it along." And then finally I get my ticket and I go rushing over and it's like, "Oh my God, even pre-check line has got 40 people in front of me, this is ridiculous." And I'm running out of time.

Now you're telling a story that has nothing to do with treasury or finance. You're telling a story about being in line and having urgency. That story about being in line and trying to get through check-in and getting to your gate and finally getting onto the plane is a metaphor for, "This is important that we get this funding and this staffing now, because we all need to get on the plane and get on board and get going to the next destination, which is achieving our goal for next year."

Now you just told a story that's a metaphor. It had nothing to do with finance, and the minute you start talking about, "I went to the airport to Dulles the other day and had to check in." The minute you start talking about going to the airport in Dulles, they don't know where you're going. Now they're engaged. Now they're intrigued, because it's not logical and linear, you've gone off on a detour. Detours are very, very smart, because they cause the person to have to pay attention to where you're going because they can't figure it out. If you sit down and you walk in and you pop up a PowerPoint deck with a bunch of bullet points, they know exactly where you're going, and it's not very exciting.

Ira Apfel: Do you like being a teacher, particularly to folks who aren't professional speakers? Do you find that a greater challenge and thus more rewarding? Or do you find, and sometimes it's just really tough because these people are really raw material?

Doug Stevenson: I am so glad that it didn't work out for me in Hollywood. I am so fulfilled by the work that I do now, working with just ordinary folks in business who come to work every day wishing they had a competitive advantage. Wishing that there was a different way to do a presentation, because you've seen

people do amazing presentations. You, Ira, have seen people get up there and tell a story, and you've probably sat back and went, "Oh man, I'd love to be able to do that. That was great." Especially if it's well done.

Ira Apfel: What's the one piece of advice you would offer to a treasury and finance professional?

Doug Stevenson: Well, the one thing you need to do is think story. "What am I trying to accomplish in this meeting?" Not just delivering the numbers, you're not just there just to deliver numbers. Well, occasionally you are, but in many instances you're there to engage someone's attention and teach a lesson. Inspire them to action. So think story. "What is the story that I could tell that would illustrate the principle that I am trying to share, and it's also something from my life that would give somebody a window into who I am?"

So, if you're going into a presentation to deliver a bunch of numbers, but you can predicate it with a story about going on vacation to Hawaii, or checking in at Dulles Airport and having a real hassle, or having the greatest meal you've ever had at a restaurant but the service was terrible. Whatever that story is, think story. So the way you think story is, "What am I trying to accomplish? What do I want to get out of this? What is the principle that I'm trying to teach here?" Not just the numbers, the numbers tell you something. The numbers say, "We're doing fine." Or the numbers say, "We're in deep trouble." Or the numbers say, "We need to do this in order to get where we want to go."

The numbers say something. Well, predicate the numbers with the story that's a metaphor for it, and then do the numbers.

Hear Doug Stevenson speak at AFP 2018; www.AFP2018.org

I WANT TO BECOME A...

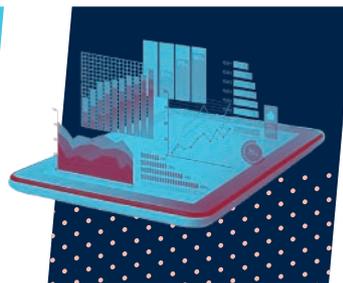
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YOUR MOVE

Four steps treasurers should take in response to tax reform

PAUL DECRANE, CTP AND MARC MONYEK, CTP

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return

For the year Jan. 1–Dec. 31, or other tax year beginning

Your first name and initial _____ Last name _____

If a joint return, spouse's first name and initial _____ Last name _____

Home address (number and street). If you have a P.O. box, see instructions.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below.

Foreign country name _____

TAX REFORM

Filing Status

only one

1 Single

2 Married filing jointly

3 Married

The most significant tax reform in more than 30 years, the Tax Cuts and Jobs Act, was signed into law on December 22, 2017. What role should the corporate treasurer play now that U.S. tax reform is here?

The first initiative of most corporations was to assess the effect of the Act on their near-term earnings to update Wall Street forecasts and change the deferred tax provision on their balance sheets. Following that, treasurers have started identifying the potential benefits of the Act; the impact on their corporation's operating model; and the changes in areas such as financing operations and capital investments.

The Act generally benefits businesses through lower tax rates and by broadening the tax base. It offers temporary investment stimulus and new international tax provisions. The impact of the Act is still evolving, as the U.S. Department of the Treasury and the IRS have begun, and will continue over the coming months, to provide guidance with respect to some of the Act's provisions.

Key provisions of the Act include:

- **Tax rates:** a 21 percent corporate tax rate, 80 percent limitation on net operating losses (NOLs) with no carryback
- **Accelerated depreciation:** a 100-percent bonus depreciation on "qualified property"
- **Interest expense limitation (Section 163j):** Deductibility generally limited to 30 percent of earnings before interest, taxes, depreciation and amortization (EBITDA) until 2022, and 30 percent of earnings before interest and taxes (EBIT) thereafter
- **Anti-hybrid (Section 267A):** Deduction disallowed for certain related-party interest and royalty payments

New international tax system includes:

- **Territorial system:** Tax exemptions on certain repatriated foreign earnings with one-time transition tax
- **Global intangible low-taxed income (GILTI) and foreign-derived intangible income:** 10.5 percent effective rate on GILTI and a lower rate on foreign-derived intangible income
- **Base erosion and anti-abuse tax (BEAT):** Limits the deductibility of certain foreign payments.

Rate reduction and base broadening

The Act's most significant change is the reduction in the corporate income tax rate from 35 percent to 21 percent. While the corporate tax rate has been reduced, there are changes that broaden the tax base and reduce or eliminate deductions. One major item that will affect corporate treasurers is the limitation on interest deductibility under Section 163j to generally 30 percent of EBITDA until 2022, and 30 percent of EBIT from 2022 and onward. This limitation will apply at the consolidated group level and to individual filing subsidiaries. Companies that do not file taxes on a consolidated basis, or exclude certain subsidiaries from a consolidated tax filing, may see higher interest deduction limitations for higher leveraged or loss-making subsidiaries. Other broadening provisions include an 80 percent limitation on NOLs with no carryback and the repeal of the Section 199 domestic production deduction.

The Act also includes temporary measures to expand and stimulate capital investments. Businesses will be able to expense 100 percent of the cost of new investments in the first year for certain qualifying properties until year-end 2022. In addition to an increase in capital expenditures, the provisions are anticipated to create an increased appetite for M&A transactions.

Significant new international tax provisions move the U.S. away from a complete worldwide taxation system to a territorial tax system, generally allowing companies to repatriate certain foreign-sourced earnings without incurring additional U.S. taxes. As a transition measure, the Act imposes a one-time charge on certain deferred foreign earnings, ranging from 15.5 percent for earnings held in the form of liquid assets to 8 percent for earnings held in the form of illiquid assets. A company can elect to pay its tax liability under the one-time transition tax on previously deferred foreign earnings over eight years, but the liability is accounted for at the enactment date.

Other issues companies and corporate treasurers may face are anti-hybrid limitations (Section 267A) on deductions with respect to amounts paid or accrued pursuant to a "hybrid transaction" or by or to a "hybrid entity." This may include certain intercompany interest or royalty payments, which will need to be reviewed subject to the Act. From a treasury

standpoint, refinancing with vanilla, third-party debt may be necessary as intragroup lending may be subject to this rule. Cash flow forecasting may also be affected.

The BEAT provision is a new tax meant to decrease the deductibility of specified base erosion payments. This may include some derivatives, including those used for hedging, and may require changes in cash pooling, particularly physical pools.

GILTI is a new foreign income category with an effective rate of 10.5 percent, representing offshore income that is deemed to exceed a specified return. An assessment of the effect of GILTI also may require changes in intragroup lending and a movement to third-party arrangements.

How should treasurers respond?

Corporate treasurers have new challenges in the wake of the Act. Here are initial steps for the corporate treasurer.

First, quantify the impact.

There are several moving, inter-related parts within the provisions of the Act that corporate treasurers need to consider as they identify and assess the effects of the Act. Creating alignment with key business counterparts, including tax, financial planning and analysis, and strategy operations, will assist in developing an overall corporate strategy. Planning the corporate response may also require trade-offs or business changes in the business plan, which might include dividends, share repurchase or debt restructuring. Other areas that may require restructuring include the corporate structure or hedging programs. Cash management and bank account structures also may need to be changed to support changes in the corporate organization.

Second, plan to repatriate foreign assets.

The Act has broken down some barriers in mobilizing cash from foreign operations, creating an immediate opportunity for many corporate treasurers in multinational companies. Many companies may be able to repatriate foreign earnings that previously were left offshore. Prior to the passage of the Act, U.S. firms amassed more than \$2 trillion of non-repatriated foreign earnings, which now may be available.



U.S. TAX REFORM

With respect to repatriation planning, it is important to consider the effect on global liquidity, including planning for regional operating cash requirements and funding sources. Also, companies need to consider local tax regulations, which may penalize repatriation from certain jurisdictions, and the possible taxation of foreign currency gains.

Third, utilize repatriated assets.

After repatriation opportunities are identified, corporate treasurers may play a key leadership role in developing strategies with corporate and financial management for the use of repatriated assets. This may include distribution of cash to shareholders, changes in the debt structure, planning for increased short-term investments, and changes in employee benefits and bonuses.

Repatriated assets may also be used for increased capex as companies combine the benefits of accelerated depreciation and the availability of cash, and it may lead to an increase in M&A activity as companies use repatriated cash in transactions. Cash flow forecasts will need to be adjusted since the location of cash may change, tax payments may decline, and capital expenditures or M&A activity may increase.

Lastly, re-evaluate your capital structure.

Changes in the deductibility of interest expense in Section 163(j) of the Act may have a significant effect on the capital structure of organizations. Interest deductions may be limited for highly leveraged organizations or highly leveraged groups within an organization. The corporate response to those limitations may include recapitalization of some entities

and the use of other financing vehicles, such as factoring or leasing. The GILTI and BEAT provisions may require changes in cash pooling and hedging, and it also may prompt an increase in third-party lending. Cash-flow forecasting and planning will be affected as these changes are implemented.

Final thoughts

The Act has had a profound impact on corporations and it leaves the corporate treasurer with much to consider. An aligned approach between corporate treasury and key stakeholders, such as tax, financial planning and analysis, operations and corporate strategy, will assist companies in identifying the multifaceted changes and designing an optimized response to those changes for their organization. Overall, the Act will benefit most companies. However, many structural changes still need to be considered and implemented to limit the negative impact of the Act's tax-broadening provisions. The short, mid- and long-term impacts of the Act are still unfolding, creating a unique opportunity for corporate treasurers to play a central role in setting a new strategic direction for key finance issues, including funding, repatriation and investments.

Paul DeCrane, CTP, leads Ernst & Young LLP's Global Treasury Services and Marc Monyek, CTP, is a senior manager in the firm's Global Treasury Services practice within Financial Accounting Advisory Services at Ernst & Young LLP.

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Class in SESSION



How Marsh & McLennan strategically invests in its finance team

IRA APFEL

For Mark McGivney, this was a moment of opportunity.

The chief financial officer of Marsh & McLennan Companies, Inc. (MMC) knew his finance colleagues were well trained, and he had confidence in their abilities. But rapid change in the field of finance—new technology, new risks, and new requirements—meant that more strategic, all-encompassing training would benefit his team.

The Marsh & McLennan finance team was also sensing this opportunity for professional development as well. “There were consistent requests across our organization for more training and development at every level,” McGivney said. “The challenge we faced, though, was how do we train a large organization across the world at an individual level and at scale?”

In response, the MMC Finance Academy was launched at the start of the year. MMC's Finance Academy is a collaborative online learning and development platform that empowers more than 2,300 Marsh & McLennan finance colleagues to enhance their technical skills and leadership competencies. MMC's Finance Academy is powered by Degreed, an education technology platform that enables finance staff to create a learning plan tailored to their needs, undergo the education and training, track their own progress, and share content and insights with one another.

"As a people business, we're committed to making Marsh & McLennan a great place to work for our colleagues, and doing everything we can to equip them to make a difference," McGivney said.

How the Program Works

All 2,300 Marsh & McLennan finance colleagues worldwide can enter the Finance Academy. The platform offers access to high-quality resources and content in the areas of technical skills, business knowledge and soft skills such as improving presentation skills, team management and leadership. "In addition to training and content, we enlisted world-class partners such as the Association for Financial Professionals, who gave us access to their finance-specific content," McGivney said.

MMC's Finance Academy also introduced curated collections of content, called Pathways, which focus on specific areas of knowledge. For example, colleagues interested in learning about the controllership function can enter the controllership Pathway and access materials in different topic areas for this role. "We made Pathways accessible to the entire finance organization to make it easy for colleagues to enhance their existing knowledge or learn a skill in a new area," said McGivney.

The ultimate goal of MMC's Finance Academy is to create real-world, usable development plans tailored for every colleague in Marsh &

"There were consistent requests across our organization for more training and development at every level. The challenge we faced, though, was how do we train a large organization across the world at an individual level and at scale?"

McLennan's finance organization. "In the past, a colleague would have a conversation with their manager and identify areas to improve upon, but then have few resources or follow-ups to support addressing these areas," McGivney said.

Things are different this year. McGivney set a formal goal for all finance colleagues to hold a conversation with their direct manager and document a minimum of 12 hours of learning in the Degreed platform. "We're also rolling out Skill Plans, which enable colleagues and their managers to assess their strength in particular skills," he said. "Having access to this data is invaluable. It tells us what gaps currently exist across our finance organization, and what areas we should focus on for future development and talent acquisition."

Next year Marsh & McLennan will require individual development plans in the Finance Academy platform for every colleague. "We can then hold colleagues and their managers accountable for making progress against them," McGivney said. "Ultimately, responsibility for development rests as much with the individual as it does the organization."



Flexible, Dynamic, Training

The power of a platform like MMC's Finance Academy is the fact that it is so flexible and dynamic, McGivney said, "It will live and evolve as our organization changes and requirements of our colleagues change. We will constantly be adding and adjusting content, Pathways, or education requirements that meet what we view as requirements in a certain area."

McGivney believes digital literacy will likely be one new requirement. "Like many professions and industries, we're seeing technological advancements in natural language processing, robotics, blockchain and artificial intelligence—to list just a few—that have the potential to significantly impact businesses and the finance function," he said. "We view these technological advancements as an augmentation of the opportunity we have to enhance the value the finance function delivers to the organization."

To foster digital literacy, Marsh & McLennan's Global Risk Center is partnering with AFP, on its MindShift educational initiative that helps finance professionals navigate the rapid pace of disruptive technology and the future of work. AFP MindShift applies knowledge from innovators and other experts to create practical, transformational applications of distributed ledger technology, robotic process automation, artificial intelligence and machine learning to help finance professionals overcome

challenges and capitalize on opportunities. "Through this collaboration, AFP will help educate and prepare our finance colleagues for the technologies that are—or will be—affecting the finance function and how they contribute to the strategic success of Marsh & McLennan," McGivney said.

MMC's Finance Academy is using several other AFP certification and training offerings. Eighty-five finance staff are studying to pass AFP's two certification programs—one for FP&A professionals and one for treasury professionals. Meanwhile, Marsh & McLennan finance colleagues can take several online, on-demand AFP courses: FP&A Essentials, Painting with Numbers, Financial Analysis—Critical Thinking and Decision Making, and Financial Modeling. "AFP has been a tremendous partner through its educational offerings," McGivney said. "Whether it's MindShift, the certifications or online training, our colleagues will greatly benefit."

Closing Advice

The MMC Finance Academy is a substantial investment in Marsh & McLennan's finance team—and McGivney encourages other organizations to consider similar strategic development efforts for three reasons:

- **Status quo is a myth.** "If you're not growing and developing, you're eroding. Investing in your people is one of the soundest investments you can make—everyone wants to contribute, everyone wants to do well."
- For an initiative like the Finance Academy, **you need to have a long-term vision.** "Where do you want your finance organization to be in two years? Five years? Ten years?"
- **Most importantly, though, just do it.** "Long-term vision and commitment are important, but get to market with something 80 percent complete within one year as opposed to waiting two or three years for the perfect answer. A platform like Finance Academy will evolve constantly, so start somewhere sooner rather than later."

McGivney believes it all comes down to this: Creative people want to work with other smart creative people. "They want to do work that matters. And they want the opportunity to make a difference. They also want to be with a successful organization that offers the opportunity for growth. If you can offer these things, you become a talent magnet," he said. "We are fortunate at Marsh & McLennan Companies to be able to offer all of this and more."



IRA KAWALLER

THE NET EFFECT

Considering net investment hedges

Firms that have net investments in foreign operations generally bear a foreign exchange exposure. In these cases, however, rather than showing up in reported earnings, net investment value changes are reflected in the cumulative translation account (CTA), which is a component of stock holders' equity.

The qualifier above ("generally") reflects the fact that many such net investments are financed with debt issued with the same currency denomination as the net investment. And in the special case when the net investment project is completely financed with debt of the same currency denomination, the respective currency exposures for the net investment and the debt would fully offset. However, the default accounting treatment may obscure this economic reality because the two offsetting currency effects post to different line items in financial statements. That is, net investment changes go to CTA, while the re-measurement effects on the debt are posted to current income.

This default treatment notwithstanding, accounting guidance provides an override by allowing the debt to be designated as a hedge of the net investment. With this designation, the gain or loss due to re-measurement of the debt is recorded in the cumulative translation account in other comprehensive income, i.e., the same line item that applies to the gain or loss on the net investment, rather than current earnings.

Of course, it's unlikely that many companies *fully* fund their net investments, such that at least some residual economic exposure would likely remain. In those cases, it's reasonable to reassess whether it makes sense to mitigate the currency risk inherent in this residual exposure on an ongoing basis. A derivative instrument of some type could serve as the preferred hedging vehicle, but which derivative?

Accounting treatments

One consideration underlying this decision is the accounting treatment. Specifically, if the net investment were to be hedged, it would seem preferable to report the gains or losses of the hedging derivative in the CTA account, just like the treatment permissible for debt designated as a hedge. This treatment arises if and when hedge accounting is applied. Qualifying for this treatment, however, requires satisfying a variety of prerequisites, including appropriately documenting the hedge relationship and satisfying effectiveness assessments.

Generally, any derivative that can be expected to be “highly effective” in offsetting the change in the value of the net investment due to currency exchange rate movements will qualify for hedge accounting. Futures, forwards, and options fall into this category—with some semantic gymnastics required in the hedge documentation. The potential difficulty arises because such instruments generate gains or losses from changes in either forward points (for futures or forwards) or option time values (for options, caps, floors or collars), having nothing to do with the value changes of the net investments. Thus, some component of the hedging derivatives' results could foster seemingly disqualifying results. However, the accounting rules allow us to evaluate the offsets independent of these forward point or time value effects, thus allowing us to view the hedge results as being “perfect,” as long as the currency underlying the derivative is identical to the currency of the net investment being hedged. This election to exclude forward points or option time values from the hedge effectiveness assessment must be explicitly stated in the hedge documentation.

Besides futures, forwards, and options, the accounting rules specifically sanction the use of certain cross-currency interest rate swaps as acceptable hedging derivatives, as well. Cross-currency interest rate swaps typically serve to transform a financial instrument denominated in one currency to a synthetic instrument having a different currency denomination. For example, a company might start with fixed rate debt denominated in US dollars (USD), but by entering into a cross-currency interest rate swap, they could synthetically replicate the cash flows of debt in an alternative currency—either fixed or floating.

To qualify for hedge accounting, these cross-currency interest rate swaps would need to have standard features—interest rates pertaining to the respective currencies of the swap, with common accrual periods and payment dates on both legs of the swap. Additionally, the accounting prerequisites for applying hedge accounting specifically require the intended cross-currency interest rate swap to convert from fixed-to-fixed interest rate settlements or floating-to-floating interest rate settlements, i.e., fixed-to-floating, or vice versa would not be eligible for hedge accounting. Moreover, the notional amounts of these swaps would have to correspond to the notional value of the net investment being hedged. (See ASC 815-20-25-67 and 815-20-25-69.)





Despite the allowance to apply hedge accounting to these types of cross-currency interest rate swaps, economically, the rationale for using such derivatives seems dubious. These contracts generate periodic cash flows that foster earnings impacts that are unrelated to the currency exposures of the net investment. That is, whether fixed-to-fixed or floating-to-floating, at least some portion of the cross-currency interest rate swaps' gain or loss will derive from variability of functional currency interest rates, and these value changes would be wholly independent of any net investment value changes.

Given this independence, demonstrating that a cross-currency interest rate swap will reliably offset changes in the value of the net investment is, to say the least, problematic. Presumably, the explicit authorization for using these types of contracts as hedging derivatives supersedes any concerns about hedge effectiveness—until it doesn't. Auditors have clearly accepted these contracts as allowable hedging derivatives, but it's not clear that this determination will be able to stand up to scrutiny, over time.

Challenging a rationale

This article wouldn't be complete without challenging a fairly common rationale held by many companies for not

hedging net investment exposures. That is, many companies that have no intention of liquidating their net investments in foreign operations or repatriating those funds often chronically leave this exposure unhedged as a matter of company policy. This stance is often justified by (a) the fact that the currency effect is not reflected on the income statement, and (b) management's sense that currency exchange rates will likely fluctuate such that, over the long run, these gains and losses will tend to even out.

The argument in favor of hedging is that, even though the effect isn't reflected in reported income, it is a bona fide economic exposure. And it would seem categorically indefensible to ignore these exposures under any and all circumstances. Clearly, some situations will arise from time to time where it would be a prudent business decision to mitigate this economic risk, based on a serious assessment as to the prospects of an adverse exchange rate move, as well as the pricing of possible hedging derivatives.

It's also appropriate to challenge the second assumption. Secular trends do develop, and when they do, unhedged net investments would either result in a windfall gain or a windfall loss, depending on the direction of the exchange rate move. The presumption that exchange rates can be expected to revert to the mean has myriad counter examples in history.

Still, prospective hedgers need to appreciate that, with the imposition of a derivatives hedge, the firm faces an asymmetry with respect to cash requirements.

While there may be an expectation that the hedging derivative will serve to offset the gain or loss that arises on the net investment, one side of this hedge relationship has to be monetized while the other does not. It's easier to digest a loss on the net investment and a win on the derivative, but it could be painful if currency exchange rates moved in the other direction. That is if you win on the net investment, you'll need to scrape up the cash to settle on the losing derivative. This consideration could easily serve to impose some limits on the amount of the net investment exposure that the firm might seek to address; but the idea that net investment exposures should forever and always remain unhedged seems irresponsible.

At some point, hedging at least some portion of a net investment will inevitably be the prudent action to take, but you have to be paying attention.

Ira Kawaller is managing director at HedgeStar.

Breaking Through

How treasury can manage change

ANDREW DEICHLER

In an effort to respond to the ever-changing and increasingly complex world of corporate treasury and finance, AFP refreshed the Executive Forum this year. Now known as BreakThrough Treasury and Finance, the event, held in Nashville in May, focused on some of the biggest innovations happening in this space.

AFP recently spoke with John Josten, CTP, assistant treasurer, Tractor Supply Company, whose session at the event centered on how treasury and finance leaders can manage change efforts. Doing so effectively will have a positive effect on the organization's ability to drive growth and survive disruption.



AFP: One of the only constants in treasury and finance these days is change. Can you share some of your experience in managing change at Tractor Supply Company?

John Josten: Some of the bigger changes we've been going into seem to hit from different angles, especially on the treasury side. Bank branches have been closing, so we've had to look at the physical procedures around cash handling. Then we've got the regulatory issues that are seemingly constant. And at least for us, we consider any change that comes from the major credit card brands as a regulation.

The other side is technology. Every year, the IT folks are coming up with different ways to do things. Most of those are better, but they're a little

bit more challenging. But I have to say that, for the most part, we've handled every change of a material size through technology. It does really seem to be that, in order to move better, faster and cheaper, we need to investigate and find the best technology. Technology just seems to be the overarching answer when it comes to responding to change.

AFP: Can you elaborate on some of the technologies you've implemented?

Josten: When it comes down to fees, we've been getting the most bang for our buck by moving to least cost routing on debit cards. That has really shown us some strong returns. We're even at the point where we're

beginning to negotiate contracts with the various debit networks, depending on what volumes of business we think we can give them and what discounts they're willing to give back. So that's a huge win for us.

I think probably the biggest change that we've been dealing with recently is the change to EMV chip cards. That was a multiyear process for us. It was a combination of hardware in our stores, plus an awful lot of software, and a lot of analysis of every type of transaction that would be going through the cash registers to make sure that we had the right answers in place.

AFP: Was the EMV transition difficult in terms of training your employees? And how about your customers?



Was there a learning curve for them as well?

Josten: Yes, there were definitely customers who needed to be trained, because every retailer did their EMV transition a little bit differently. Fortunately, we were a little later to the market on it than we were supposed to be; we missed the original deadline. But that gave us a hand-up because the huge retailers had already started to train their customers.

But yes, making sure people understood which buttons they were supposed to push and which ones they weren't—that's both on the cashier side and the customer side. Sometimes there were issues in which a customer was trying to pay by Visa but Visa International would show up on the

screen and they had no idea what they were looking at.

But we knew how big this was going to be and we assembled a really good, solid, cross-functional team that was able to address this from all sides. We all knew that there was no question; this was a change that was coming, and we had to address it as quickly and completely as we could. That's the case more often than not; when we're addressing change in this day and age, there's no choice. There's rarely the ability to decide whether you want to do it.

AFP: There have been some retailers, particularly in the fast food sector, that have opted not to transition to EMV because their

fraud levels were so low. Was that ever a consideration for you?

Josten: I've had conversations with a lot of the fast food folks, and they have a point; no one is going to compromise their cash registers to steal \$20 worth of lunch. But we have far too many high-priced ticket items that we had to make the change. And I've had some conversations with the card brands and they've admitted that fraud has been rolling downhill. When the giant retailers all implemented EMV, then the fraud immediately went to the second tier stores, and then the third tier.

It's unfortunate, but you don't have to run faster than the fraudsters—you just have to run faster than your competitors. So the quicker we could get EMV up and running in our stores, the more protected we were going to be. We saw a huge upswing in fraud after the other guys got EMV in place.

AFP: Thinking a little broader now, what are some tactics that treasury executives can apply when their teams are trying to manage change that's coming frequently?

Josten: I think keeping up to date with what is going on is one of your only chances of getting ahead of it. At the risk of sounding like a commercial for AFP, one of the best ways we've found has been making sure everyone on our team is a CTP and that they maintain their CPE credits. The conferences are a phenomenal place to either learn about what is going on, or at least get that introductory course in what it's going to take to keep up to date on what's facing us all. There has to be a way to learn what is coming at you, and for us, the AFP Conference has been the best place to make sure that we can see ahead.

BreakThrough Treasury and Finance was sponsored by Bank of America Merrill Lynch.

On the RISE

New regulations will
impact loan pricing

JOHN HINTZE

A new accounting standard that dramatically changes the way banks account for loan losses is very likely to impact the type of loan products they offer corporate customers and their pricing.

The Financial Accounting Standards Board's Current Expected Credit Loss (CECL) standard takes effect Dec. 15, 2019, and introduces a new model for the recognition and measurement of credit losses for loans and debt securities. It requires banks to calculate upfront the expected losses over the life of their loans and set aside appropriate reserves, instead of today's incurred loss model, in which banks increase reserves typically when loans start to show signs of stress.

"What that means is that bank reserves will have to cover a much longer period than what they do today," said Nathan Stovall, senior research analyst at S&P Global Market Intelligence. "So we think that almost regardless of a bank's credit outlook, its reserves are going to go up."

That suggests CECL will have at least a mild upward impact on the pricing of corporate loans across the board. In fact, 36 percent of banks in a May 1 survey by software analytics company SAS said CECL has already affected loan pricing, and 64 percent reported that it will affect pricing once the accounting takes effect. Similarly, 38 percent said it has already affected their mix of products, while 58 percent said that it will.

The biggest impact

The impact on pricing and product mix will be more significant on longer maturity loans, given their greater risk.

“Longer-termed products and loans and those with lower credit quality will have more volatility, and so require greater reserves and more capital,” said Michael Gullette, senior vice president, accounting and financial management at the American Bankers Association. “That use of capital will need to be priced in.”

S&P’s Stovall noted that longer-maturity loans, such as those supporting commercial real estate will probably be impacted more than commercial and industrial (C&I) loans, which, based on Federal Reserve data, have an average duration of just over 18 months—not much longer than the 12 months banks currently consider.

“If I’m a corporate credit, that change will likely not be nearly as dramatic than if I’m a real estate credit, or other credit with long-dated debt,” Stovall said.

However, under certain scenarios, CECL’s impact on loan pricing and product mix could be much greater, and corporate borrowers would be wise to discuss with their bank lenders how their companies could be impacted.

Downturn effect

Most economic forecasts put an economic downturn a year or two after 2020, by which time banks will have digested CECL. However, an earlier downturn, when banks are still adjusting their loan portfolios and capital levels to meet CECL’s new demands, could result in them dramatically increasing their reserves. That would bite into their capital, potentially increasing loan pricing to make up for it.

“If we see the cycle bottoming out by 2020, as banks are implementing CECL, they would have to reserve not only the losses they see today but also go beyond that—something that doesn’t occur now,” Stovall said. “As banks try to recoup from that hit, then loan prices could jump even higher, or at least there’s a risk of that.”

After nearly 10 years of economic expansion, banks’ reserve levels are relatively low. As they implement CECL, they will have to choose between optimistic forecasts that justify lower reserve levels, enabling more capital to be

devoted to lending and increasing their competitiveness, or strengthening their reserve allowances now to mitigate sudden increases later. Economic forecasts have historically predicted downturns well after they’ve started, making the former more likely.

“It could result in systemic risk if all banks are very optimistic [regarding reserve allowances], since it would result in an environment that is more volatile when the forecasts change than what current accounting would bring on,” Gullette said. “In fact, certain banks are beginning to see that had CECL been in effect before the 2008 crisis, it would have resulted in worse “too little too late” [in terms of reserve allowances] and greater volatility.”

Gullette noted that the risk CECL poses for especially lower credit quality borrowers may not be too different from now, since for them a tough economic environment typically means a challenging credit environment anyway. In such an environment, banks tend to flock to stronger credits. However, higher quality borrowers may be in for a surprise, since CECL’s requirement to reserve upfront for loans lifetime loss estimates means banks’ “day 1 hit” on capital will worsen, and it will take longer to recover from it.

“Since CECL is more punitive, banks will have almost no incentive to issue loans in the middle of a bad economy, unless there’s compelling evidence that the economy has in fact turned,” Gullette said.

Relationships matter

Besides asking banks for their reserve-allowance outlooks, and what that could mean should the economy turn sour, corporate borrowers may also want to query about how their overall relationships with lenders could play a role if CECL puts pressure on loan prices.

Stovall noted that large banks tend to have tighter margins on the loans they provide, in part because they also charge fees for a variety of products they offer borrowers, such as treasury management systems or cash-pooling structures. That could work in borrowers’ favor, since banks would be reluctant to jeopardize those broader relationships by significantly increasing loan pricing. Even so, he said, corporates would be wise to actively remind their banks of that relationship and ask questions about where the bank stands with respect to CECL.

“What will this do to the bank’s balance sheet, and the corporate can even put it into the context of the bank’s ability to finance the company’s future growth and meet its needs,” Stovall said. He added that the big regional and money center banks are placing higher value on deposits. “So that may be more leverage for corporate borrowers—committing to that deposit relationship might help them on the loan side.”

Give and Receive

What does the end of the 'Cheap Money' era mean for the cost of financing receivables?

MATTHEW HILL, CTP, FP&A



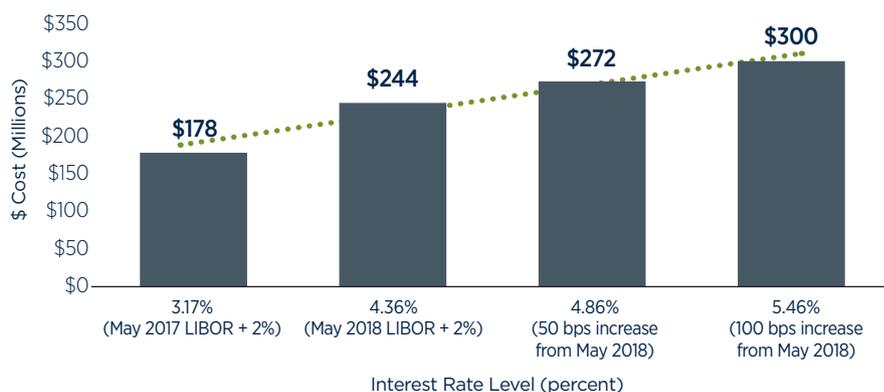
The days of cheap money are ending as interest rates have increased substantially over the past 12 months and appear poised for further increases in the near term. This upward trend in interest rates will have many implications for treasury management, including an increased cost of financing accounts receivable. The latter is an important issue since the average U.S.-based, publicly-traded firm has \$0.18 in accounts receivable for each \$1 of revenues. The enormous scale of corporate receivables implies that higher interest rates will lower profitability and weaken coverage ratios. Subsequently, the current interest rate environment makes this an opportune time to consider the relationship between interest rate levels and the cost of financing receivables.

Three variables are required to gauge a firm's annual cost of financing receivables: average daily revenues, days' sales outstanding (DSO), and the borrowing rate. DSO is the average length of time that it takes to convert revenues into cash flow. Let's assume that receivables are financed with a line of credit that is priced as three-month LIBOR plus a two-percent credit spread. After making value assumptions for the three variables, the cost of financing receivables is calculated by multiplying the average daily revenues by DSO and the borrowing rate.

We illustrate this approach using the following baseline values for a pharmaceutical firm:

- Average Daily Revenues = \$70 million, calculated as annual revenues of \$25.55 billion divided by 365
- DSO = 80 days
- Current Interest Rate on Credit Line = 4.36 percent, calculated as current three-month LIBOR of 2.36 percent plus a two-percent credit spread.

Exhibit 1: Receivables Financing Cost Using Past, Current and Projected Values for 3-Month LIBOR



Source: Matthew Hill

Using the baseline assumptions, the annual cost of financing receivables is approximately \$244 million, which is calculated as $\$70M \times 80 \times 0.0436$. To determine whether the firm has excess receivables financing cost, the calculation can be re-estimated after substituting the industry median DSO for the firm's DSO of 80 days. The Hackett Group's 2017 Working Capital Survey reports a median DSO of 68 days for pharmaceuticals. All else constant, decreasing the DSO by 12 days lowers the cost of financing receivables to \$208 million. That is, \$36 million in cost savings can be realized by managing trade credit policy in such a way so that the firm's DSO is lowered to the industry median DSO. The cost savings from lowering the DSO will be even more apparent in higher interest rate environments.

Direct relations

The analysis shows that the cost of financing receivables is directly related to both the DSO and borrowing rate. While management has some control over the DSO, they exert no influence over the macroeconomic conditions that influence interest rates. This motivates the following examination of the sensitivity of the receivables

financing cost to the three-month LIBOR rate. Specifically, we estimate the financing cost at last year's interest rate level and at projected interest rate levels. The assumptions for average daily revenues, DSO, and the credit spread remain unchanged.

Exhibit 1 provides a column chart for the sensitivity analysis. The first column shows the financing cost at three-month LIBOR of 1.17 percent that prevailed on May 2, 2017. At an all-in borrowing rate of 3.17 percent (1.17 percent plus 2 percent), the annual cost of financing receivables is \$178 million. The second column shows the financing cost using current three-month LIBOR of 2.36 percent, which results in the borrowing cost from earlier of \$244 million. The differential in column height of \$66 million is the year-over-year increase in financing cost attributable to the realized increase in three-month LIBOR over the past year.

Next, we project the financing cost of receivables at potential future borrowing rates. Since many financial economists predict continued interest rate hikes in the near term, we recalculate the financing cost assuming increases of 50 and 100 basis points from current three-month

Exhibit 2: Receivables Financing Cost Using Simulated Values for 3-Month LIBOR

Source: Matthew Hill

LIBOR of 2.36 percent. Columns 3 and 4 show the costs assuming that three-month LIBOR increases to 2.86 percent and 3.36 percent, respectively. At borrowing rates of 4.86 percent and 5.36 percent, the financing costs for receivables increase to \$272 million and \$300 million, respectively. These aggregate projections represent incremental costs of \$28 million to \$56 million, relative to today's interest rate environment. Without substantial growth in operating profits, management will face difficult budgetary decisions on how to mitigate these incremental costs.

As bleak as the situation appears in Exhibit 1, the situation could be worse. To gain a better understanding of worst-case scenarios, we ran a Monte Carlo Simulation using daily three-month LIBOR values collected over the period January 2, 1986 to April 25, 2018. During this sample period, the three-month LIBOR values displayed a substantial level of volatility, as the minimum and maximum values ranged from 0.22 percent (May 1, 2014) to 10.63 percent (March 21, 1989). Using a random number generator we simulated 10,000 values for three-month LIBOR assuming a uniform probability

distribution with the historical minimum and maximum values as the endpoints of the distribution. Pertinent summary statistics for the 10,000 simulated values include a median of 5.29 percent, a 75th percentile of 7.85 percent, and a maximum of 10.62 percent. These values then become inputs in the annual financing cost calculation. The results appear in Exhibit 2.

The receivables financing cost using the median simulated value for three-month LIBOR is \$408 million. The 75th percentile value of simulated three-month LIBOR is associated with a financing cost of \$552 million, which is a substantial increase over the median cost projection shown by column 1. Lastly, column 3 shows a worst-case financing cost of \$707 million, calculated using the maximum simulated value for three-month LIBOR. This financing cost estimate is almost three times larger than the cost of financing receivables at current interest rates. While it is unlikely that three-month LIBOR will increase to 10.62 percent in the near term, it is instructive to note that three-month LIBOR has attained this value in the past.

Managing the costs

The projections show a wide range of potential increases in the cost of financing receivables. Given that the driver behind the projected increased financing cost is variability in macro-economic conditions, how should a treasury manager attempt to manage the cost of financing receivables in an increasing interest rate environment? One option is to examine the firm's trade credit policy to ensure that DSO aligns with typical DSO values of industry peers. By implementing best practices and utilizing the latest in collection technologies, management may be able to reduce some of the negative impacts of increasing interest rates. For example, lowering DSO from 80 days to 60 days represents a 25 percent decrease in DSO. This percentage drop will also carry over to the cost of financing receivables, and further reductions in DSO would result in additional cost savings.

Another option is to use a more conservative working capital financing strategy that utilizes more long-term financing and less short-term financing. One downside to this strategy is that the firm may have higher financing costs in the short-term, since long-term financing is typically more expensive.

A final viable option is to hedge against future interest rate increases using various financial risk management tools.

Dr. Matthew Hill, CTP, FP&A is Director, Center for Treasury and Financial Analytics and Assistant Professor of Finance, College of Business, Arkansas State University. He thanks Jim Washam, CTP, FP&A, PhD, and Joseph Stark, CTPA for their helpful comments.

Re-Structuring

A new tax will dramatically impact MNC's financial structures

JOHN HINTZE



Provisions of the new U.S. tax law are far from set in stone, but as businesses digest the current language it is becoming clear that treasury departments will need to adjust their company's financial structures to the new regime.

“BEAT is going to force companies to think about whether it makes sense to bring assets such as IP back to the United States, given the lower rates here.”

Most, however, appear to be taking their time. The NeuGroup, an organization that arranges meetings of Fortune 1000 corporate executives to discuss issues of common interest, recently surveyed their attendees, and found that 43 percent said they anticipate fully deploying repatriated cash by year-end, with another 20 percent in 2019, and 8 percent even later.

That measured approach is unsurprising for a couple of reasons. At one meeting, an attendee who oversees both treasury and tax said the combination of new and old tax systems simply does not operate well as a “conceptually coherent whole.” According to this executive, the tax department must first resolve issues, followed by legal staff adjusting the company’s legal structures, and finally treasury will carry out the necessary financial changes.

Another reason for corporates’ unhurried approach toward taking concrete steps to address the new tax regime is simply that the bill was assembled in record time and the law, approved at the end of December, contains errors and unclear language. Portions have already been addressed, but much guidance is anticipated still from regulators and the Treasury Department.

“We expect guidance in the fall, at the earliest,” said Roger Heine, managing director, head of Americas liability strategies, debt capital markets, Deutsche Bank.

Plenty to digest

Nevertheless, the new law provides treasury departments with plenty to mull and prepare for regarding their companies’ global financial structures. One big challenge, especially for leveraged companies, is the limit on the net interest expense deduction to 30 percent of cash flow—EBITDA until 2022, and thereafter the more restrictive EBIT.

Heine noted companies levered five times or more that took on significant floating-rate debt when rates were exceptionally low are now starting to worry about LIBOR increasing. “I’ve talked to a couple of high-yield clients that are hitting up against the 30 percent ceiling,” he said, adding, “There’s no magic wand aside from deleveraging as they have already structured their debt to minimize interest expense.”

Perhaps the biggest challenge the new law brings to corporation tax and finance (MNCs) staff is how to adapt the company’s global operations and financial structures to complex provisions that move the U.S. away from its longtime worldwide tax system toward a territorial system similar to other developed countries. Unfortunately, the move goes only part way, and the relevant provisions require complex calculations.

BEAT it

The base erosion anti-abuse tax (BEAT), for example, is essentially a worldwide tax, imposing a 5 percent tax rate in 2018 on companies making 3 percent of their deductible expenses related to third parties outside the U.S., and thereafter the rate increases to 10 percent. It was ostensibly included in the tax package to counter MNCs taking advantage of the differences in countries’ tax rules to shift profits to low-tax jurisdictions. In practice, it acts as a new minimum tax, and there are a variety of ways corporates may be able to reduce its impact.

Kathleen Dale, principal, international tax at KPMG, noted that payments to foreign affiliates classified as cost of goods sold (COGS) are not subject to BEAT, so reviewing payments and whether more fit into the COGS category is one option.

“There may be opportunity there, and it’s a relatively easy way to limit exposure,” Dale said.

Cash pools properly used to manage short-

term credit and debit balances should not be impacted by BEAT or other elements of the new tax law, although BEAT may come into play if the entity leading the pool makes longer term payments or loans, according to Susan Hillman, partner at consultancy Treasury Alliance Group. She added that the tax law may prompt corporates to rethink locating their corporate headquarters and other assets, such as treasury centers, licenses, intellectual property (IP) and certain operations, to low-tax jurisdictions.

Previously, the yawning difference between the U.S corporate tax rate and especially those in a handful of low-tax countries, including Ireland, Belgium, Singapore and even the U.K., made tax the primary factor behind the decision. The new U.S. corporate rate of 21 percent is still well above those jurisdictions' but less so, potentially increasing the importance of factors such as transportation, financial infrastructure and treaty networks. Other provisions in the tax law, including the elimination of the alternative minimum tax and temporary 100 percent capital expensing, may make the U.S. a more viable location.

“BEAT is going to force companies to think about whether it makes sense to bring assets such as IP back to the United States, given the lower rates here,” Dale said. She added that it may make sense operationally, although an obstacle is that it is unclear what changes to the law may occur, especially if Democrats regain power on Capitol Hill. “Whether moving IP makes sense is a very facts and circumstances-based analysis. There’s no one size fits all, but it is something finance executives should be thinking about.”

The Global Intangible Low-Tax Income (GILTI) provision of the law may also engage treasury. It aims to discourage U.S. MNCs from locating in low-tax jurisdictions entities holding revenue generating assets, such as intellectual property or licenses. However, the GILTI tax rate is 10.5 percent, and if it is located in a jurisdiction with a corporate rate of roughly 13 percent or lower, foreign tax credits can offset it and potentially eliminate the U.S. residual tax. If the jurisdiction’s tax rate is more than 13 percent, “It will still owe the U.S. residual tax because under the law, taxpayers only get the benefit of 80 percent of their foreign taxes associated with the GILTI inclusion,” Dale said.

Figure 1: Percentage of investigated changes to international liquidity management due to U.S. tax reform

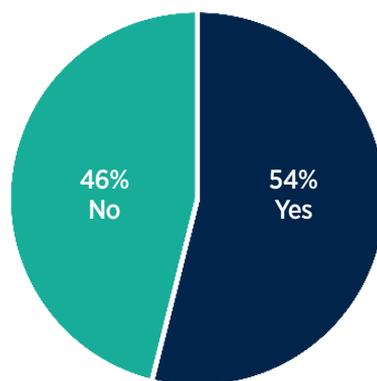
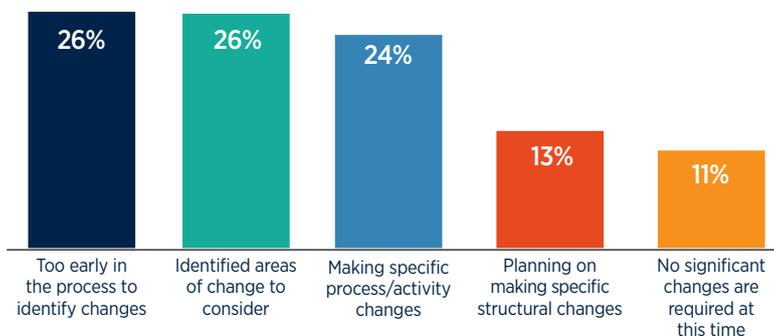


Figure 2: Percent of identified specific changes in the process



Source: NeuGroup Peer Research

Deutsche believes GILTI won’t prompt MNCs to bring assets back onshore, because the U.S. corporate rate of 21 percent—closer to 25 percent when state and local taxes are included—is so much higher than those in ultra low-tax jurisdictions where most of those assets are now located. In addition, there appear to be several ways to mitigate GILTI.

“One way to avoid GILTI is to re-characterize those entities as branches of the U.S. parent from a U.S. tax perspective, so all the income is subject to current U.S. tax,” Dale said.

MNCs could also set up a “super holdco” (holding company) structure, placing one controlled foreign corporation (CFC) over the others, to more effectively manage their income and losses. Another option may be to identify CFCs in high-tax jurisdictions and which ones can take advantage of the so-called high-tax exemption.

“Because the U.S. rate used to be 35 percent, there were only a few jurisdictions that constituted high tax. Now with a 21 percent corporate rate, many more might qualify for that high-tax bucket,” Dale said.

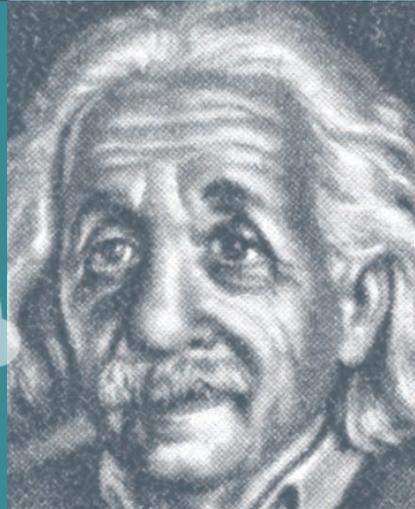
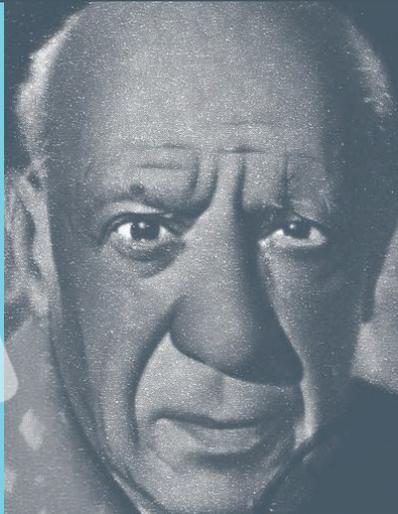
MEREDITH HOBİK

Picasso or Einstein?

Building a financial model – art or science?

KEY TAKEAWAYS:

- FP&A professionals must learn to balance both science and art when building a financial model and understand when which approach is more applicable to a particular use case.
- Planning, budgeting and forecasting, revenue recognition, or capital expense planning are examples of financial models that resemble science more than art.
- Go to market planning, scenario analyses, and long range plans are examples of financial models that resemble more art than science.



Building a financial model can be both an art and a science. Some models require structure similar to building a database with relational data elements and hierarchies pulled at certain points in time. What data is needed for your financial model—time, versions, product, geography? When should the data be pulled? What systems are needed to pull the data? Building these types of financial models requires more of a scientific approach. On the other hand, it is also important to be creative when building a financial model and see different points of view, as an artist would. Could the problem be framed differently with the data? Is there a better way to structure the calculation? If there are no accounting regulations tying down how the financial model is built, where should I begin?

FP&A professionals must learn to balance both science and art when building a financial model and understand when which approach is more applicable to a particular use case. Management consultants transitioning to FP&A are trained to be strategic and creative, and are likely more apt to tackle financial models that are more like an art. Whereas accountants transitioning to FP&A and trained FP&A practitioners will be more comfortable tackling financial models that are more like a science. CFOs will expect FP&A teams to build financial models that incorporate both elements.

When I was on the strategic planning FP&A team at Salesforce, many of my financial models required

a creative approach—long range plan, country planning, workforce planning models to predict real estate needs, customer lifetime value analyses, etc. However, when interacting with the corporate FP&A team or the accountants, there was an expectation that I could transition to understanding the more scientific models they built for closing the books and forecasting GAAP earnings. FP&A practitioners must be able to incorporate both art and science when building financial models because depending on the use case, one may need to be creative and strategic, or structured and logical. Let's dive in to explore when as a FP&A practitioner you must channel your inner Einstein versus your inner Picasso.

Einstein:

When is building a financial model more like a science?

Webster's Dictionary defines science as a system or method reconciling practical ends with laws. Financial models that are scientific can be spotted by looking for spreadsheet tabs labeled "metadata" and "hierarchies" that are pulling data from various enterprise systems. When FP&A practitioners are relying on structured transactional data and hierarchies from enterprise systems, most likely the financial model will be addressing a particular use case that is governed or influenced by GAAP, IFRS or FASB regulations.

These types of models may have multiple owners or contributors and be maintained weekly, monthly or quarterly. Multiple people will be contributing to this financial model and structure will be important to keep the model builders within accounting swim lanes. Thus, with these types of models, you will often see a team of FP&A practitioners collaborating around a white board to sketch out how the financial model will be structured before diving in to the spreadsheet to begin building.

Planning, budgeting and forecasting, revenue recognition, or capital expense planning are examples of financial models that resemble science more than art. While some creativity may be applied to drivers in these financial models, for the most part, there are practical approaches and rules to follow when a FP&A practitioner builds these financial models. Structure, precision, and accounting rules matter most when addressing these types of financial models.

	 ART	 SCIENCE
Definition	The conscious use of skill and creative imagination	A system or method reconciling practical ends with laws
Users	Individual owner with many viewers	Multiple owners and contributors
Data	Limited transactional data and hierarchies	Transactional data Hierarchies
Regulations	None or limited	GAAP, IFRS, FASB regulations
Spreadsheet approach	Excel is your canvas. Jump in and get creative!	White board the structure of your financial model before diving in to understand metadata, hierarchies and frequency of data pulls
Frequency	One-time or ad hoc	Weekly, monthly, quarterly updates
Sample use cases	Go to market planning Scenario analysis Long range plan	Planning, budgeting and forecasting Revenue waterfall schedules Capital expense planning

Picasso:

When is building a financial model more like an art?

Webster’s Dictionary defines art as the conscious use of skill and creative imagination. Financial models that resemble art are easy to spot. The model builder is likely the only owner of the model, however, many viewers will be viewing this financial model to awe at the results. Limited transactional data and relational hierarchies are needed to build this financial model. GAAP, IFRS and FASB have little to no impact on how the spreadsheet was designed.

Most likely, this particular financial model is solving a strategic question the FP&A practitioner was asked to address. This will likely be a one-off or ad hoc request made by the CFO. In these situations, an FP&A model is like a piece of art and a FP&A practitioner must be creative and innovative in approaching how to structure this spreadsheet. Excel becomes a canvas to the FP&A model

builder, the artist. There is little need to white board the architecture of what is being built. The FP&A practitioner dives in to the canvas—the spreadsheet—to seek the answer and has a lot of freedom in how to approach the financial model.

Go to market planning, scenario analyses, and long range plans are examples of financial models that resemble more art than science. With these financial models, a FP&A practitioner must be prepared to explain the strategy or creative approach to his or her conclusion, as opposed to justifying the structure of how the model was built. These models can be addressing a complex situation, but the beauty is often in the simplicity with which these financial models are built. As Leonardo da Vinci once said, “Simplicity is the ultimate sophistication.”

Always consider both options

FP&A practitioners will need to know when to break out their inner

Picasso versus their inner Einstein, depending on what type of financial model is needed. With any financial model, balance is key but both approaches to financial modeling—art and science—should always be considered before diving in to building that spreadsheet. The summary below contrasts some key points on when an FP&A model is more like an art versus a science.

CFOs will expect FP&A practitioners to attack all types of financial models—go to market planning, scenario analyses, long range plans, planning budgeting and forecasting, revenue waterfall schedules, and capital expense planning. Before jumping into that next financial model, take time to reflect on who you need to channel more—your inner Picasso or your inner Einstein.

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From BILLABLES to BUDGETS

How finance executives can help management consultants transition to FP&A

MEREDITH HOBIK

Efficiency-obsessed CFOs increasingly are asking financial planning and analysis teams to tackle business problems that typically have not been core to FP&A functions, such as pricing models, channel strategies, and product diversification. To assist, CFOs are hiring management consultants to round out FP&A teams. Craig Rucker, vice president of finance at Active Interest Media, at a FP&A vendor conference stated that “[he] encourages CFOs to partner with talent acquisition teams to consider candidates from startups or from nontraditional backgrounds with a strong cross-functional skills set.”¹ How can CFOs and FP&A teams make the transition a smooth one?

This is a topic that is near and dear to me, because I actually transitioned from Deloitte Consulting in the CFO Advisory group to leading a FP&A team at an early-stage healthcare company. And I can report that transitioning from advising to managing a FP&A team through the annual planning process can be done! However, making the switch requires investment in practical training and “on-the-job” learning.

To help consultants become valuable FP&A professionals, CFOs must help them round out their skills to include expertise in accounting, business partnering, model building, systems skills, and budgeting.

CFOs and FP&A managers can use the following checklist to make sure consultants have the appropriate training:

- **Accounting expertise:** Consultants need not hold a CPA certification to be successful in FP&A. However, they do need a strong understanding of accounting principles. Do they understand such accounting concepts as: the difference between operating expenses and capital expenses; revenue recognition rules; depreciation schedules for different types of assets; and accruals. Will they be expected to build budget models? If so, they'll need to understand the accounting treatment for an expense.

A former FP&A colleague from my Salesforce tenure once told me, "The area where most management consultants struggled [when switching to FP&A] was learning accounting. The management consultants that earned my respect were those that tried to understand the accounting concepts, rather than assuming the accounting team would always correct their mistakes."

- **Business partnering:** At Deloitte, when conflicts arose, often a consultant was rolled off a project to avoid tension with a client. Once on a FP&A team, there is no option to roll off. The "not so nice" controller or the "always corrupts the budget templates" human resources leader may never go away. Being able to manage and navigate around challenging business partners will take time, but is critical to your long term success within an organization.

One option to improve consultants' business partnering skills is to enroll them in AFP's online course on how FP&A can become a better business partner. Another idea would be to pair them with a FP&A mentor for coaching.

- **Model building:** Building a FP&A model is very different than building financial models, lovingly known as "banker models," that many management consultants have built for clients. Most financial models built by management consultants tend to be higher level Excel models with macroeconomic drivers. FP&A professionals are expected to build spreadsheet models, including income statements with expense drivers, revenue models based on revenue recognition schedules that tie back to order schedules, and integrated financial statements that connect the income statement with a balance sheet and cash flow statement. Check to make sure they know these skills.

Model building for FP&A requires pulling actual data to update budgets to become forecasts, as well as understanding the hierarchies that impact business models so you can properly pivot on data dimensions to analyze results. Management consultants probably have been exposed to pivot tables in Excel spreadsheets, but do they know how to update them regularly with each monthly or quarterly close? Do they know how to conduct regular

maintenance for monthly and quarterly updates? It is important management consultants understand that FP&A models require maintenance and therefore, how the models are set up for on-going updates is critical.

- **Budget process know-how:** I found understanding the budget process to be the most difficult aspect to learn when I made the transition from management consulting to FP&A. I did not have an appreciation that all finance and accounting activities for an organization revolve around a financial calendar that requires operational precision around processes and systems. Managing a project schedule for a client engagement can be challenging, but closing the books, locking a quarterly forecast across hundreds of budget owners, and securing executive and board approval for an annual budget were budget processes that I grossly underestimated the intricacies and level of effort involved.

Teach management consultants such planning processes as long-range planning, annual planning, monthly or quarterly forecasting, and rolling forecasting. Other planning activities such as monthly close, audits, and earnings calls will largely be owned by accounting or investor relations, but FP&A will be involved.

- **Systems skills:** Finance organizations are experiencing digital disruption in the form of machine learning, artificial intelligence, in-memory cloud computing, robotic process automation, and more. Management consultants will need to understand these technologies and, more important, *own* that impact. That's because FP&A professionals either are leading the deployment of these technologies or participating on the deployment team that must explain them to the CFO. Because many management consultants are part of the project management office (PMO) to help clients deploy technologies, they make good candidates to be tapped (like I was while at Salesforce) to participate in a technology deployment. But now the risks are higher in FP&A. FP&A professional on a PMO team must maintain the technology after go-live rather than move on; are consultants prepared to handle this?

Finally, CFOs and FP&A managers can help management consultants transition to finance by enrolling in AFP's FP&A certification program. Good luck, management consultants, as you make the switch to FP&A! It's a rewarding career that sets you up for potential to be a CFO—and you will never have to discuss your utilization rate ever again.

Learn more about the FP&A Certification and other FP&A training by visiting www.FPACert.org.

Meredith Hobik is a former director with Anaplan and Salesforce. Reach her at Meredith.hobik@gmail.com.

"3 Ways to Build a High-Performing FP&A Team", Adaptive Insights blog, October 2016 - Adaptive Insights blog

Still Climbing

The 2018 AFP Payments Fraud Survey breaks new records—unfortunately

AFP RESEARCH DEPARTMENT

The 2018 AFP Payments Fraud and Control Survey, underwritten by J.P. Morgan, revealed that payments fraud reached a new high in 2017 after a downswing earlier in the decade. A record 78 percent of all organizations were hit by payments fraud last year, according to the survey of nearly 700 treasury and finance professionals.

Checks continue to be the subject of more fraud than any other payment method, with 74 percent of respondents reporting this form of attack. Wire fraud followed at 48 percent, while corporate card fraud ranked third at 30 percent.

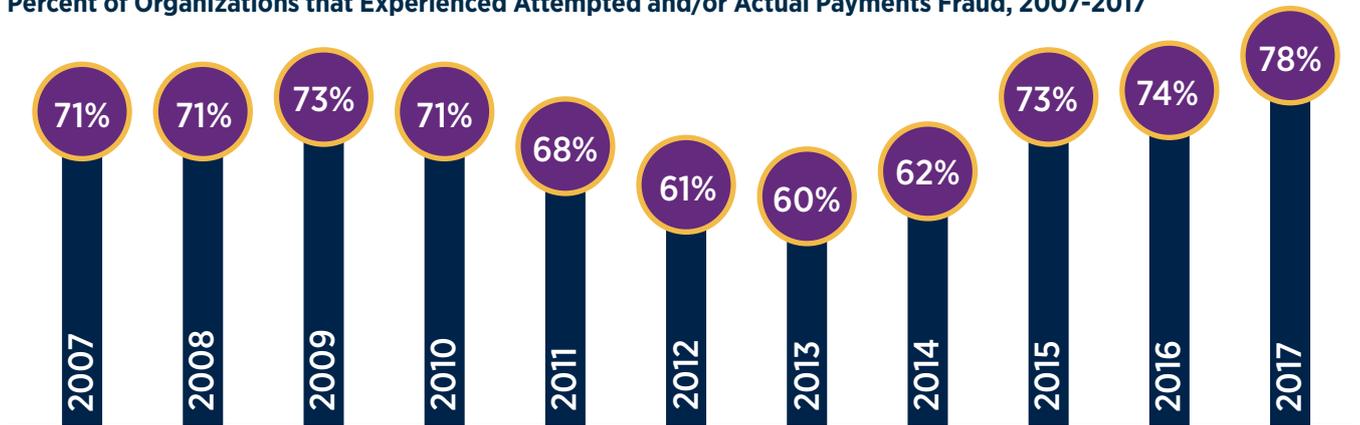
Business email compromise (BEC) played a major role in payments fraud in 2017, with 77 percent of organizations experiencing BEC in 2017. Additionally, 54 percent of BEC scams targeted wires, followed by checks at 34 percent. The good news is that 77 percent of organizations have implemented controls to prevent BEC scams.

“It is alarming that the rate of payments fraud has reached a record high despite repeated warnings,” said AFP President and CEO Jim Kaitz. “In addition to being extremely vigilant, treasury and finance professionals will need to anticipate scams and be prepared to deter these attacks.”

Other highlights of the 2018 AFP Payments Fraud and Control Survey include:

- **65 percent** of payments fraud is committed by individuals outside the organization
- **67 percent** of payments fraud is discovered by treasury staff
- **92 percent** of organizations report that payments fraud attacks collectively cost 0.5 percent of the organization’s annual revenue
- **47 percent** of organizations discovered fraud less than two weeks after the incident occurred.

Percent of Organizations that Experienced Attempted and/or Actual Payments Fraud, 2007-2017



Source: AFP

On the rise

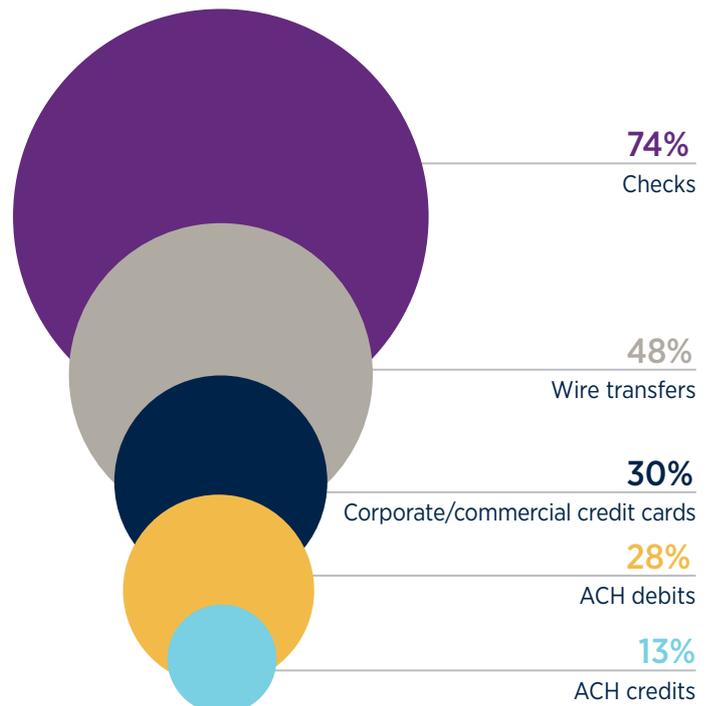
In the last decade, the number of instances of payments fraud has fluctuated significantly. In 2007, about 70 percent of organizations were targets of either attempted or actual fraud; this remained the case for a couple of years. From 2009 to 2013 there was steady decline in payments fraud activity, but in 2014 that trend reversed. Since then organizations have experienced an uptick in payments fraud with a steep increase reported in 2015 and another increase in 2017. Seventy-eight percent of finance professionals report that their companies experienced attempted/actual payments fraud in 2017—the largest percentage on record.

Of the various payment methods, checks continue to be targeted most often. Seventy-four percent of finance professionals report their organizations' check payments were subject to fraud attempts/attacks—a figure similar to that reported last year (75 percent). Checks are the most frequently used payment method and consequently more likely to be targeted. Additionally, advancements in technology and the use of imaging technology in the last couple of years have allowed fraudsters to forge checks fairly easily, making them seem authentic, thus contributing to an increase in check fraud. Treasury professionals are well aware that checks are vulnerable to fraud attacks and are taking measures to mitigate fraud, but perpetrators are seemingly undeterred and have been able to “outsmart” the security measures implemented.

Wire transfers were the second most popular vehicle for payments fraud in 2017. Nearly half (48 percent) of finance professionals whose organizations were exposed to payments fraud in 2017 report that such attacks were via wire transfers. This result is

consistent with the 48 percent and 46 percent reported in 2015 and 2016, respectively. Wire transfers are also the most targeted payment method for business email compromise (BEC) scams. The continued high level of wire fraud indicates that BEC scams still are a successful avenue for fraudsters. Many organizations are implementing measures to curb BEC, but the challenge is that this kind of scam evolves in ways that may be unexpected.

Payment Methods that were Targets of Attempted/Actual Payments Fraud in 2017 (Percent of Organizations)



Source: AFP

Percent of Organizations that Experienced Business Email Compromise (BEC), 2015-2017



Source: AFP

Business email compromise

Since AFP began tracking BEC in 2015, there has been a steady increase in the number of organizations experiencing instances of BEC. In 2016, the percentage of organizations subjected to BEC increased 10 percentage points from the previous year (74 percent in 2016 compared to 64 percent in 2015). In 2017, more than three-fourths of organizations experienced BEC, although the share was only a three percentage point increase from the previous year. The fact that BEC scams remain at these elevated levels indicates that even though organizations are, to a larger extent, implementing measures to counteract BEC scams, fraud is evolving into new areas and levels of sophistication that are difficult to detect.

A majority of those organizations that experienced payments fraud via BEC did so via wire transfers: 54 percent—a slight decrease from the 60 percent reported in last year's survey, but still significant. One-third of survey respondents reports checks were used by fraudsters using email. There has

been a gradual increase in the percentage of organizations reporting that BEC impacted their check payments, from 29 percent in 2015 to 35 percent in 2017.

Over three-fourths of finance professionals report that their organizations have implemented controls to protect themselves from being impacted by BEC. An additional nine percent are actively in the process of determining what measures they need to have in place to prevent BEC. This is an encouraging result, and probably one reason why the rapid growth in payments fraud via BEC appears to have been restrained in 2017. However, as these scams evolve, organizations need to be mindful of exposure of their information, and/or change their routines in order to stay one step ahead of fraudsters.

To guard against BEC, companies are actively implementing education and training for their employees so they are less likely to fall prey to scams. IT departments send out test e-mails to employees periodically so they are better able to alert the finance team of what appear to be suspicious e-mails and messages. Some companies are taking the extra step to call back requestors of funds using telephone numbers on file to validate requests. As organizations implement these measures, they are also going to have to consider what other scams will evolve and try and prepare for those.

Check fraud

Checks have been and continue to be the payment method most often exposed to fraudulent activity. Forty-four percent of organizations that experienced check fraud in 2017 suffered between one and five incidents of check fraud and 22 percent were subject to between six and ten incidents. Larger organizations with more than 100 payment accounts are far more likely to have suffered more instances of check fraud than were other organizations; 38 percent of survey respondents from this group report that their organizations experienced check fraud more than 15 times in 2017. These figures show that it is difficult to keep track of many accounts, and that when fraud attempts are made, they may not be

Check Fraud Attempts in 2017

(Percentage Distribution of Organizations)

	ALL	ANNUAL REVENUE LESS THAN \$1 BILLION	ANNUAL REVENUE AT LEAST \$1 BILLION	ANNUAL REVENUE AT LEAST \$1 BILLION AND FEWER THAN 26 PAYMENT ACCOUNTS	ANNUAL REVENUE AT LEAST \$1 BILLION AND MORE THAN 100 PAYMENT ACCOUNTS
1-5	44%	54%	39%	41%	39%
6-10	22	22	22	23	14
11-15	8	7	8	7	9
16-20	5	4	5	5	2
21 or more	21	13	26	24	36

Source: AFP

caught. Having fewer accounts would naturally mean they are easier to oversee and thus it would be easier to detect any fraud attempts.

Paper checks are still used extensively in the U.S. for business-to-business transactions (B2B) and they account for a significant share of payment transactions. The 2016 AFP Electronic Payments Report revealed that 51 percent of B2B Payments are made by check. This is likely one reason checks are the most popular targets for payments fraud. Even as the use of checks declines, it is unlikely that the overall level of fraud activity will abate as well since fraudsters will likely shift attention to other payment methods and tactics. This is evident in the increasing instances of BEC and wire fraud.

Positive Pay continues to be the method most often used by organizations to guard against check fraud. This approach is used by 90 percent of organizations—a dramatic increase from the 74 percent reported in 2016 and closer to the 88 percent reported in 2015. Based on previous survey results, the use of positive pay has fluctuated over the past couple of years. The reasons for this are unclear, but as Positive Pay is a paid service it is plausible that in cost-cutting times organizations may opt out of using such measures and accept additional fraud risk. It is, however, wise to take some protective measures in order to secure not only organization funds but also an organization's reputation.

Combat methods

The increase in payments fraud activity in general is certainly unsettling, and the amount of the increase is a little surprising given the number of protective measures that are available. Organizations cannot assume they can protect themselves from all payments fraud, but there are certainly are ways fraud can be mitigated.

Finally, it is encouraging to see that organizations now are taking an active role in implementing protective measures against payments fraud. Organizations are now using measures such as Positive Pay to a much larger extent than before, after its use declined in 2016. Organizations are also implementing new internal controls to protect against BEC scams. This is a good trend, but it is key that organizations not be complacent but remain vigilant in protecting themselves against fraud. Companies need to keep looking outside the box; criminals do.



2018 AFP Payments Fraud and Control Survey Report

To download a copy of the survey report visit www.AFPonline.org/paymentsfraud



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Tell a Tale

IRA APFEL



I'm a journalist by training; treasury and finance professionals are not. But there is one thing we have in common: We let the facts speak for themselves.

Turns out that's a bad idea.

Let me explain. Back when I was editing a weekly banking newsletter, I was taught to put the latest facts at the top of the story. "Don't bury the lede," my publisher told me. It was more important to relay the latest news to readers than crafting florid prose.

Many treasury and finance professionals operate the same way. They input the latest data into the dashboard and dutifully report "the news" to their superiors.

Turns out that's not what people want—or, at least, not what they find interesting. "Numbers are very hard to process," said Doug Stevenson. "They're not engaging. Eventually, the bullet points, the numbers, the text on a PowerPoint slide will put people into what I call a 'content coma.'"

Stevenson should know. He's a professional storytelling teacher who will speak at AFP 2018 this November in Chicago. You can read an interview with him in this issue of Exchange.

If facts don't resonate, then what does? Stories do.

People want to hear a story. Narratives capture their attention. And when they are listening to a compelling story they are more likely to hear the facts and data buried within the story.

Researchers have found that a good story allows listeners to "emotionally resonate" with a story's characters. "The ability to quickly form relationships [through stories] allows humans to engage in the kinds of large-scale cooperation that builds massive bridges and sends humans into space," writes Paul J. Zak, PhD, Director of the Center for Neuroeconomics Studies at Claremont Graduate University.

In other words, a compelling story will engage your audience of colleagues and supervisors, and foster the kind of give-and-take, question-and-answer session that leads to better insights and more informed decision making.

"[People] want something that stimulates a different brain energy," Stevenson told me. "And stories create the visuals and they create emotion."

So it's time to put away my reporter's notebook—and for you to close Excel and PowerPoint. Instead, we need to search our imagination for a good story.



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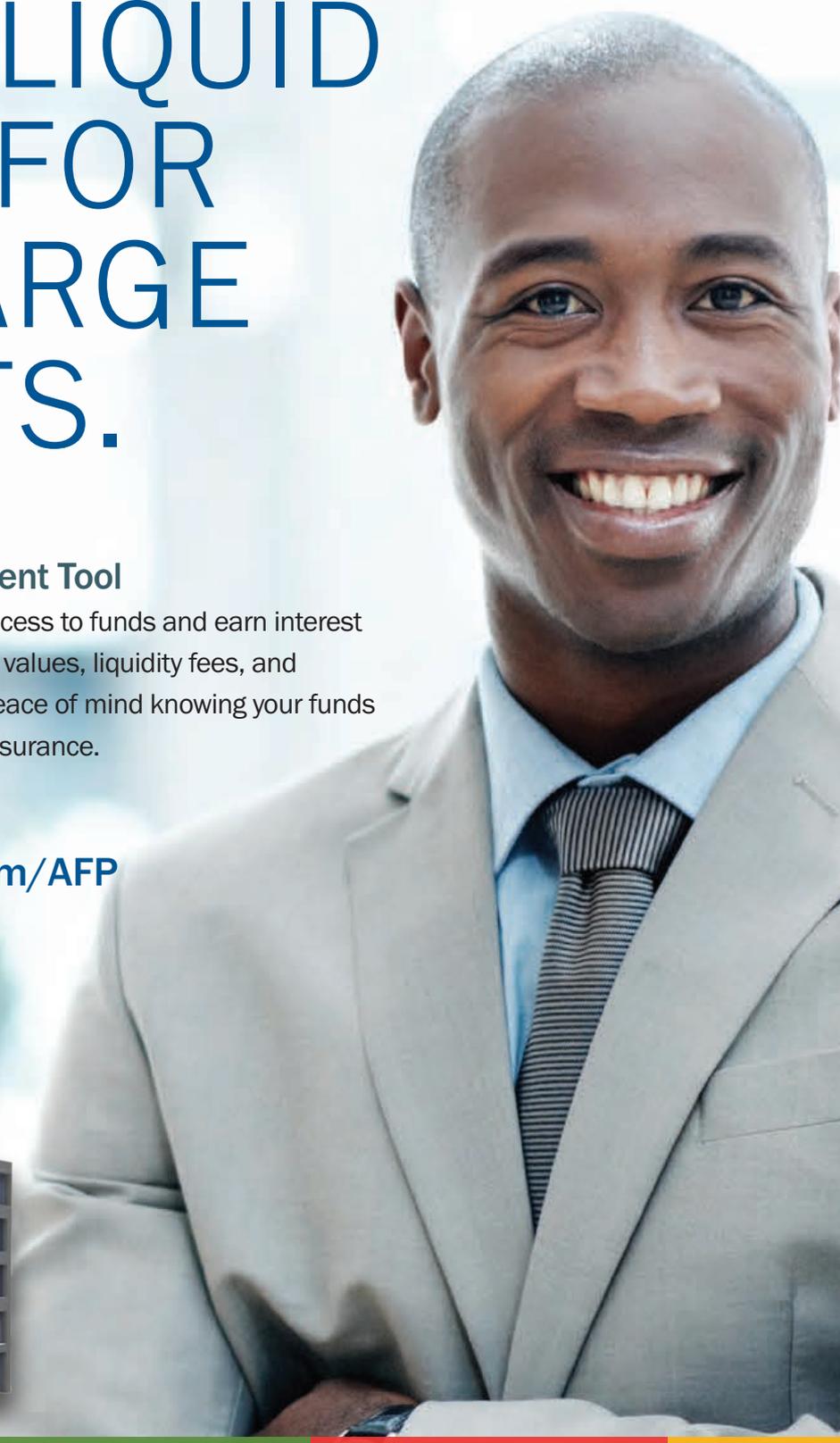
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