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Collaboration critical for treasurers as tax and banking regulations impact and FX volatility starts to bite

Deloitte biennial global corporate treasury survey 2017

5 September 2017: Deloitte surveyed more than 200 global companies across all industries to determine the current challenges treasurers and their teams face, and consider the changes since the last global survey undertaken in 2015. Questions included how tax and banking regulations are impacting the Treasury teams, whether their function is evolving strategically and how it is organised to manage ongoing market volatility.

Key challenges persist

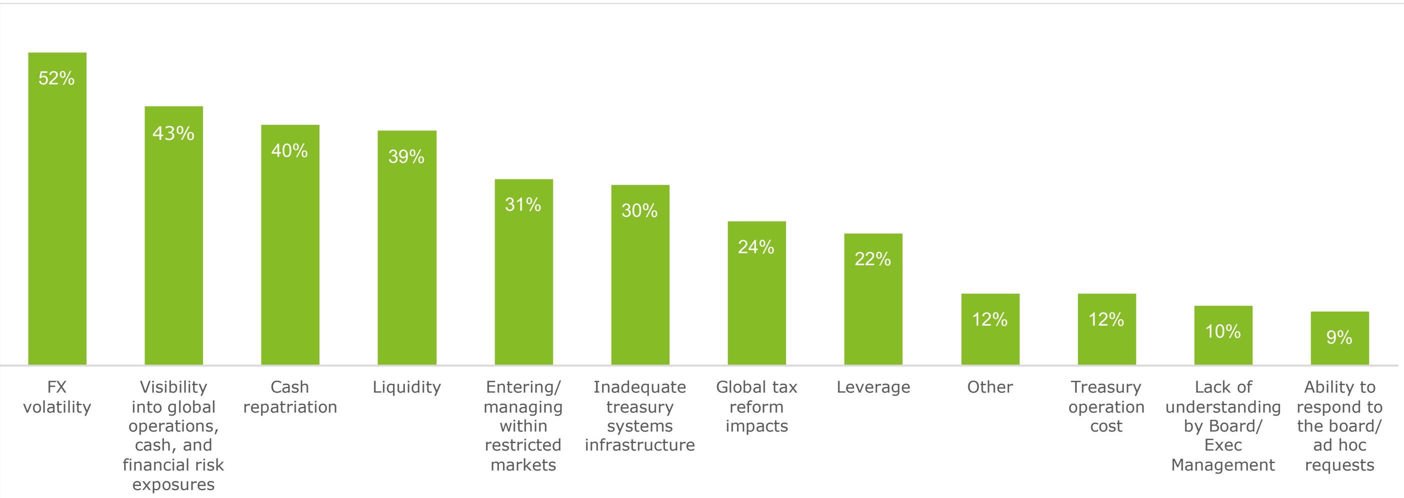
FX volatility was flagged as the biggest challenge faced by treasurers, with more than half noting that FX volatility is exacerbated by political turmoil such as the imminent changes due to Brexit. However despite this, 75% of respondents do not actively use measures such as Value at Risk (VaR) or Cash Flow at Risk (CFaR) to help with risk monitoring and management.

Co-author of the report **Deloitte Treasury and Capital Markets Partner Steven Cunico** said: "This lack of capability identified in our survey can also be seen as a real opportunity for treasurers to further invest in more sophisticated technologies with the analytics to deliver real-time information and so support better judgements and decision making.

"A key concern around technology is the speed with which the market is moving and the team being able to identify 'which train to jump on'. This is also exacerbated by the impact of banking and tax reforms."

This year more than half of respondents (52%) are seeing an impact on their Treasury due to banking regulatory reforms, including increased funding and hedging costs, higher demand for transactional deposit relationships from banks, and reduced demand and lower pricing for investment term deposits. These impacts are resulting in treasurers considering alternative solutions including moving towards the use of credit support annexes (collateralisation with banks for OTC trades) and seeking out alternate funding sources.

The research found while an increased percentage of survey participants use systems for typical treasury responsibilities, they are not being fully leveraged to support the whole of treasury function. Other key challenges treasurers identified included the need for greater visibility into global operations, cash repatriation, emerging markets operations, and liquidity management.



Cunico said: "Of the challenges faced by treasurers this year versus those in 2015, FX volatility at 50% remained in poll position. Visibility into global operations increased from 40% to 43% to become this year's second biggest concern. This was followed by issues of cash repatriation, which fell by 10% over the two year period to 40%, as did concerns around liquidity, now at 39%. Entering restricted markets increased as a challenge from 24% to the current 31%, and 30% of those surveyed cited insufficient systems infrastructure to support their department, which was better than two years' ago when 40% expressed the concern.

"Generally the other issues remain similar to 2015 which shows that as we would expect it is the impact of the market, its speed and continued volatility that is exercising our treasurers globally. However on the upside, the pleasing trend we identified this year is that while Treasury continues to be viewed as a risk management function, there is an increasing trend towards supporting business strategy and delivering greater cash efficiencies through working capital management. Interestingly, 15% of respondents, distributed across all industries and revenue brackets, highlighted their mandate to become a profit centre – a shift from the tradition of Treasury being a cost centre," **Cunico** concluded.

Hussein Hussein, Deloitte Treasury and Capital Markets partner and a co-author of the report added: "When comparing future state operating models between 2017 and 2015, there is an interesting contrast across company revenue groups with the largest companies (those in the $30-$50 billion revenue bracket) shifting towards a greater use of shared services models, while the smaller companies tend to prefer centralising their corporate and regional treasury centres.

"Another shift that many respondents indicated was that in two to three years' time they will move to managing cash and operations through channels other than Corporate Treasury towards ones that include both internal and external managed service solutions. More than 70% of respondents indicated they see value in such execution models whether for liquidity, control, standardisation or cost efficiency either by using regional Treasury functions and their expertise and scalability for growth, or shared service centres or third party providers."

Finally the survey found that 40% of participating companies indicated that their Treasury team has been recently affected by fraud, requiring more than one remedial program to stem the issue. This has led to 88% of companies reviewing and upgrading their internal controls and governance with 51% upgrading their internal security.

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For further information:

Steven Cunico,	Hussein Hussein,	Louise Denver, Director
Australian Treasury Leader,	Treasury and Capital Markets Partner,	Corporate Affairs & Communication
Deloitte Australia	Deloitte Australia	Deloitte
T: +61 (3) 9671 7024	T: +61 (2) 9322 7485	M: +61 414 889 857/ +61 (2) 9322 7615
scunico@deloitte.com.au	huhussein@deloitte.com.au	ldenver@deloitte.com.au