



Defining Treasury Best Practice

This is based on an article first published in The International Treasurer's Handbook published by the Association of Corporate Treasurers in 2011

While it is generally accepted that there is such a thing as treasury 'best practice' little attention has been given to defining what its essential ingredients are.

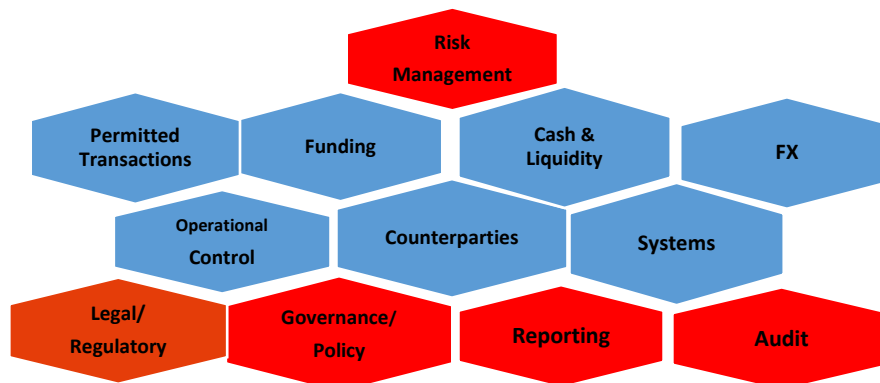
This paper endeavours to set out a framework or specification for what constitutes treasury 'best practice'. This is based on a wide range of experiences with treasury in UK/Ireland, Europe, US and South Africa. I have also taken input from a small, international group of treasury colleagues that I would regard as having a well-rounded view of treasury in general.

Different professions have adopted differing approaches to standards in their respective areas. Whereas the accounting profession is very standards oriented, the treasury profession has been much less prescriptive in its field. Treasurers have traditionally stood back from the idea of standards of 'best practice' with the feeling that each company and its treasury is different, and that its treasurer knows best.

The basic premise of this presentation is that the principles of good treasury management can be distilled into 'best practice' standards. While different treasurers will articulate and perhaps even apply the standards in different ways, the core principles are universal.

Talking about 'best practice' can sound a bit too academic in the rough and tumble of day-to-day business life. Maybe 'best practice' looks like a bit of a luxury and 'ok practice' is good enough? However, the fundamental proposition here is that good treasury management adds long term value to the business or the portfolio, be it asset or liability based. That added value can be better business results, reduced risk or lower borrowing costs. ***In the medium to long term, a 'best practice' treasury would be expected to outperform a treasury that does not meet those standards.***

Best practice requirements are set out below for each important aspect of treasury, as follows:



'Best Practice' can be a nebulous concept and there is a need to crystallise it into something specific and identifiable. The underlying methodology is to distil 'best practice' down to 50 essential 'Best Practices' and refer to these as BP1, BP2 and so on. You may ask why 50 and why not 60 or 75? The simple answer is that 50 standards seemed to cover the essentials and besides, it is a convenient round number. However, there would be no difficulty in adding another 5 or 6, but in so doing, we would be becoming less 'essential' and more detailed. Besides, there is no point in being pedantic about the exact number.

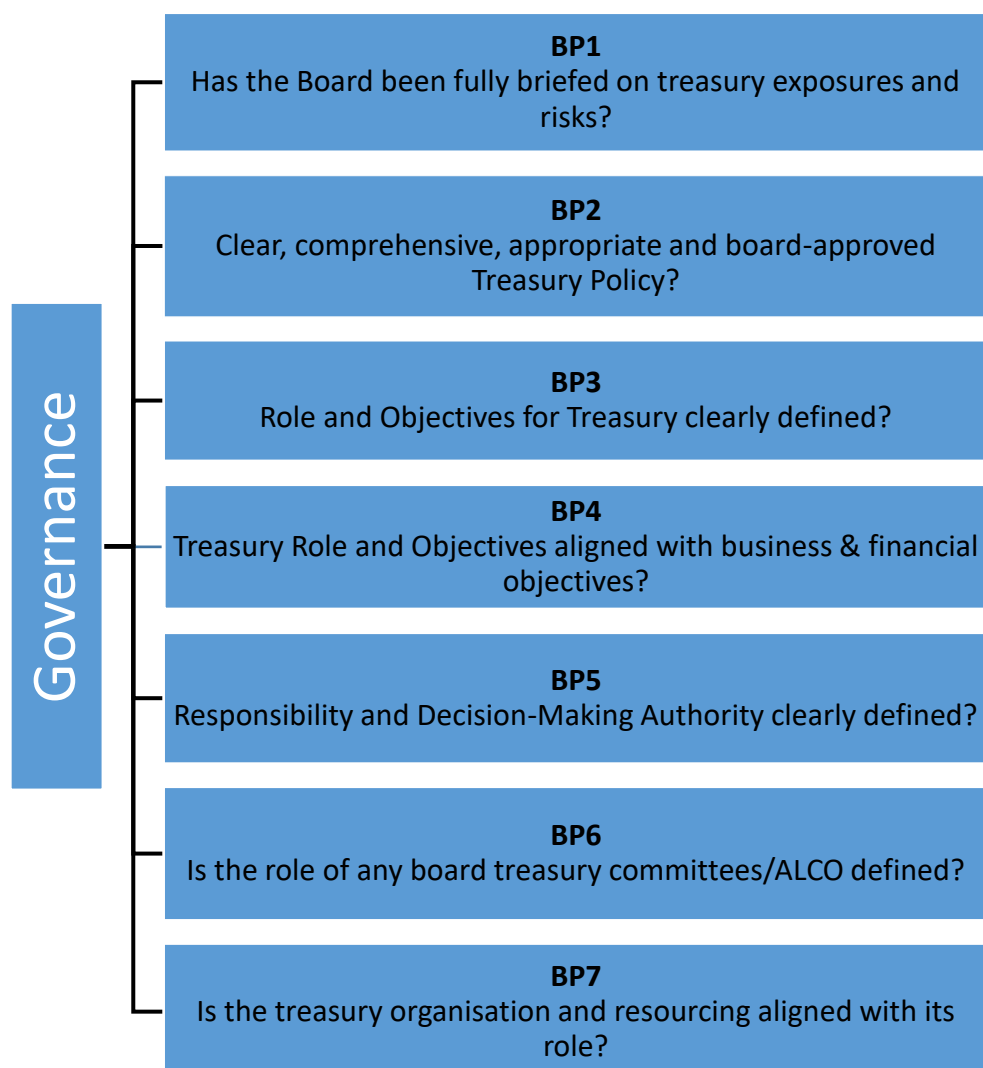
The important point is that each Treasury BP is a very practical business process and mechanism that will benefit any treasury seeking to contribute to the overall organisation of which it is part.

An important feature of the approach is to avoid the temptation to be overly prescriptive on the requirements in each area. This aspect could be further developed but it is a separate dimension - and a limited dimension because it only applies to some Treasury BP's. For example, with regard to the requirement that treasury's role and objective is aligned with the organisation objectives (BP4), it is not possible to specify in a universal sense how that is to be achieved. Best practice requires that it *is* achieved; exactly how, is situation-specific.

An important point to be made about these standards is that they are presented as simple questions, that could seemingly be answered in a series of yes/no responses. However, to see them in such a limiting way would be to completely misunderstand what is involved. Rather than a yes/no checklist, what is presented is a prompt list of important areas for review and consideration, each of varying complexity, and capable of being answered only by a treasurer of seniority and experience.

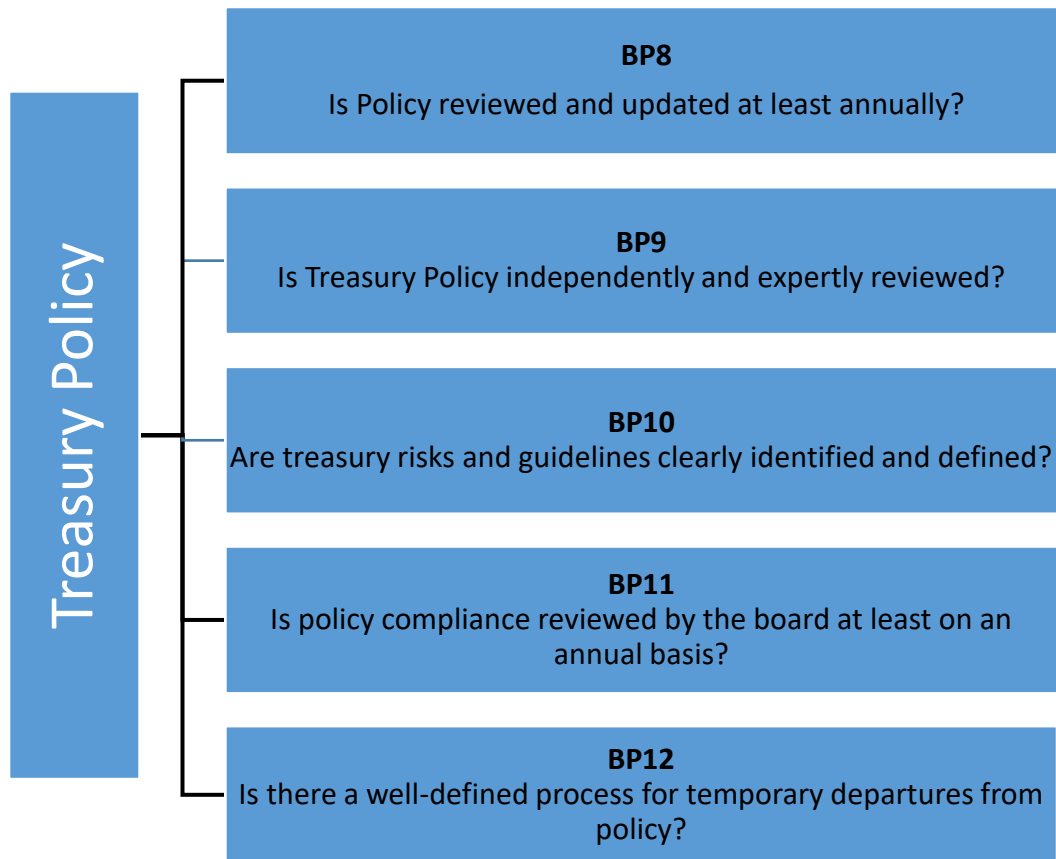
Taking BP2 as an example, which is addressing the requirement for a treasury policy, we know that treasury policies vary widely and ticking the box of 'having' one is neither here nor there in itself. The real issue is whether the treasury policy is appropriate to the requirements of the specific business. That is the key question and it can only be answered by an experienced treasury person. A simple approach of getting through a check-list is the opposite of what is required.

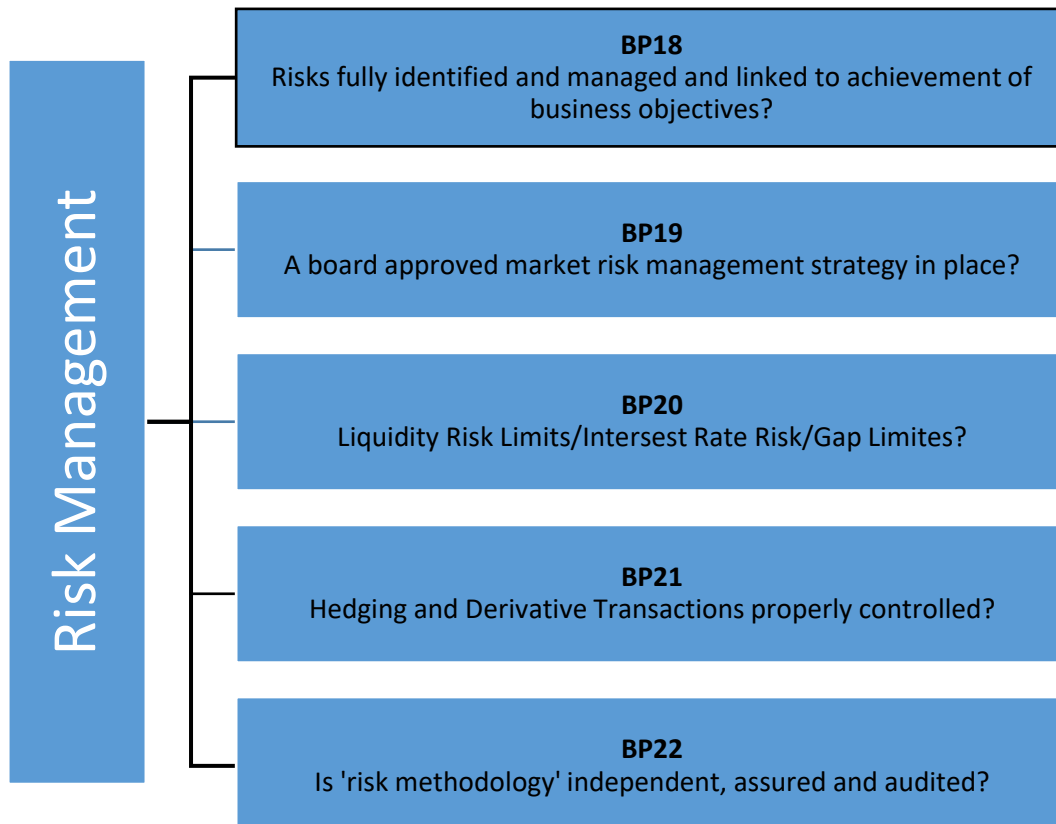
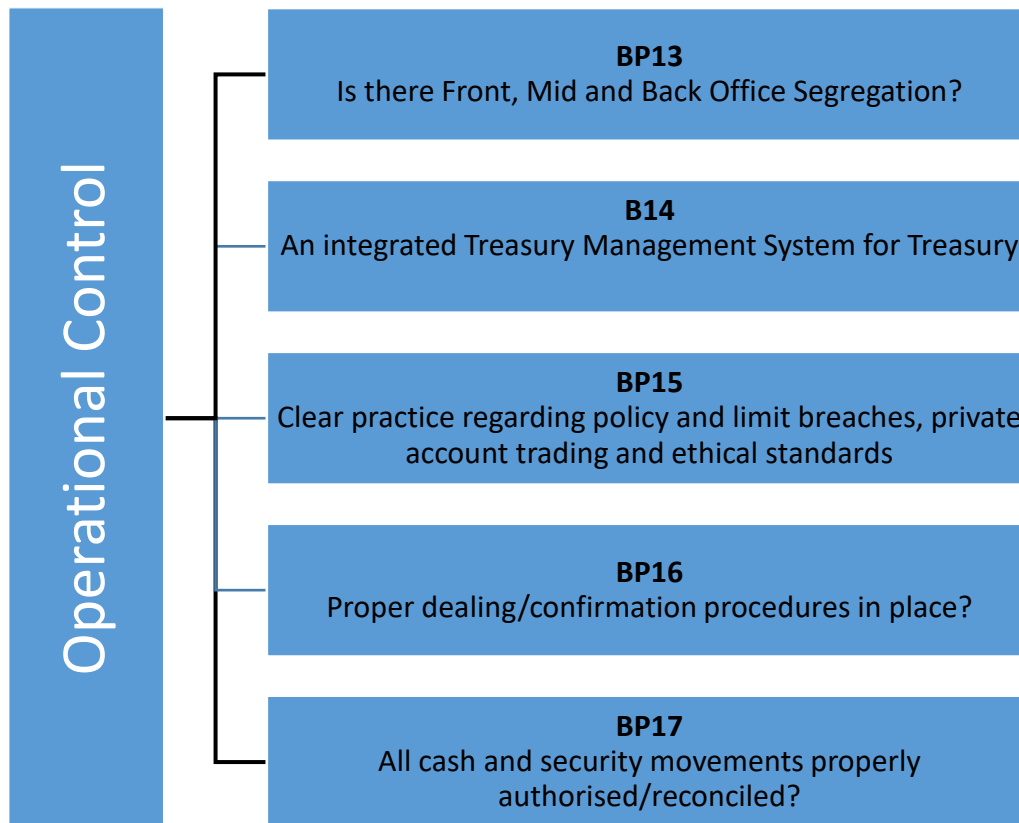
In the following sections, I am setting out the Treasury BP's for each of the above areas.

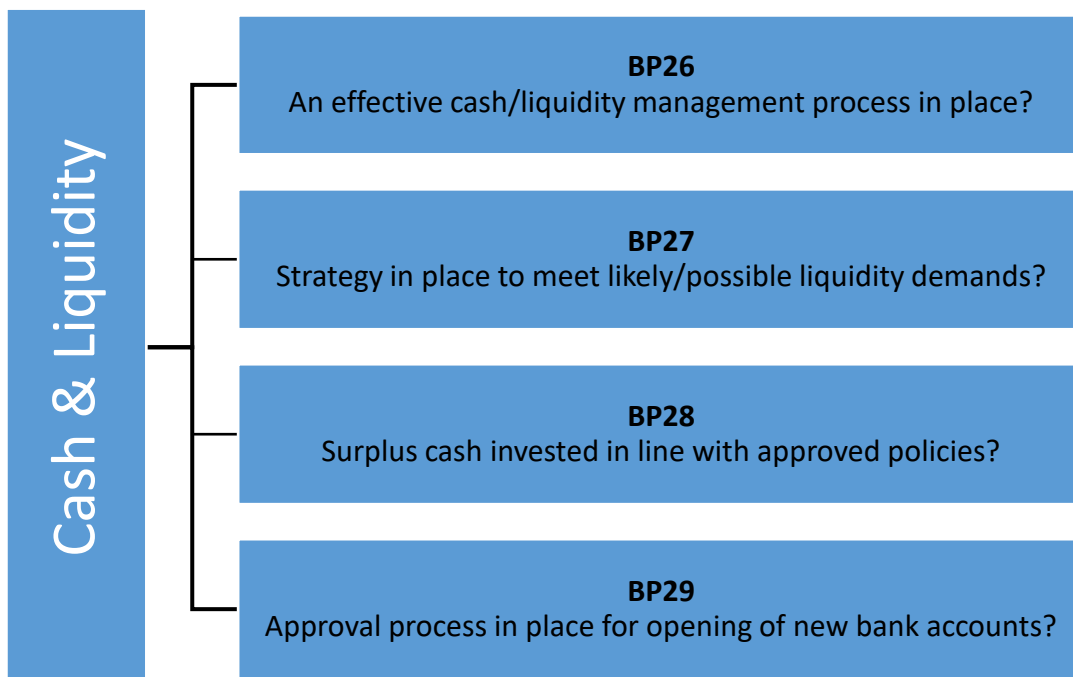
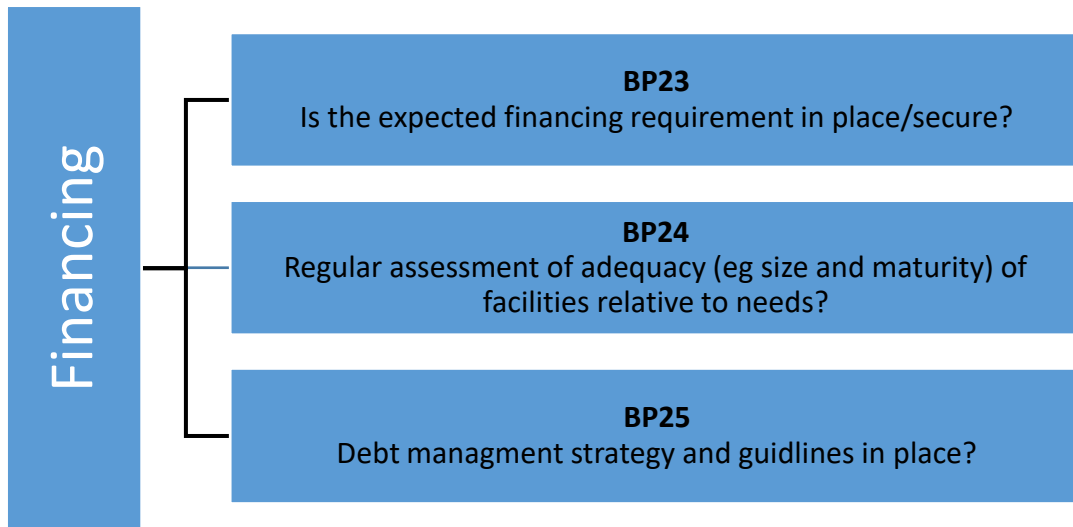


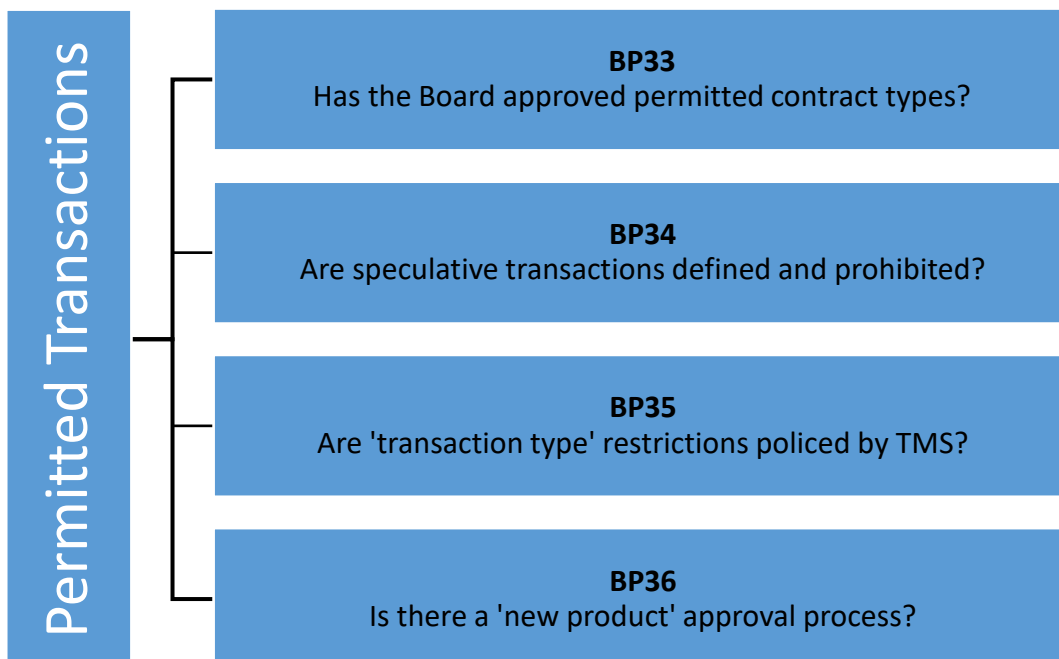
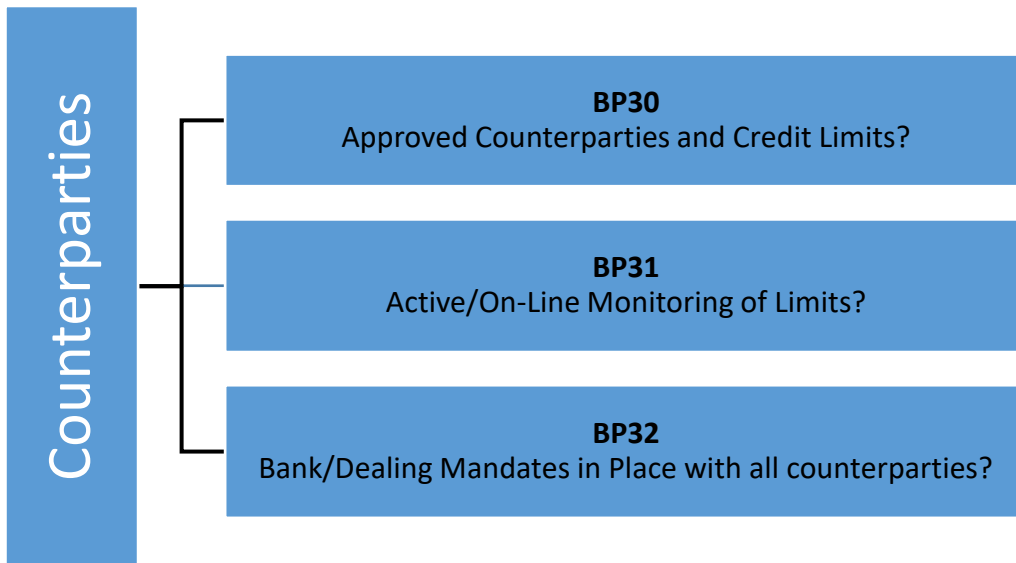
It is not feasible to elaborate on each Treasury BP within the confines of this presentation but it is worthwhile to comment on governance in particular. Governance is the starting point. We should see it as the foundation for everything that follows. This is why BP1 is that the Board should be fully briefed on treasury exposures and risks. Without this, the Board is literally in the dark. Best practice in this area would require a comprehensive, non-technical explanation of the treasury issues faced by the business, and since these are not static, periodic updates on these points.

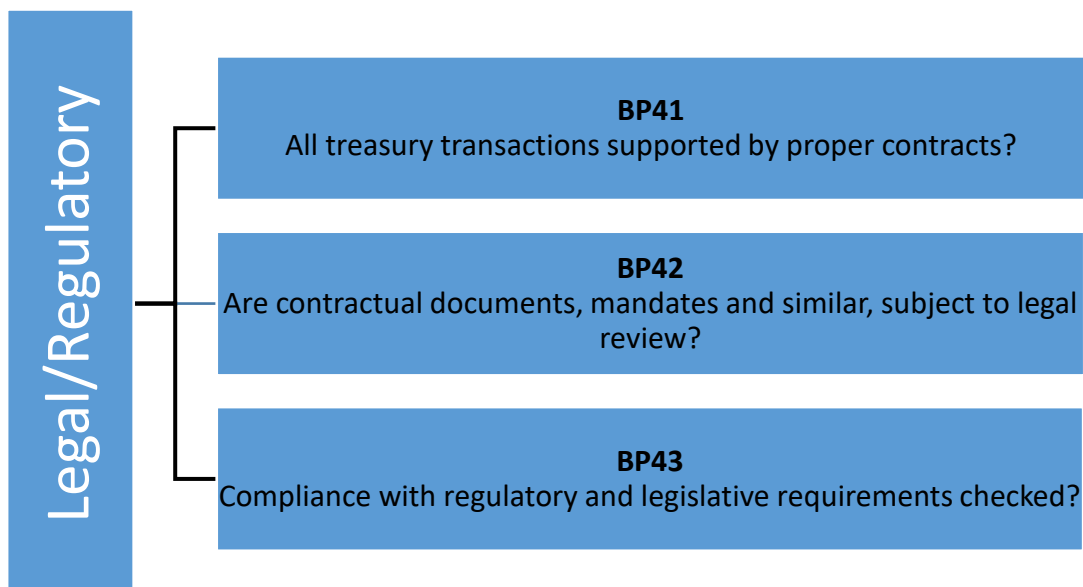
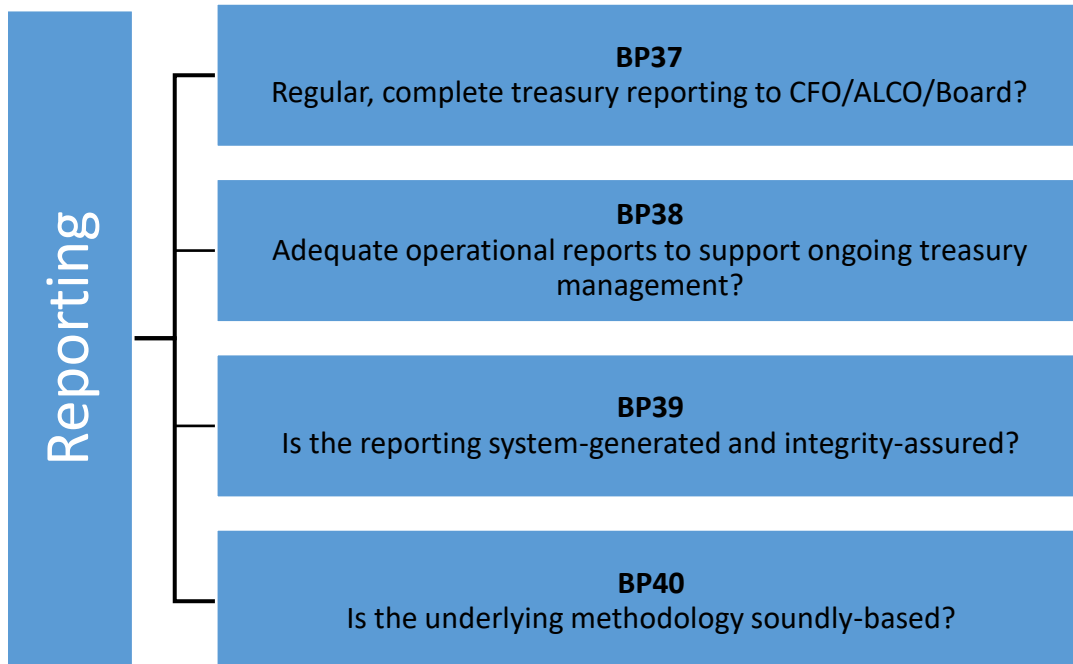
As well as it not being possible to elaborate on each individual Treasury BP, it actually isn't necessary to do this; they are quite clear and straightforward as requirements. The depth and complexity lies in the judgement and experience required to know when there is compliance – when treasury 'best practice' is achieved. This is the kernel of what is envisaged.

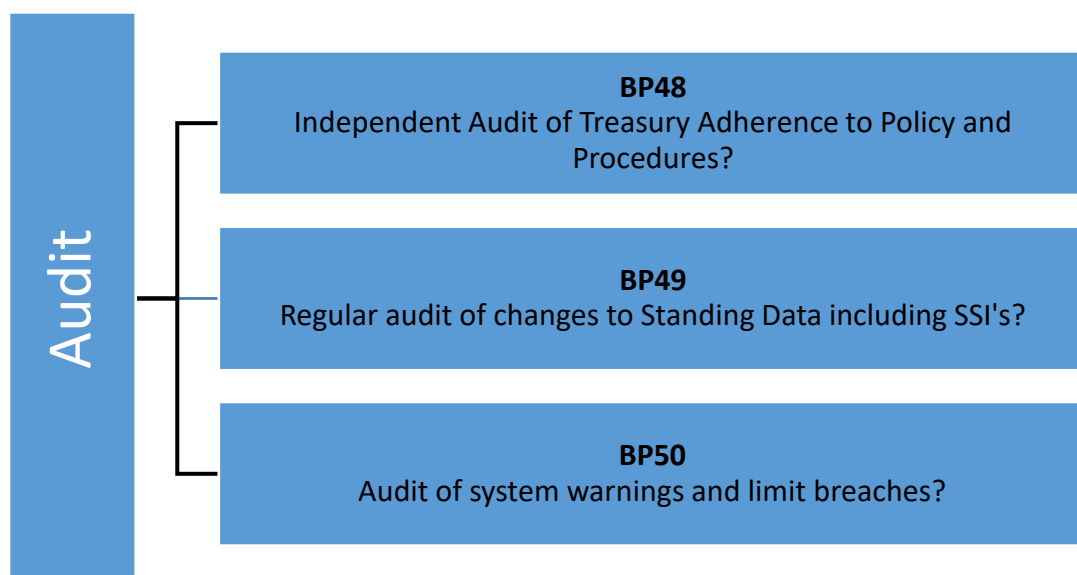
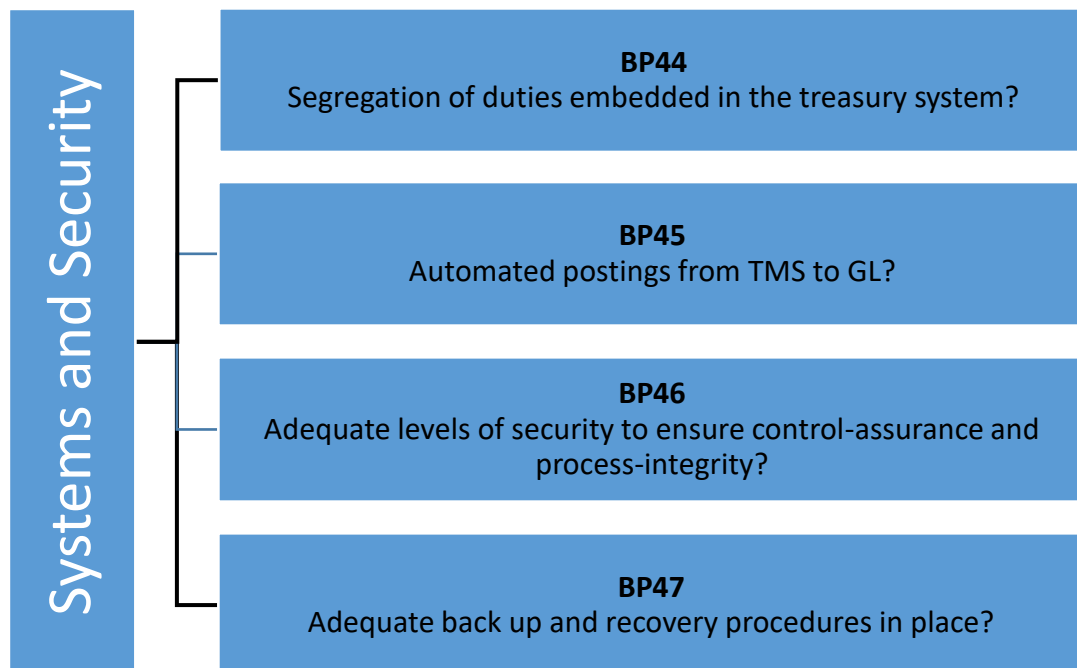












Applying 'best practice' is part of good financial management and this has been proven to be in the interest of individual organisations and of society as a whole. It is quite possible that we will evolve towards a situation where compliance with standards of treasury 'best practice' is seen as an important part of the overall business control framework, with independent and expert certification to validate this.

[Eddie Fogarty](#)

TMS Treasury Systems

Ph: +353 87 2414802

Em: efogarty@ftitreasury.com

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