The Treasury 3.0 Framework: Deploying a Model of Best Practices
Agenda

• Treasury: The Future State

• Successful Treasury Traits

• Moving to the Ideal State: Strategic Initiatives

• Building the Treasury Roadmap
Treasury: The Future State
Corporate Treasury Timeline

Treasury Management Timeline

HIGH

LOW

Treasury Influence & Value Add

Pre 1970  1970 - 2010  Now - Future

Data  Information  Intelligence
Operational to Strategic Transition

Typical Treasury Department

- Operational (80%)
- Analytical (15%)
- Strategic (5%)

Best Practice Treasury Department

- Operational (20%)
- Analytical (30%)
- Strategic (50%)
Treasury as the Financial Nerve Center
The Goal

Organization & Structure
Liquidity & Working Capital Management
Technology
Policy Framework
Treasury Metrics
Risk Management

World Class Treasury
Success Treasury Traits
Treasury Best Practices
Environment

Treasury Organization

Treasury Technology

Treasury Culture
Best Practices Traits

Treasury Success Traits

- Organization
  - Strategic Focus
  - Enterprise Support
  - People
    - Proactive Planning
    - Communication with Business Units
    - Continuous Improvement Culture
- Culture
  - Integrated Data
  - Straight Through Processing
  - Systematic Controls
  - Emphasize Electronic Payments
- Technology
Successful Traits: Organizational

Strategic Focus

Enterprise Support
Successful Traits: Cultural

- Proactive Planning
- Continuous Improvement Culture
- Communication with Business Units
Successful Traits: Technology

- Integrated Data
- Straight Through Processing
- Systematic Controls
- Emphasize Electronic Payments
Moving to the Ideal State: Treasury Initiatives
Moving To The Ideal Future State

Strategic Initiatives

- Technology
- Policy Framework
- Liquidity Management
- Treasury Metrics
- Organization & Structure
- Risk Management

Future State

The Power of Experience®
Treasury Organization & Structure

Strategic Initiatives

**Staffing**
- Staff level
- Staff skillsets

**Treasury Structure**
- Centralized vs. decentralized
- Regional vs. non-regional alignment

Investigate additional treasury structures
- Regional treasury center
- In-house banking
- FX center
Liquidity Management Initiatives

Strategic Initiatives

• Cash Forecasting
• Netting
• Pooling
• Working capital management and oversight
• Reporting and metrics
• Banking structure
Technology Initiatives

Strategic Initiatives

- Treasury technology needs assessment
  - Treasury Management System (TMS) selection
  - Online trading platforms
  - FX software
  - Debt & Investment Systems

Straight through processing
Data vs. Intelligence

- Expanded Risk Responsibility
- Narrow Executional Focus
- Strategic Advisory
- Full Automation & Integration

Scope of influence

Technology / Data Architecture
Policy Framework Initiatives

- Strategic Initiatives
  - Create a formal and comprehensive set of treasury policies.
    - Banking, cash management, debt, investment, etc.
  - Develop local procedures tying operations to those policies.
Treasury Metrics Initiatives

Strategic Initiatives

- Develop key metrics to gauge and analyze Treasury performance.
- Create a dashboard to provide a macro view of key Treasury metrics.
Sample Treasury Metrics Dashboard

**Payment Mechanisms: Electronic vs. Check**

**Cash & Investments**

<table>
<thead>
<tr>
<th>Metric</th>
<th>This Month</th>
<th>Last Month</th>
<th>2 Months Ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days Sales Outstanding</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Days Payable Outstanding</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Initial Denial Rates</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Bad Debts</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
</tbody>
</table>
Establishing Metrics

1. Set overall objectives for the financial function
2. Determine what should be measured
3. Establish processes and technology to execute and track objectives
There are several financial risks that Treasury may encounter:

<table>
<thead>
<tr>
<th>Market</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interest Rate</td>
</tr>
<tr>
<td></td>
<td>Commodity</td>
</tr>
<tr>
<td></td>
<td>Equity</td>
</tr>
<tr>
<td></td>
<td>Credit Spread</td>
</tr>
<tr>
<td>Credit</td>
<td>Direct</td>
</tr>
<tr>
<td></td>
<td>Credit Spread</td>
</tr>
<tr>
<td></td>
<td>Settlement</td>
</tr>
<tr>
<td>Operational</td>
<td>Transactional</td>
</tr>
<tr>
<td></td>
<td>Operational</td>
</tr>
<tr>
<td></td>
<td>Systems</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Market Liquidity</td>
</tr>
<tr>
<td></td>
<td>Funding</td>
</tr>
</tbody>
</table>

- **Rate Movements**
- **Price Movements**
- **Volatility**
- **Curve Shifts**
- **Basis**
- **Spread**

- **Execution Error**
- **Booking Error**
- **Exceeding Limits**
- **Fraud**
- **Programming Error**
- **MTM Error**
## Risk Management Initiatives

<table>
<thead>
<tr>
<th>Strategic initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Counterparty Risk</strong></td>
</tr>
</tbody>
</table>
| • Implement financial risk management policy  
• Establish limits for counterparties  
• Evaluate risk for counterparty banks  
• Report frequently |
| **Investment Risk**    |
| • Implement notional limits by instrument and fund  
• Implement concentration limits by fund  
• Monitor performance |
| **FX Risk**            |
| • Ensure FX policy up-to-date  
• Standardize formats and submission channels for FX exposure  
• Sign ISDA agreements with trading partners |

Risk Management keys to success:

• Identify risks
• Measure risks
• Manage risks
Building the Treasury Roadmap
Establish a Roadmap to Evolve

Prioritization ➔ Resources

Dependencies ➔ Risks

Timelines ➔ Milestones
Roadmap Benefits

- Focus and Direction
- Management Control
- Link Tasks to Needs and Milestones
- Visually Represent Goals to Employees
- Improve Department Communication
- Identify Issues & Interdependencies
Treasury Roadmap Process

- Preliminary Design
- Roadmap Development
- Follow-up & Implementation
- Roadmap Update
Roadmap Results

World Class Treasury

- Organization & Structure
- Liquidity & Working Capital Management
- Technology
- Policy Framework
- Treasury Metrics
- Risk Management
Questions
### Discussion Leaders

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Company</th>
<th>Direct Line</th>
<th>Main Line</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mike Gallanis, CPA, CTP</strong></td>
<td>Partner</td>
<td>Treasury Strategies, Inc.</td>
<td>312.628.6935</td>
<td>312.443.0840</td>
<td><a href="mailto:Mike_Gallanis@TreasuryStrategies.com">Mike_Gallanis@TreasuryStrategies.com</a></td>
</tr>
<tr>
<td><strong>Paul LaRock, CCM</strong></td>
<td>Principal</td>
<td>Treasury Strategies, Inc.</td>
<td>312.628.6955</td>
<td>312.443.0840</td>
<td><a href="mailto:Paul_LaRock@TreasuryStrategies.com">Paul_LaRock@TreasuryStrategies.com</a></td>
</tr>
</tbody>
</table>
Clients benefit from our extensive subject matter expertise, real-world experience and proven methodologies. These factors enable us to quickly deliver actionable results, which empower our clients to maintain best-in-class processes, practices and strategies for managing their cash, liquidity and risks.

**Clients**
- Corporations
- Not-for-Profit Organizations
- Public Sector Organizations

**Solutions**
- Global Cash and Liquidity Management
- Working Capital Management
- Best Practices Review and Benchmarking
- Risk Management
- Treasury Organization
About Treasury Strategies, Inc.

Who We Are
Treasury Strategies, Inc. is the leading treasury consulting firm working with corporations and financial services providers. Our experience and thought leadership in treasury management, working capital management, liquidity and payments, combined with our comprehensive view of the market, rewards you with a unique perspective, unparalleled insights and actionable solutions.

What We Do

Corporations
We help you maximize worldwide treasury performance and navigate regulatory and payment system changes through a focus on best practices, technology, liquidity and controls.

Treasury Technology
We provide guidance through every step of the technology process. Our expert approach will uncover opportunities to optimize the value of your treasury through fully integrated technology solutions.

Financial Services
Our experience, analytic approach and benchmarks provide unique consulting solutions to help you strengthen and grow your business.

Locations
Chicago • London • New York

Accreditations

Connect with Us
www.TreasuryStrategies.com/content/networking-communities
@TreasuryStrat