Treasury Trends

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Governance in treasury – setting the tone for directors in 2024

Managing corporate treasury is a critical function for any organisation, and directors face various risks in ensuring the efficient and effective handling of financial resources. Included in the myriad of risks to be considered by those in governance roles are a number relating directly to treasury risk management. Treasury involves overseeing cash management, liquidity, funding, and financial risk management. Understanding and mitigating risks is crucial to success.

- *Market risk*: Essentially the fluctuations in interest rates, foreign exchange and commodity prices, the risk typically managed through 'right fit' policy and hedging strategies. Boards need to be confident that policy documents reflect an organisation's risk appetite around fluctuations in market risk prices, and that documentation is up to date and remains 'fit for purpose'.
- *Credit risk*: Robust credit risk assessment processes around approved counterparties, including banks, customers and suppliers, needs to be in place along with practical monitoring mechanisms to safeguard financial interests.
- *Liquidity risk*: Maintaining sufficient liquidity is crucial for the day-to-day operations of all organisations. Directors need to anticipate and address liquidity risks, ensuring that there is ready access to adequate funds when needed. Having comfort that working capital is being used optimally, that appropriate lines of credit are secure and developing contingency plans for unforeseen liquidity challenges are all key responsibility areas for directors.
- *Regulatory Compliance Risks*: The financial landscape is subject to various regulations, and directors must ensure that the corporate treasury operations are compliant. Non-compliance can lead to legal issues, financial penalties, and damage to an organisation's reputation. Directors need to stay informed about regulatory changes and work closely with legal and compliance teams to implement necessary adjustments.
- *Technology and Cybersecurity Risks*: With the increasing digitisation of financial processes, directors must address technology and cybersecurity risks. Cyberattacks can compromise financial data and disrupt treasury activities so it is imperative that appropriate controls are actioned to protect sensitive financial information and maintain the integrity of treasury operations.
- *Operational Risks*: Operational risks encompass a broad range of potential issues, including errors in transaction processing, system failures, and inadequate internal controls. It is prudent for directors to undertake regular audits or healthchecks of operations and, as appropriate, have confidence around contingency plans to mitigate operational risks to ensure the smooth functioning of the treasury function.
- *Geopolitical Uncertainties*: Escalating geopolitical tensions, trade disputes, or geopolitical events (e.g., conflicts, sanctions) can and do disrupt global supply chains, heighten volatility in financial markets, and impact business operations. Boards and treasuries should assess geopolitical risks, diversify supply chain sources, and implement contingency plans to mitigate geopolitical uncertainties and safeguard business continuity.

Governance Checklist

- Does treasury reporting provide sufficient comfort that key metrics are being managed effectively - and on a forward looking basis?
- Is treasury policy addressing all relevant risk across the organisation? When was it last reviewed?
- Would the organisation benefit from an independent, pragmatic treasury healthcheck?
- Would it be timely to arrange for a treasury 'recap' for the Board?
- Is the treasury function the right area to lead the organisation in areas such as climate and wider sustainability?
- How could the Board better support treasury initiatives?

It’s all about the communication

Whilst being very clear as to where the lines of responsibility fall, we encourage regular communication between Boards and treasury leadership, seeing it as key to maintaining a strong risk management framework. Treasury workshops devised for directors either as part of, or scheduled separately from, a Board meeting once a year is a good way to ensure treasury focus and that treasury is in alignment with that of the broader business.

We also see value in ensuring that the areas of a business that are creating treasury flows and exposures (e.g. procurement, engineers, sales, AP/AR) understand the impact their role has on treasury activity and, ultimately, business success. An educative “Treasury 101” workshop with key team members from outside treasury can be a useful tool for deepening team ties and enhancing financial and business literacy.

From a governance perspective, we think the ‘best’ treasurers are those who spend less time at their desk and relatively more time out in the business asking questions and maintaining a deep understanding of flows and exposures as they relate to business activity.

Responsibilities list forever growing

Directors cite climate change as the most important long-term issue for the government to address in public policy. In New Zealand, the Institute of Directors listed its “*Top 5 Issues for Directors in 2024*”. Three of these dovetail neatly into effective treasury risk management, with climate issues also highlighted as one of the three “big issues” of governance for 2024 by the Australian Institute of Company Directors.

- *Climate leadership*: The common call is for organisations to “know their number” in relation to greenhouse gas emissions. Boards also have a leadership role in supporting management to adapt to changing climate policy in the face of ongoing and more severe weather events, and regulatory requirements. Treasury can play a key part in this area and we are working with many organisations benefitting from preferential funding options – provided a climate/sustainability strategy is in place and progress against targets is being monitored.
- *Enabling productivity*: Costs – inflation and interest, supply chain concerns, wage demands in a tight labour market, pressure on pricing and funding drying up – continue to put the squeeze on organisations. Encouraging greater use of technology in the treasury space, as well as driving evermore effective use of cash will help to support ambitions in the productivity area.
- *The value-adding board*: Directors need to be focused on the medium and long term, the ideal timeline to scenario test business outcomes, stress test for risk and build robust cash and funding plans.

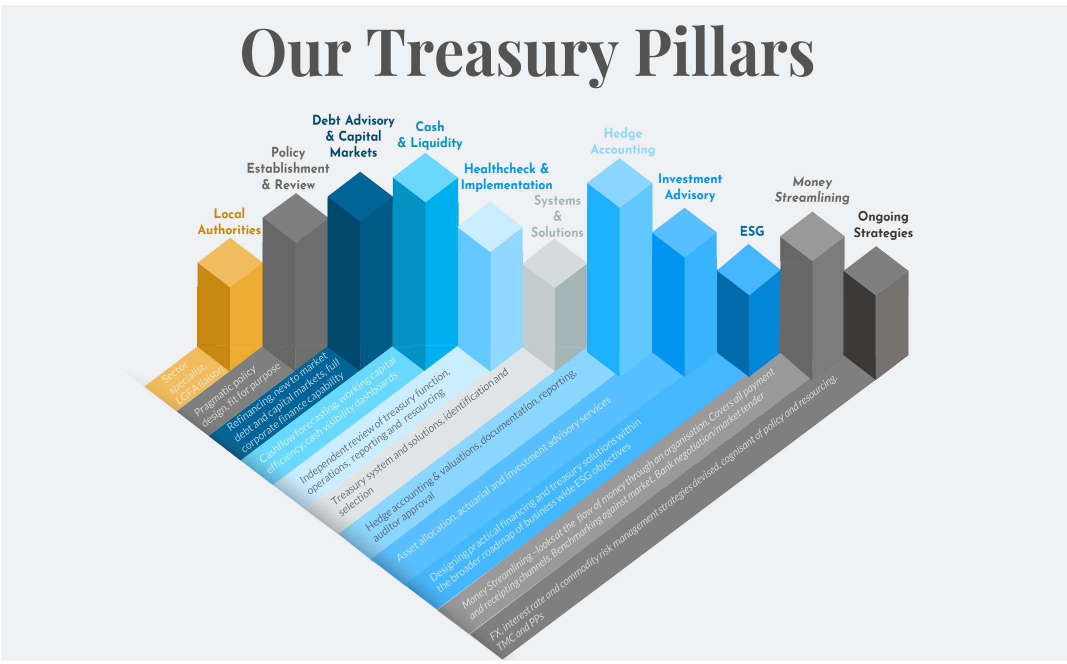
View treasury as a value-add

The value-adding issue sums up treasury in many ways. Whilst, for most, treasury is still viewed as a cost centre (which is probably correct), there are many ways in which treasury can help to drive change within and across a business.

With Boards being encouraged (or required in some circumstances) by multiple stakeholders to set targets that are meaningful and ambitious when it comes to sustainability (and specifically for borrowing), the same guiding principles might apply to ‘routine’ treasury. What could and should we do with our cash? Is our wider funding mix the most appropriate, offering the degree of flexibility, certainty, cost effectiveness that is needed?

Please speak to your advisor if you would like specific information on supporting good governance, particularly around treasury/climate/sustainability strategy development and monitoring.

WHAT WE DO



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