



# Selecting Treasury Workstations

October 20, 2005

Jeff Wallace  
Managing Partner  
Greenwich Treasury Advisors LLC

# A Formal RFP Process is Best ...

- Setting up the project team
- Needs analysis
  - FAS 133 checklist
- Building the business case
- Identify likely system type alternatives
- RFI a “longlist” of vendors
  - List of major North American providers
- RFP a shortlist
- Presentations by leading contenders
- Evaluation
- System implementation issues

## ... because Quick and Dirty Doesn't Do It

- It's tempting to avoid all of this work
  - No needs analysis
  - No initial IT and other department buy-in and participation
- Much time is spent
  - Lengthy systems demos by too many vendors
  - Undue focus on bells and whistles
  - No testing of real-life transactions
- CFO/IT shoots down an inadequate proposal

# It's a Major Process Change

CFO's and IT will shoot down an inadequate proposal because implementing a new treasury system is a major process change:

- Involving as much implementing of revised (optimized) internal process as of software
- With high visibility across many departments and business units
- Notoriously subject to technology risk, cost overruns and time delays
- Led by people who obviously don't know what they are dealing with

# Using Consultants

- Pros
  - Project management skills
  - Developing needs analysis
  - Vendor knowledge and pricing
  - IT expertise
  - Objective RFP evaluation
  - Implementation and re-engineering support
  - Broker role between vendor and client
- Cons
  - Can be expensive
  - Junior staff may do the needs analysis
  - Risk of low knowledge transfer

# Setting up the Project Team

- Project sponsor
  - Typically the T
- Project manager
  - Typically an AT
  - **Not IT or Purchasing!**
- Project deliverables
  - Justification for a change process
  - Vendor selection
  - Implementation plan
- Steering Committee
  - Other senior managers
- Treasury members
  - Traders
  - Middle/back office
  - Other system users
- Members from:
  - Accounting
  - IT
  - Business units
  - Perhaps Tax
  - Perhaps I/A or C-SOX
  - Worker bees
  - Purchasing

# Needs Analysis – 1

- Evaluation of how Treasury is currently meeting its stated objectives per:
  - Mission statement/corporate policy mandate
  - Existing policies and procedures
  - Treasury structure
- Review of existing treasury processes:
  - External cash and debt management
  - Interco treasury transactions
  - Cash forecasting and planning
  - FX, IR, commodity, counterparty credit risk management
  - Identification of STP requirements and opportunities

# Needs Analysis – 2

- Review of existing treasury policies (continued):
  - Treasury dealing procedures
  - Deal confirmation and settlements
  - Treasury transaction accounting issues
  - Security and controls
  - Reports to treasury and senior management
- Key process questions:
  - How is the process carried out?
  - What is the reason for the process?
  - What is actually achieved by the process?
  - Could it be better achieved elsewhere?

# Needs Analysis – 3

- Review of existing systems
  - Both at HQ and abroad
  - Inadequacies and opportunities for improvement
- Likely future treasury needs of the company
  - Strategic plans for organic growth and expansion
  - Likely M&A possibilities
  - Capital structure implications
  - Impact on FX, IR and commodity risks

# FAS 133 Checklist – 1

The system itself writes the hedge documentation:

- Links hedge instrument(s) with specific hedged item(s) including on a % basis
- Possibly references an external system that documents the hedged item
- Has the boilerplate text from the Risk Management Policy regarding hedging strategy, objective, etc.
- How hedged item and hedge instrument will be fair valued for effectiveness purposes
- Type of risk being hedged: FX, interest rate, credit worthiness and entire change in value

## FAS 133 Checklist – 2

- Proven “bank-strength” pricing models
- Effectiveness testing should always include:
  - The dollar offset method
  - The assumption of 100% effectiveness
- But regression analyses is not a strictly necessary effectiveness test requirement
- Manages hedge termination when hedge is
  - Voluntarily terminated (“de-designated”)
  - Fails effectiveness test
  - Forecast error occurs
- Allows for redesignation of existing derivatives

## FAS 133 Check List – 3

- Measures ineffectiveness and excluded amounts
- Aggregates results for all hedges for automatic posting to G/L P&L and off-balance sheet deferral accounts by unit ledger at hedging center and at local unit
- Maintains historical audit trail, archiving all data on each hedge at least on a monthly basis
- Proven G/L capabilities
  - Direct interface with your general ledger
- Allows flexible AOCI amortization to P&L

# FAS 133 Check List – 4

- Direct uploading of derivative data from your existing derivative systems
- Web interface for receiving FX exposure data from the foreign units
- Interface with other systems that can provide additional analytic capabilities
  - Algorithmics, RiskMetrics, etc.
- Test actual accounting examples of imperfect hedges which have ineffectiveness

# FAS 133 Check List – 5

Tax must review system information needed for tax compliance reporting:

- Historic costs
- Realized vs. unrealized gains/losses
- Supporting evidence (e.g., historic financial rate data used to calculate prices) that intercompany derivatives were transacted at arms-length pricing
- Any required tax hedge documentation

# General Business Case Benefits

- Data aggregation and normalization
- Better worldwide real-time data awareness of key exposures and data
- Less dependence on manual processes
- Less bank dependence
- Increased accuracy
- Increased timeliness
- Better communication
- Accounting complexities
- Better compliance w/ STP:
  - Operating units
  - Trading websites
  - Confirmations
  - G/L
- Better decision-making
- Better utilization of the scarcest resource: staff time in treasury and at the business units

# Treasury Performance Improvements

- Reduced reporting cycle times
- Accurate tracking of debt and derivative maturity payments, eliminating penalties and improving forecasting
- Bank account and G/L reconciliation less resource intensive
- Qualitatively better risk measurement
- Qualitatively better performance benchmarking and analysis
- **Improvements of various inadequacies and weaknesses noted in Needs Analysis**
  - A key selling point for a new system

# Quantifiable TMS Benefits

- Interest savings from better utilization of idle balances against debt
- Reduced bank information reporting fees
- Interco netting transactions (bid/asked spread on netted amounts, reduced float)
- Payment factory disbursement savings
- Savings on netted FX exposures
- Reduced FX risk (show lower volatility)
- Reduced staff time due to STP automated cash J/E's into the G/L

# Major System Alternatives

The objective is not use of world-class technology, it is world-class use of technology:

<b>Approach</b>	<b>Controls</b>	<b>Con- venience</b>	<b>Cost Visibility</b>	<b>TCO*</b>
Spreadsheets	Minimal	Very high	Very low	Very high
Bank software and websites	Very good	Moderate then high	Low to Moderate	Moderate to High
TMS – Client/server	Very good	Low then high	Very high	Moderate
TMS – ASP	Very good	Moderate then high	High	Moderate
Treasury Agency	SAS 70	Moderate then high	High	Moderate to High
Securities Custodian	SAS 70	Very high	Moderate	Moderate
*Total Cost of Ownership, including opportunity cost				

# Major System Alternative Drivers

- Organizational complexity
- Organizational size
- Transaction volumes
- Types of transactions
- Whether the need is basic cash management automation vs. risk analysis and FAS 133 accounting

# Major Treasury Software Providers – 1

Company	Software/Comments
Bellin Treasury Systems www.bellintreasury.com 604-677-2593	TREASURYDATABASE <sup>®</sup> is a popular international treasury software used by 3000 companies in 60 countries, which allows user interaction at the unit, regional and parent levels. Bellin is now expanding its sales to the North America market with a Vancouver office.
Chesapeake System Solutions www.chessys.com 410-356-6805	SmartTreasury <sup>™</sup> and IDT <sup>™</sup> (Internet Data Management) is an ASP management system with strong focus on reconciliation, account analysis and compliance.
Econintel Treasury Systems www.econintel.com 646-487-9830	ETS for Windows is a fully integrated systems. EtsFreeware provides report-writing, analytics and modeling tools.
Financial Sciences Corporation www.fisci.com 201-451-2700	ATOM is a high-end, sophisticated, large, multi-currency, multi-site, large transaction volume treasury system.
FXpress Corporation www.fxpress.com 610-617-7988	FIRST <sup>™</sup> Treasury System is a new front-to-back office system for managing FX, investment, debt, and commodity portfolios and related accounting. It builds upon their highly successful FX offering, which is now called FIRST <sup>™</sup> Foreign Exchange.
Gateway Systems www.gatewaysystems.com 847-381-6674	Web Cash is an ASP/PC cash management software used by over 14,000 organizations in 90 countries. Account reconciliation, Web Payments, Internet Banking and Treasury management are among 50 different modules.
JPMorgan Chase & Co. www.jpmorganchase.com 212-270-6000	Insight is both the best-known and the most popular bank cash management workstation.

# Major Treasury Software Providers – 2

Company	Software/Comments
Kyriba Corporation www.kyriba.com 858-764-2458	Relatively new, but strongly backed, Kyriba Ti is an ASP web-based cash management solution will automatically get multi-bank and subsidiary data for dozens to hundreds of bank accounts or entities.
MISYS www.mysis.com 800-548 5600	Misys Treasury is a treasury services portal that provides browser-based transaction and applications services to corporate treasurers with multiple subsidiary, bank and treasury activities worldwide.
Open Link Financial, Inc. www.olf.com 516- 227-6600	Findur is a fully integrated, front-through-back-office solution for trading, risk management, and transaction processing that is designed for active traders.
Oracle www.oracle.com 800-633-0737	Oracle has its own Oracle Treasury Solutions, a module of its ERP system, as well as PeopleSoft Financials, the treasury module of the recently acquired PeopleSoft ERP system.
Principia Partners, LLC www.ppllc.com 201-946-0300	The Principia System is an institutional-quality workstation providing front-to-back office pricing, modeling, processing, accounting and risk management of derivatives and financial instruments with a well-regarded FAS 133/IAS 39 compliant hedge accounting functionality.
Reval.com Inc. www.reval.com 212-393-1313	HedgeRX is an ASP front-to-back office solution for managing interest rate, foreign exchange, and commodity hedging portfolios, including FAS 133/IAS 39/AcG-13 hedge accounting.
Richmond Software www.richmondsoftware.com 416-596-9308	Richmond has recently been acquired by Trema. Odyssey is a full-fledged treasury workstation that can also be accessed from the Internet/Intranet using E-Cash, Windows Terminal Server or Citrix technology.

# Major Treasury Software Providers – 3

Company	Software/Comments
SAP America Inc. www.sap.com 610-661-6000	The world's largest ERP company has an integrated Treasury & Risk Management module with somewhat mixed reviews. Web-enabled.
Simcorp www.simcorp.com 212-994-9400	IT/2, originally developed by BofA, is a leading full-fledged international/domestic treasury workstation.
Summit Systems, Inc. www.summithq.com 212.896.3400	Summit Systems provides a proven, technologically advanced, multi-asset class solution for treasury and capital market participants,
SunGard Treasury Systems www.treasury.sungard.com 818-223-2301	Serial acquirer of many treasury software companies and is now privately held. AvantGard, ICMS, Quantum, and Integra-T are all well-regarded, high-end treasury workstations/ASP applications.
Thomson Financial www.thomsonfinancial.com 888-682-2862	Thomson Financial Services, part of the large Thomson group, bought Selkirk, a well-regarded Canadian treasury workstation last year. Selkirk's Treasura has now been integrated with other Thomson functionality into a new ASP solution, Thomson One.
Trema www.trema.com 617-757-8900	The Trema Suite includes five fully integrated modules that offer future scalability and extension through a stepped and modular approach. The Transaction and Risk Management Module handles all treasury and risk management functions from front, middle and back office.
Wall Street Systems www.wallstreetsystems.com 212-809-7200	Highly regarded, institutional-quality workstation that is a full-fledged treasury workstation with G/L and accounting capabilities, including FAS 133 and IAS 39 accounting.
XRT, Inc. www.xrt.com 610-290-0300	XRT is a client-server full-fledged treasury workstation that started out as a domestic workstation over 20 years ago. Merged with the French treasury software company, CERG, several years ago. More than 6800 clients in total.

# Dealing with Vendors

The most successful searches and implementations develop trust with their vendor by managing their legitimate concerns:

- Is the client really serious?
- Are the client's expectations realistic?
- Who is the real decision-maker and what are her needs?
  - Cost, functionality, implementation risk?
- Will they give me the information I need to develop my most cost-effective and best strategic solution for them?

# RFI Requirements for the Longlist

- Financial information on vendor
  - Sales and B/S
  - Credit rating
- Types of system solutions and system names
- Indicative pricing
- Number of installations
- Hardware platforms
- Operating systems
- Databases offered

# Selection Criteria from Longlist

- Orphan system risk considerations
  - Financial soundness
  - Size of installed user base
- Vendor's technology offerings must match company's IT shop requirements if non-ASP
- Budget constraints vs. indicative pricing
- At most, winnow longlist to 5 RFP's
  - Preferably less: RFP evaluation time grows exponentially

# RFP Requirements – 1

- General background information on company's:
  - Operations and relevant strategic plans
  - Relevant treasury system/re-engineering objectives
  - Desired deliverables from a TMS
- Relevant information on company's IT architecture and environment
- Functionality and STP connectivity requirements from needs analysis
  - Highlight current system and process weaknesses
  - Avoid unnecessary feature creep
- Explanation of controls/authorities/limits/review and approval steps and input/feedback for C-SOX and I/A

# RFP Requirements – 2

- Detailed vendor profile (history, office locations, personnel, recent financials, ownership profile)
- Detailed profile on system(s) proposed (upgrade history, installed base, architecture, future plans, R&D spending)
- Description of vendor's marketing strategy in your geographic/industry market
- Level of commitment to implementation
- Level of commitment to ongoing support
  - Details of tech support desk: hours, people, language capabilities, etc.
- List of users and users references
- User group activities

# RFP Requirements – 3

- Maintenance costs and services including in the SLA
- Draft purchase contracts and SLA's
- If ASP, ask for their SLA with the server farm operator
- Purchase and lease pricing
- Upgrade pricing for minor and major upgrades

# RFP Evaluations – 1

- Two level scoring:
  - Absolute scoring, loose scaling (1-4)
  - Relative weighting by need:
    - Must have requirements
    - Ideal, but not strictly necessary
    - Nice to have
- Apply stricter application of the vendor selection criteria used to winnow longlist to shortlist

## RFP Evaluations – 2

Always check the references. In addition, call the their customer list who are not references. Ask the same questions:

- How long did it take to implement? What were the major problems?
- How responsive and useful is the tech support?
- How frequently do they update and how much do they typically cost?
- How active is the user group and how responsive is the vendor to user group requests?
- Knowing what you know now, would you buy the system today?

Either now or earlier in the needs analysis, develop a “demo script” for the TMS vendor presentations

- Sample database of transactions
- Indicative common, possible and desired future transactions
  - Include all instruments
  - Section 3865/FAS 133 ineffective hedges
- Definitions of required reports
- Desired demonstrations of risk functionality

# Vendor Presentations

Then select the best 2-3 vendors for the final “beauty” contest

- Against the demo script
  - Count how many screens and inputs required to deal with each sample transaction
- Listen to their market strategy and commitment
- Visit their offices
- Identify what changes will be necessary to fit your treasury structure

# Final Vendor Selection Comments – 1

- Remember, a good RFP process will show that the final vendors can produce the same numbers for the demo script
  - Thus, it's how you get there that counts
- Closely inquire about their implementation support based upon user comments
- Beware of new systems and promises of future improvements (aka vaporware)
- Beware of being the only user in your country
- Beware of unenthusiastic or lack of user groups

# Final Vendor Selection Comments – 2

Minimize the changes you intend to have the vendor make to their system to meet your particular procedures:

- This saves money and time both now and, critically, later when implementing the inevitable upgrades.
- Changing your procedures to fit the system might well be an overall improvement
- If all of these changes are really necessary, are you really buying the right system?

# Final Vendor Selection Issues

- Performance bonds
- Staged payments based upon deliverables
- Performance incentives to come in below budget
- Negotiate hard on price
  - The marginal cost of a new client is zero in comparison to the total sales price

# System Implementation Issues – 1

- Never, ever be a beta tester
- The best implementations have a project manager assigned full-time using project management software
  - Milestones, resources needed, etc.
- One major reason for implementation delays is the work needed to change existing processes to match the system.
  - Manual processes often *should* change to take full advantage of a new system
  - Be prepared to do this

# System Implementation Issues – 2

- Another major reason for delays is trying to implement the system and maintain the same workload
  - The *crisis du jour* is always more pressing – and more interesting – than the dull, hard work of implementing a system
- Under US GAAP, consultant and in-house staff salary and benefits costs incurred in system implementation are capitalizable
  - Use the saved budget money to free up staff by hiring a temp to do routine treasury work

# System Implementation Issues – 3

- Save implementation costs by having a Crystal Report expert (e.g., from elance.com) at US\$75-\$100/hour write your customized reports versus the vendor's US\$200-\$300+/hour.
- Develop written procedures for repetitive transactions and the monthly/quarterly reports.
- After the system has been used for a year, ask the vendor's consultants to review what you've done
  - You'll probably learn some new capabilities and simpler processes for some of your early workarounds

Founded in 1992, Greenwich Treasury Advisors have been delivering integrated treasury solutions for global businesses to over 250 clients:

- Global treasury organizational structures
- FX risk management on an effective GAAP basis
- Bank selection and relationship management
- Selecting and implementing treasury technology

# Representative Clients

Alcan

Amgen

BP

CITGO

DaimlerChrysler

Dow Chemical

DuPont

EDS

Ford

Geac Computer

General Motors

Husky

Hydro Quebec

McDonald's

Merck

Nestle

Novartis

NZ Dairy Board

Procter & Gamble

Saint-Gobain

Siemens

Sun Microsystems

- Founded Greenwich Treasury Advisors in 1992, and author of:
  - The Group of 31 Report: Core Principles for Managing MNC FX Risk (AFP, 1999)
  - A Risk Metric Approach to Hedging (2002)
  - FAS 133 chapter of The Handbook of International Finance & Accounting (2004, John Wiley)
- Formerly VP-International Treasury at American Express, AT at Seagram and at D&B; CPA at PW
- (630) 566-9119, [jeff.wallace@greenwichtreasury.com](mailto:jeff.wallace@greenwichtreasury.com)