TREASURY TRENDS

October 2017 | www.bancorptreasury.com | www.barringtontreasury.com Issue 414

A quick 'safety check'

With the financial year-end scramble now in the rearview mirror for many, it is an opportune time for treasurers and CFOs to take stock and reaffirm the strategic treasury roadmap for the coming months. Similar to the 100 day plan now commonplace in the political arena, identifying and planning clear milestones that need to be achieved over the short term can help ensure that the treasury function stays at the top of its game. The sections below outline five important areas where treasury 'quick-wins' can be achieved.

Key points

- Bank funding appetite has diminished. There is value in testing the market if refinancing.
- Review your treasury policy to ensure it remains relevant and practical.
- Take a company-wide approach to identification of treasury risks.
- Ensure treasury reporting presents key information in a clear and succinct fashion.
- Optimise bank account fees and structures to achieve cost savings.

#1 A funding plan. Do you have one?

There is no denying that the corporate funding landscape has changed since the start of the year, with lending appetite from the big four banks in broad retreat. Thankfully, this lack of enthusiasm has been partially offset by renewed vigour from the foreign bank sector, helped by a number of new entrants into the market and a more expansionary mandate.

Favourable pricing dynamics have also helped support non-bank funding markets, encouraging strong corporate bond and USPP issuance of late. This is allowing larger corporates to diversify funding sources and extend funding tenor beyond that available via traditional bank funding arrangements. Variations on the traditional USPP issuance structure, such as delayed funding and local currency denominations, are also starting to appear and are helping to provide a more tailored solution.

For corporate borrowers, the changing funding landscape means that bank appetite and your historic bank relationships should not be taken for granted. For those at the larger end of town, it might also be a good time to investigate the pros and cons of alternative funding sources, either domestic or offshore, and to answer some of the marketing calls from those banks currently outside of your funding group.

Those corporates who have recently refinanced are likely to have experienced an increase in margins and pressure on key terms (e.g. restrictions of drawdown periods of less than 3-months). Fickle bank appetite means there is little consistency in bank pricing and our recent experience with funding tenders has shown an unusually wide pricing range. Testing the market via a formal RFP process is therefore proving beneficial.

The refinancing timeline can also be more protracted than usual, particularly if dealing with some of the foreign banks. The prudent treasurer should ensure a generous timeline when renewing existing facilities, including contingency in case 'plan-B' is needed.

#2 Reviewing the Treasury Policy

While a periodic review of your organisation's Treasury Policy should be on a predefined timetable, the imminent unwinding of the global liquidity experiment could have significant implications for financial markets and may warrant a reassessment of your treasury risk management framework.

Do your hedging bands or time buckets remain appropriate? Have they delivered on the hedging objectives over time? Are the hedging products appropriate and well understood? Do the treasury delegations and authority levels reflect the current organisation structure?

Given a number of bank credit rating downgrades of late, another area of the Treasury Policy getting some focus has been counterparty limits. A reduction in the number of approved bank counterparties can make life difficult for those managing significant cash investments, particularly with bank prudential rules favouring smaller deposit sizes.

More broadly, does the policy remain practical, manage your treasury risks appropriately and reflect actual practice? If the answer is no, then it's time for a review.

#3 Promote good internal communication

The treasury function is tasked with managing the treasury risks of the business, whether liquidity interest rate, FX or funding.

(Continued on page 2)

BANCORP
BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Those risks are generally created by others within the business, so it is imperative that the treasurer has good communication channels throughout the organisation. This may not be taxing in smaller organisations but can easily become more problematic as the organisation grows.

Many of the treasury horror stories we come across have come down to miscommunication within the organisation, typically manifest in poor exposure forecasting. Has the purchase currency changed? Is the sales outlook expanding? Broadly, are forecasts being regularly reviewed and variances investigated?

It is the job of the treasurer to make sure that those creating the treasury risks within the business, be they procurement, sales, or the manufacturing team, appreciate the exposures they are creating and know the appropriate channel for funnelling that information through to be managed. Not everyone needs to know how to manage the exposure, but they should know who to report the exposure to.

#4 Best in class treasury reporting

We heard a story recently where a CFO was asked by a Board member to explain a particular chart, in this case a chart that the Board member had been receiving regularly for a number of years. This example provides a good reminder that there is always room for improvement when it comes to reporting — and that audience understanding should not be taken for granted!

Reporting should be relevant, and presented in a clear and concise way. Charts and graphs are a great way of doing this, with a visual depiction often more powerful than words or numbers on a page.

One of the key deficiencies in treasury reporting is a lack of forward guidance. No CFO, Board or bank wants to learn that the borrower breached its banking covenants last month. Instead, strong reporting should be able to signal where the pressures or issues might be in six or twelve months' time, so that appropriate preventative measures can be taken. It sounds obvious but many reporting packs do not provide enough forward guidance.

Another aspect often overlooked is reporting against policy. This can be as simple as a small compliance table at the end of the report, confirming that each of the key treasury policy controls has been complied with. Your treasury advisor should be able to give you a few ideas on how to enhance your reporting pack, or the best ways of presenting key information in a clear and succinct fashion.

#5 Cash is king. Is yours working for you?

Our work helping organisations optimise their transactional banking arrangements often identifies significant savings via making better use of cash balances and account structures. Pooling arrangements can often be used to reduce borrowing needs or to make the most of tiered interest rate structures. Negotiating higher interest rates on cash accounts can also often prove significant.

Good cash flow reporting sits at the heart of cash management but minimising bank fees and optimising bank account and facility structures can also provide significant savings. Whilst it is normal for organisations to focus on costs relating to debt facilities and risk management, it is often surprising how 'normal' bank fees are ignored. What are considered routine or insignificant, frequently amount to something that most of us would not sign off in the normal course of events.

Conclusion

This guide gives you a general battle plan for the next 100 days, enabling you to lift treasury performance in a short space of time and help make sure that those important tasks progress beyond the 'to-do' pile. While the path towards continuous improvement is by definition never complete, planning your improvement and setting goals is critical and can help build momentum via some quick wins

WHERE WE AND OUR PARTNERS OPERATE

BANCORP TREASURY
Phone +64 9 912 7600
AUCKLAND
WELLINGTON
CHRISTCHURCH

BARRINGTON TREASURY
Phone 1800 425 079
SYDNEY
BRISBANE
PERTH

PMC TREASURY
Phone +64 9 912 7600
LONDON
NEW YORK
SINGAPORE

ETOS AUSTRALIA
Phone 1800 425 079
SYDNEY
MELBOURNE

BANCORP
BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES