

# Treasury policy – time for an update?

Highly volatile commodity markets, soaring interest rates, cyber-attack threats as well as a fierce competition for qualified personnel – the expectations placed on the treasury organization by external forces continue to grow. Simultaneously, internal demands on the treasury organization also need to be reliably met, because this is where extremely sensitive data is processed.

Amid such turbulent times, the treasury policy should serve as a guiding point and backbone of governance & compliance requirements, while also acting as a resource of resilience against external and internal disruptive factors. That's good enough to devote this article to this important document in detail.

## Target audience and clearance

As a rule, the Treasury Policy is binding for all staff working in the treasury function as well as for any other employees of a company who perform treasury-related activities. These may include employees from the finance, controlling and accounting departments, and sometimes employees from the procurement or legal departments are also involved in treasury-related activities. As such, they too are obliged to abide by the Treasury Policy's

requirements. At this point, it is vital to clearly communicate the scope of the treasury policy and to distribute the document to the relevant addressees. Ideally, the initial sign-off as well as any subsequent periodic approvals of changes will require the CFO's authorization. Quite often, this is achieved through the creation of a treasury or finance committee in charge of deciding on strategic issues.

## Typical content of a treasury policy

There is no universally applicable formula for drafting a treasury policy. The main consideration when drafting a treasury policy is that it must comply with applicable local and international law. In preparing the policy, the company-specific circumstances must always be taken into account. The policy's priorities may vary depending, for instance, on the business model and the associated market conditions. That said, the policy needs to cover the fundamental areas of the treasury function. It follows that several key areas can be found in almost all treasury policies:

## **Treasury functions & goals:**

a treasury policy usually contains a definition of the treasury department's role, functions and objectives. Alongside stating specific responsibilities in this way, the policy may also include a list of responsibilities that are explicitly not to be handled by the treasury function, but by another finance department. For those to whom the policy is addressed, this introductory section sets out a basic understanding of how the treasury department fits into the company as a whole, which tasks are within its scope of responsibility, which staff role profiles are assigned to the associated sets of tasks, and, at a broader level, which inherent principles underlie its work.

## **Banking & Finance:**

another essential component of a treasury guideline is a section on the various aspects of banking. Whereas smaller companies often do business with only a handful of banks, the banking landscape in corporate groups can quickly become confusing and complex. Precisely in such cases, an integrated and, if necessary, international banking strategy must be drawn up as part of the treasury policy. Such a strategy should be based on robust counterparty risk management and, apart from the core banks to be selected, also specify the maximum number of bank accounts and limits per bank. A closely related aspect of the banking strategy is the definition of which financing instruments can be selected and for which purposes they may be used.

## **Cash & liquidity management and payments transactions:**

taking into account a treasury department's core functions, it is imperative that the various cash and liquidity management dimensions are also uniformly governed in a centralized location. As this section is drafted, treasury departments should address the following questions: Which goals do I want to achieve by managing my liquidity? What model for managing my liquidity am I going to use (decentralized vs. centralized)? Is an external cash pool structure being used or will an in-house payment factory handle the cash concentration? By what means and with what authorization concept do I want to manage my payment transactions and make them tamper-proof? The above are just a few of the questions that play a key role in successful cash and liquidity management. Ideally, the treasury policy addresses these questions and consolidates them in a comprehensive document that is easy to understand and communicate.

## **Financial risk management:**

risk management is another integral part of the treasury policy. The first step is to define which specific types of risk are part of the treasury function's focus and scope of action. Quite obviously, both the risks from foreign currency transactions and interest rate risks from external financing should be assigned to the treasury function. Apart from these risks, energy and commodity-intensive companies will frequently also assign responsibility for managing the risks arising from the energy and commodity markets to the treasury function. When embedded in the treasury policy, a risk strategy defines the risk appetite, the hedging instruments to be used and the trading process, and for instance also stipulates a general ban on speculative trading in derivatives.

It is evident that the treasury policy's form and content hinge on many different factors, the relevance of which can vary from company to company. For instance, both the size of the company in question and its organizational structure play a major role in determining the need for and the level of detail of the policy. This means, for example, that even large companies can make use of decentralized roles and responsibilities, allowing subsidiaries to operate independently to a certain extent based on local special policies. Larger corporations typically have a centralized treasury organization that defines a generally applicable, overarching treasury policy at group level, which is then further broken down into individual process descriptions and task instructions as part of a secondary, more detailed policy level. Setting up a professional system of policies not only entails implementing and reviewing the rules and regulations, but also regularly revising their content.

## Three major developments resulting in requirements for the treasury policy

Companies should review their treasury policy on a regular basis. This should be done considering internal and external developments in the treasury environment. Presently, updating the policy appears to be more urgent than ever: converging and conflating crises, macroeconomic developments as well as the influence of megatrends such as ESG and digital automation present corporate treasury departments with enormous challenges. These developments ought to be reflected in particular in the treasury policy, as it is the central guideline for action and guidance. Accordingly, by way of example, we will take a closer look at some of the trends and their potential influence on treasury policy below.

### 1. Environmental Social Governance (ESG)

Anyone keeping up with the latest reports on corporate treasury will quickly realize that sustainability has long since evolved from a niche topic to a pivotal factor in the finance departments of companies of all sizes. Green financing instruments are growing rapidly in volume, companies are increasingly pursuing ESG ratings, and sustainability reporting is expanding in scope and detail – these are just a few examples of the heightened importance of sustainability from the finance department's perspective. Forced by regulatory initiatives (e.g., CSRD, Supply Chain Act and EU taxonomy), companies are faced with the daunting prospect of quickly adapting to changing market conditions while simultaneously translating them into tangible implementation plans at a company-wide level.

Slowly but surely, it is becoming standard practice for companies to both aggregate and manifest their efforts at more varied levels into an overarching ESG strategy. While the general interest in sustainable

business practices can probably no longer be disputed, the question of how the influencing factors will materialize remains, especially for corporate treasury. What measures should be taken and when? Which green finance instruments may be suitable for us? What objective are we pursuing in the long term? Here is where the treasury policy comes into play. Being the backbone of the treasury department's business activities, the treasury policy can in such cases serve as a suitable vehicle for aligning the treasurer's actions with the contents of the overall corporate ESG strategy. For instance, the banking strategy can be expanded to include banks' ESG ratings as a component, or the preferred use of green financing instruments can be defined as an objective in the financing strategy. Initial research shows that some companies have already recognized these interdependencies and are integrating ESG factors into their treasury policies.

### 2. Threat of cyber-attacks and fraud

Recent news from the treasury world shows that cyber-attacks and payment fraud cannot be completely prevented despite all efforts. For this reason, in addition to raising awareness among treasury employees and motivating them to remain vigilant, the treasury policy should also include behavioral guidelines for dealing with payment fraud and cyber-attacks. In the event of an emergency, instructions in the form of a step-by-step plan can help to save time and ensure that the organization

remains capable of taking action. Communications channels for crisis situations should be clearly defined, as should internal and external contacts such as the IT and compliance department, system vendors and banks. A pre-identified incident management person could serve as the first port of call and take over the coordination. A possible step-by-step plan for a successful identification of an incident could look as follows:

- i. Initial assessment of damage and communication to key stakeholders
  - Which systems are affected?
  - Which individuals must be informed?
- ii. Determine and implement immediate measures to limit damage
  - How long may systems be down without endangering the ability to do business?
  - What side effects of measures need to be anticipated?
  - Have appropriate service level agreements been agreed?
- iii. Plan further courses of action for fully resolving the disruption
  - What steps need to be taken to restore system functionality?
  - What measures must be taken in order to avoid similar events in the future?

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