Treasury KPIs - Critical metrics for a Successful Transformation

Danny Doran, Director; Client Engagement Executive
Dick Sherrod, Director; Treasury Practitioner Executive
Today’s Discussion

1. The **Navigation of Transformation**

2. **What** are KPIs and **Why** are they needed?

3. The **Nature** of KPIs / Metrics

4. **Strategy**: Communications & Maintenance

5. Summary, Questions, Appendix

AFP® Annual Conference
TRANSFORMATION
You can’t get there from here without the right tools

NAVIGATION
To plan, monitor and control the course and position of someone or something from one place to another.

CONTROL  EFFICIENCY  SUPPORT
Treasury’s transformation

1. Evolve from tactician to strategic advisor.
2. Link treasury performance to corporate goals and objectives.
3. Increase transparency to others within the organization.
4. Identify performance shortfalls and inefficient processes.
5. Analyze and optimize processes.
How does the treasurer lead transformation?

<table>
<thead>
<tr>
<th>DETERMINE METRICS</th>
<th>COMMUNICATE</th>
<th>SCRUTINIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculation and publication of metrics by treasury organization.</td>
<td>Develop strategy to communicate metrics to organization.</td>
<td>External scrutiny of plan helps with credibility.</td>
</tr>
</tbody>
</table>

### MULTI-PHASE CAMPAIGN
KPIs and/or Metrics
What gets measured, gets managed.

What

• A numerical measure designed to identify and help manage specific activities, financial line items or risk present in ordinary operations.
• Provide an unbiased means of measuring how effectively an objective is met.
• Relevance must be validated periodically.

Why

• Treasury needs to focus on components used to calculate metrics and then determine what could have been done to improve the observed outcome.

A well-designed metric is one that you fail to meet more than you achieve.
Transformation and transparency

Transformation involves lifting the veil of secrecy surrounding treasury. Increased transparency may be extremely uncomfortable at first.

The positive momentum from improved performance metrics establishes treasury’s commitment to excellence.
Nature of KPIs / Metrics

**Strategic**
- Track treasury’s contribution to the completion of a new project or achievement of a specific objective.
- Developed on an “as needed” basis.
- Cease being relevant once the project or objective has been completed.

**Tactical**
- Track the efficiency of processes, minimization of error rates and achievement of target returns on assets.
- Activities are recurring, and continue throughout the organization’s existence.
Communication strategy

Effective communication
Present only those measures that are meaningful, and convey valuable information to your target audience.

FOCUS
Limit number of metrics to no more than eight.

USE GRAPHICS
to facilitate how effectively treasury is performing against its benchmarks.

CONCISE
Make sure the message is clear and easy to understand.
Ongoing maintenance

- Periodically assess relevance of metrics
- Revise performance targets upward
- Communicate changes to your audience
Summary

- Tracking and communicating metrics is a critical part of treasury’s transformation to becoming a strategic advisor.

- Transparency sets the bar for others in the organization.

- Periodically reassess relevance of measures and revise aspirational goals.
Questions
Appendix
# Treasury metric examples

<table>
<thead>
<tr>
<th>Metric</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accuracy of cash forecasts</td>
<td>( \frac{\text{Actual cash balance} - \text{forecasted cash balance}}{\text{forecasted cash balance}} )</td>
</tr>
<tr>
<td>Accuracy of forecasted investment income</td>
<td>( \frac{\text{Actual interest investment income} - \text{forecasted investment income}}{\text{forecasted investment income}} )</td>
</tr>
<tr>
<td>Accuracy of forecasted interest expense</td>
<td>( \frac{\text{Actual interest expense} - \text{forecasted interest expense}}{\text{forecasted interest expense}} )</td>
</tr>
<tr>
<td>Accuracy of trustee/issuing, paying agent fees</td>
<td>( \frac{\text{Actual fees} - \text{forecasted fees}}{\text{forecasted fees}} )</td>
</tr>
<tr>
<td>Percentage of payments containing errors</td>
<td>( \frac{\text{Number of payments by type containing errors}}{\text{total number of payments by type}} )</td>
</tr>
<tr>
<td>Percentage of payments released on time</td>
<td>( \frac{\text{Total number of payments released on time}}{\text{total number of released payments}} )</td>
</tr>
</tbody>
</table>
## Treasury metric examples

### Liquidity and cash management

<table>
<thead>
<tr>
<th>Metric</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of daily cash balances vs. forecast</td>
<td>Sum of daily cash balances/forecasted total cash balances.</td>
</tr>
<tr>
<td>Percentage of non-interest bearing cash vs. total cash</td>
<td>Total balances in non-interest bearing accounts or instruments/total cash.</td>
</tr>
<tr>
<td>Percentage of restricted cash vs. total cash</td>
<td>Total restricted cash/total cash.</td>
</tr>
<tr>
<td>Days cash available</td>
<td>Total available cash/average value of disbursements per day.</td>
</tr>
<tr>
<td>Percentage of committed credit</td>
<td>Total principal value of committed credit facilities/total principal value of all credit facilities.</td>
</tr>
</tbody>
</table>
Treasury metric examples

**Exposure management**

- **Variance to market rate at time of trade**
  - \( \frac{\text{Trade rate minus market rate at time of trade}}{\text{market rate at time of trade}} \)

- **Hedge percentage**
  - \( \frac{\text{Principal value of Identified hedged exposures}}{\text{principal value of total identified exposures}} \)

- **Fixed floating rate mix**
  - \( \frac{\text{Total value of fixed rate exposure}}{\text{total value of fixed and floating rate exposure}} \)
## Treasury metric examples

### Debt management

| Debt mix                      | Principal value of outstanding short term debt/principal value of outstanding debt.  
|                              | Principal value of outstanding long term debt/principal value of outstanding debt.  
| Rate vs. benchmark            | “All-in” interest rate on debt instruments vs. benchmark.  
| Credit available             | Total principal value of drawn credit /total principal value of all credit facilities.  

**AFP® Annual Conference**
<table>
<thead>
<tr>
<th>Treasury metric examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Portfolio credit rating</strong></td>
</tr>
<tr>
<td>• Weighted average of issuer credit ratings vs. stated policy benchmark.</td>
</tr>
<tr>
<td><strong>Maturity structure</strong></td>
</tr>
<tr>
<td>• Principal value of investments at stated maturity intervals/principal value of entire portfolio.</td>
</tr>
<tr>
<td><strong>Return vs. benchmark</strong></td>
</tr>
<tr>
<td>• Portfolio’s weighted average return vs. benchmark.</td>
</tr>
<tr>
<td><strong>Segmentation of investment portfolio</strong></td>
</tr>
<tr>
<td>• Total principal of investments by maturity/total investment portfolio.</td>
</tr>
<tr>
<td>• Total principal of investments by issuer/total investment portfolio.</td>
</tr>
<tr>
<td>• Total principal of investments by type of investment/total investment portfolio.</td>
</tr>
<tr>
<td>• Total principal of investments by issuer credit rating/total investment portfolio.</td>
</tr>
</tbody>
</table>
### Treasury metric examples

**Operational performance**

- Time required determining daily cash position vs. benchmark
- Ratio of system generated payments vs. manual payments
- Ratio of electronic vs. paper payments
- Number of bank accounts with non-relationship banks
Dick Sherrod is a Global Business Solutions Treasury Practitioner executive for Global Treasury Solutions, where he is responsible for advising key clients on building best practice operations for multinational, large and mid-sized corporations and financial institutions.

In this role, Sherrod consults with clients to improve working capital effectiveness through process improvement. Sherrod also helps clients develop long-term strategic plans and revenue-generating solutions. His expertise includes bank relationship management, Sarbanes-Oxley compliance, documentation, treasury and liquidity structures, security controls, financial software, cash forecasting methodologies, shared service centers and ERPs.

Prior to joining Bank of America Merrill Lynch, Sherrod was an executive director at J.P. Morgan Chase where he held a similar role. Prior to J.P. Morgan Chase, he had senior leadership roles at El Paso Energy, Enron, Hewlett-Packard and Lyondell Chemical.

Sherrod has been involved in treasury management and capital markets for over 30 years. He has lived and worked in Singapore and Bermuda, as well as completed extended work stays in Rotterdam, The Netherlands and Sao Paulo, Brazil.

Sherrod has a B.S. from the University of Tennessee and an M.B.A. from Houston Baptist University. He resides in Palm Beach County, Florida with a residence in West Palm Beach and office in Boca Raton.
Danny Doran is a Global Business Solutions Engagement executive for Global Treasury Solutions, where he is responsible for working with large corporate clients to improve their working capital strategies and processes.

In this role, Doran works closely with clients within multiple industries across the end-to-end working capital spectrum, including core treasury, order-to-cash, procure-to-pay, systems (treasury workstations, ERPs) and liquidity.

Doran joined Bank of America in 2005. He held several positions in the Global Quality and Productivity organization, where he led large-scale process improvement efforts in support of one of the bank’s largest operations – Client Delivery and Services. Doran was a key member of a “people-centered design” innovation team, which led to the development and launch of a revolutionary client engagement and product training process for treasury clients.

Prior to joining the bank, Doran held several operations and business process improvement roles at Xerox Corporation, supporting both client-facing and internal operations. During this time, he helped launch and lead Xerox Corporation’s first “lean” manufacturing operations. Doran also helped obtain Lean Six Sigma certification for Xerox Corporation, and subsequently participated on the “Rapid Response” team whose charter was to optimize worldwide manufacturing and client-facing business processes.

Throughout his 20-year career, Doran has specialized in process improvement and manufacturing methods. He is a Six Sigma Master Black Belt and holds a B.S. in Engineering from the Rochester Institute of Technology. He received an Executive MBA from the University of Rochester. Doran resides in Charlotte, North Carolina with his wife and two children.
Disclaimer

“Bank of America Merrill Lynch” is the marketing name for the global banking and global markets businesses of Bank of America Corporation. Lending, derivatives, and other commercial banking activities are performed globally by banking affiliates of Bank of America Corporation, including Bank of America, N.A., member FDIC. Securities, capital markets, strategic advisory, and other investment banking activities are performed globally by investment banking affiliates of Bank of America Corporation (“Investment Banking Affiliates”), including, in the United States, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Merrill Lynch Professional Clearing Corp., all of which are registered broker-dealers and members of FINRA and SIPC, and, in other jurisdictions, locally registered entities.

This document is intended for information purposes only and does not constitute a binding commitment to enter into any type of transaction or business relationship as a consequence of any information contained herein.

These materials have been prepared by one or more subsidiaries of Bank of America Corporation solely for the client or potential client to whom such materials are directly addressed and delivered (the “Company”) in connection with an actual or potential business relationship and may not be used or relied upon for any purpose other than as specifically contemplated by a written agreement with us. We assume no obligation to update or otherwise revise these materials, which speak as of the date of this presentation (or another date, if so noted) and are subject to change without notice. Under no circumstances may a copy of this presentation be shown, copied, transmitted or otherwise given to any person other than your authorized representatives. Products and services that may be referenced in the accompanying materials may be provided through one or more affiliates of Bank of America, N.A.

We are required to obtain, verify and record certain information that identifies our clients, which information includes the name and address of the client and other information that will allow us to identify the client in accordance with the USA Patriot Act (Title III of Pub. L. 107-56, as amended (signed into law October 26, 2001)) and such other laws, rules and regulations.

We do not provide legal, compliance, tax or accounting advice. Accordingly, any statements contained herein as to tax matters were neither written nor intended by us to be used and cannot be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on such taxpayer.

For more information, including terms and conditions that apply to the service(s), please contact your Bank of America Merrill Lynch representative.

Investment Banking Affiliates are not banks. The securities and financial instruments sold, offered or recommended by Investment Banking Affiliates, including without limitation money market mutual funds, are not bank deposits, are not guaranteed by, and are not otherwise obligations of, any bank, thrift or other subsidiary of Bank of America Corporation (unless explicitly stated otherwise), and are not insured by the Federal Deposit Insurance Corporation (“FDIC”) or any other governmental agency (unless explicitly stated otherwise).

This document is intended for information purposes only and does not constitute investment advice or a recommendation or offer or solicitation, and is not the basis for any contract to purchase or sell any security or other instrument, or for Investment Banking Affiliates or banking affiliates to enter into or arrange any type of transaction as a consequence of any information contained herein.

With respect to investments in money market mutual funds, you should carefully consider a fund’s investment objectives, risks, charges, and expenses before investing. Although money market mutual funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in money market mutual funds. The value of investments and the income derived from them may go down as well as up and you may not get back your original investment. The level of yield may be subject to fluctuation and is not guaranteed. Changes in rates of exchange between currencies may cause the value of investments to decrease or increase.

We have adopted policies and guidelines designed to preserve the independence of our research analysts. These policies prohibit employees from offering research coverage, a favorable research rating or a specific price target or offering to change a research rating or price target as consideration for or an inducement to obtain business or other compensation.

Copyright 2013 Bank of America Corporation. Bank of America N.A., Member FDIC, Equal Housing Lender.