CTC GUIDE
Global Treasury Structures

Treasury is facing increased pressure to support global business as companies look for growth outside the US and Europe. This guide will explore how treasury is restructuring its operations, deploying technology and altering its skill mix in order to provide the business with the liquidity, risk management and decision-making support it requires to succeed internationally.

By Nilly Essaides
Evolving Treasury Organization

Introduction

What is the optimal structure for treasury? How best to organize treasury is not a new question. Indeed, it’s one that treasuries have been struggling with for decades. But the quest for the optimal structure has taken on new meaning against a backdrop of fast-moving markets, the increasingly strategic role of treasury and the increasing zeal of North American companies to expand abroad.

Traditionally, the overriding objective for treasuries was to centralize their operations as much as possible in order to improve efficiency and control. But this trend is facing challenges as companies expand their global operations. Many companies are developing hybrid treasury models instead which overlay global technologies and standardized processes over a distributed execution and sometimes even decision-making model.

What an optimal treasury structure is will depend on an individual company’s business model, size and growth mode. Treasuries may not be able to leap to the “end state” in one jump. There are structures to be put in place and decisions that will need to be made along the way in order for treasuries to support growth over time and provide businesses with not only funding and risk management functions but also the intelligence required to make smart capital allocation choices. “A CFO who does not control the cash of his [sic] company can’t allocate capital properly, which is a major failing,” cautioned Jeff Wallace, managing partner at Greenwich Treasury Advisors.

Why New?

Many of the necessary structures that enable an efficient treasury organization have been around for a long time—e.g., bank account rationalization, netting, pooling, in-house banks, payment factories and reinvoicing centers (see Appendix 1). But several new developments are driving treasurers across the organizational and business spectrum to take a closer look at how treasury is organized.

Driver #1: International Growth

Rosier growth prospects offshore are changing the game for small and large companies alike. Historically, companies would first reach a certain domestic maturity before expanding their markets or operations abroad. With anemic economic growth in the U.S. and Europe, there’s greater pressure even on small players to venture into foreign markets. As companies expect their foreign operations to generate increasing levels of profitability, they need to reconfigure how they handle cash, risk, debt and foreign exchange (FX) in a more efficient way.

According to Ron Chakravarti, Head – Clients Solutions & Advisory, Global Liquidity & Investments at Citi, “The financial crisis [2008-09] demonstrated just how much liquidity risk was unknown and not well-understood. For many multinationals—even large investment-grade corporates—there was a fragmentation in people, processes and systems that just got in their way as they sought to understand and mitigate the risks.”

Meanwhile, “much of the growth since the crisis has been in the emerging markets,” Chakravarti said. This has “exacerbated what they [large multinational corporates] had already discovered.” Companies are managing funding needs in more difficult, complex, and more regulated markets. As a result, “they’re re-thinking how they really need to reorganize and structure treasury given the rapidly changing overall business mix and operating footprint of the company.”

Driver #2: More Affordable Technology

Innovations such as mobile computing and “the cloud” are revolutionizing the way vendors deliver their product and services. Such innovations can support distributed decision-making and foster a harmonized global process. Technology is both an enabler and a catalyst: without it, treasury cannot hope to make its processes more efficient and impose high-level controls. At the same time, the very process of rolling out a system triggers a transformation, as old ways of doing things are examined, discarded or improved.

There’s good news for midsize and large players:

- **ERPs are enhancing their treasury modules.**
  Treasurers and independent consultants are not entirely convinced yet, according to several interviews. But research indicates that there’s change...
afoot. “As an example, for the last 4-5 years, SAP has focused on improving its SAP Treasury functionality,” said Carina Ruiz, a Partner with Deloitte’s Treasury Advisory practice. “We have observed clients noting SAP Treasury has continued to close the gap [with] non-ERP technology solutions in terms of functionality and value.”

- **Global treasury management system (TMS) providers are developing new functionalities.** Some of the largest providers are enhancing their products, adding mobility and functionality (such as commodities). Treasurers of mature companies are able to establish truly virtual treasury operations using a single backbone of automation.

- **Independent players are leveraging “the cloud.”** Almost everyone is taking advantage of cloud computing, so even mid-market vendors can have a global presence. With cloud computing, vendors’ internal cost calculations have shifted and so they are able to support more product development by spreading the costs across a widening base of users.

**Driver #3: More Strategic, Less Tactical**

The recent financial crisis left lingering effects. “There’s been an increased focus on change/transformation of treasury activities, as treasury continues to enjoy a higher level of management attention,” said Robert Baldoni, CTP who heads Ernst & Young’s Global Treasury Advisory Services Practice. “Treasuries are receptive to bringing this change management and added value to their companies.”

In the wake of the financial crisis, there was a greater need for treasury’s strategic competencies in risk and liquidity, added Scott Gauch, National Managing Principal, Treasury Advisory Services at Deloitte. The question is, said Gauch, “Given the crisis and the resulting increased need for deeper strategic capabilities within the treasury function, how do world class corporations structure their respective treasury organizations on a global basis?” According to Deloitte’s Ruiz, “treasury has become a hub for risk management, information management and the development of process efficiency for finance.” While this may have always been the case, it is now an imperative.

**A Two-Phase Approach**

“You have to look at a continuum,” said Dub Newman, head of North America Global Transaction Services at Bank of America Merrill Lynch. The important consideration is whether the company is expanding organically, or if it has grown through acquisitions, inheriting treasury platforms and banking relationships along the way. Before companies can implement solutions like shared-services centers (SSCs) or in-house banks (IHBs), “you’ve got to… have some level of scale,” Newman said. So while the initial instinct of organizations is to centralize everything at their headquarters, that becomes less practical as companies grow globally. For global companies, treasury organization evolves in two phases:

**Phase 1: Centralized function/distributed activity**

- **Tools:** rationalized banking relationships, netting, notional and physical pooling, in-house banks (IHBs), system implementations

**Phase 2: Merging liquidity management and business flows**

- **Tools:** Payment hubs, reinvoicing centers

Along the way, treasury seeks to:

1. Centralize key functions
2. Reduce its reliance on external financial providers
3. Increase its reliance on technology
4. Reduce the amount of time spent on tactical work
5. Distribute treasury expertise on a regional/local basis
6. Merge business and financial flows.

So, while some companies are still struggling to centralize, more organizations are seeing the value in putting “boots on the ground” closer to operating businesses, as Citi’s Chakravarti put it. For most companies, the structure that works best is a hybrid one that includes a centralized policy, global processes and regionalized execution. However, a handful of treasuries have evolved to create global centers of excellence, with global process leaders (e.g., for FX risk or cash management) distributed outside of headquarters.
Leading-edge organizations are beginning to “deconstruct” and reorganize treasury to better pair resources and intellectual capital with new routings of financial and business flows. But what’s important to remember is, even if your organization is still struggling to implement a centralization initiative (pooling can take six months to a year; a TMS implementation can take from three months for “lite” versions to 18 months for robust applications), it needs to paint the bigger picture first: what is the end-state vision for the treasury organization?

Clearly, moving to the next level of transformation is best suited for “companies that have high domestic and international transactional volumes, large numbers of multicurrency, intercompany loans and trades, pools of trapped cash, a variety of currency, interest rate and commodity risks, etc.,” said Ernst & Young’s Baldoni. Those companies can reap the benefits of “dramatically increased efficiency, greater visibility and access to cash, organizational scalability and reduced transactional execution costs.” Remember, Baldoni says, “it is a journey… not a destination… for a company and to be successful you should have a vision of the future state’s goals and requirements.”

What should drive treasury’s organizational decisions is a fully thought-out process for how group cash flows will be used to minimize debt and maximize investments, how FX and interest rate risks will be aggregated, netted and managed. “Just knowing where your cash is today is worthless,” said Greenwich Treasury Advisor’s Wallace. “You need to know where you are going to move it.” In other words: implement a plan that takes tomorrow into account. So while some things may appear to be out of reach, when pushing new initiatives out, if possible avoid creating obstacles that will later be hard to overcome.
About the Author

Nilly Essaides has over 20 years of experience writing, researching and speaking about global corporate treasury and finance topics. Nilly brings a wealth of knowledge about corporate practices to her work with the AFP as an international treasury consultant. In this capacity, she facilitates peer group meetings in the Western US and Canada, authors a monthly column for AFP Exchange and creates multiple content items designed to help treasury professionals learn from one another.

Nilly began her career as the managing editor of an Economist publication, Finance & Treasury, and spent the bulk of her career as a managing director at the NeuGroup, an independent provider of treasury intelligence where she was also the executive editor of the company’s flagship publication, International Treasurer. An integral part of her work at the NeuGroup involved the launch of multiple industry and function-based peer groups, which met semi annually to share practices and solutions. Nilly was in charge of six of the groups (treasurer level mostly). Nilly has a strong interest in knowledge management and the effective transfer of best practices within and among organizations. In 1998, she co-authored a book on Knowledge Management, “If Only We Knew What We Know” with the CEO of the American Productivity and Quality Center in Houston, TX.

Nilly holds a BA in communication art from Marymount Manhattan College and a Masters in Journalism from the Columbia School of Journalism in NYC, with a concentration in feature and magazine writing.

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