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# Corporate Treasuries in Switzerland – A Survey

## Key findings – Challenges for treasurers in the future

*During autumn 2002, PricewaterhouseCoopers carried out a survey on corporate treasury activities, the treasury organization and policy framework, treasury systems as well as financial risk reporting. The survey report provides an insight into financial risk management approaches, controls and performance standards applied by corporate treasuries in Switzerland. In addition, the survey identifies trends in treasury management and challenges for treasurers in the future.*

### Introduction

The survey «Corporate Treasuries in Switzerland – Survey 2002» follows two studies performed in 1996 and 1999 and is again supported by the Swiss Association of Corporate Treasurers (Swiss ACT). The success of the last surveys together with the numerous requests of Swiss corporates asking for a new one, encouraged PricewaterhouseCoopers to update the benchmark for corporate treasury activities established three years ago. *Survey participants comprised corporates (non-banks) with Group Treasury or a regional treasury centre located in Switzerland.* Information and data for the survey were gathered during personal interviews with treasurers of 47 corporates. The survey population includes 88 % of the Swiss Market Index (SMI) companies excluding banks and, therefore, allows relevant comparisons with major Swiss companies.

### 1. Treasury framework and organization

- *More companies manage key treasury activities and financial risks cen-*

*trally.* Long-term financing, bank credit/counterparty risk management, interest rate risk management, foreign exchange (FX) translation risk management, core bank relationship and rating agency management as well as investment management,



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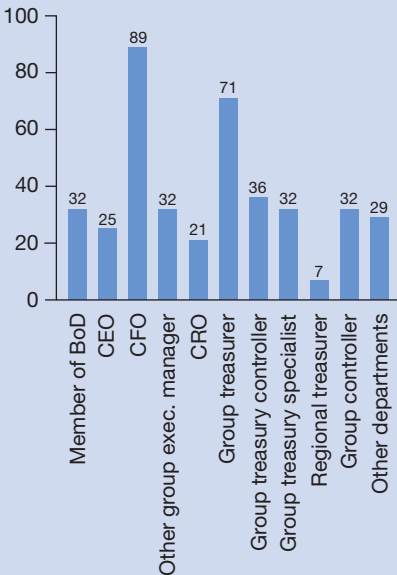
when applicable, are activities typically assigned to Group Treasury. While for some companies it is difficult to find additional efficiency gains from further centralization and automation, others are still at an early development stage.

### Key Findings 2002 highlights – top ten:

- The trend towards integrated, enterprise-wide risk management continues and more companies appoint a Corporate Risk Manager,
- the «typical» Group Treasury function comprises 6 treasury staff,
- corporate governance: limited practical relevance of the «Swiss Code of Best Practice» for treasury and financial risk management,
- plans to become more actively involved in working capital management matters in the future,
- interest rate risk management is a technically demanding area and remains a challenge for many treasurers,
- more Swiss-based multinational companies use a reporting currency other than the Swiss Franc,
- treasury's performance is still not measured by 30 % of the participants,
- high impact is expected from the banks' reluctance in direct lending (credit crunch) and ensuring compliance with accounting standards on financial instruments (IAS 39, FAS 133),
- liquidity and credit risk management will gain more significance over the next few years, and
- systems integration and straight-through-processing are seen as key challenges.

Graph 1  
Composition of the Treasury & Risk Committee

all figures in %



- The trend towards integrated, enterprise-wide risk management continues. The number of companies employing a dedicated risk specialist e.g. a Corporate Risk Manager or Chief Risk Officer has increased over the last three years (36% vs. 24% in 1999). More companies established a Treasury & Risk Committee (60% vs. 53% in 1999). Members frequently comprise the CFO (89%), the Group Treasurer (71%) and increasingly Board and Executive members (graph 1).
- Treasurers, who frequently manage the Group’s major financial risks, not only need technical expertise but a sound understanding of their Company’s business. On average, Group Treasurers have been working for their company over a period of 9 years. The survey results show that the «typical» Group Treasury function comprises 6 treasury staff. However, headcount numbers largely differ and depend on various factors such as size and structure of a Group, the level of centralization, the functions covered at group-level as well as the technological support available.

- 93% of the survey participants consider corporate governance to be either important or highly important. However, despite the importance, only 39% of the survey participants responded that their company has adopted the «Corporate Governan-

4% indicated that they do not hedge underlying exposures at all. None of the participants take positions unrelated to the business risks. Active dealing, with the aim to generate a profit contribution, is usually not part of the mission of a treasury func-

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ce – Swiss Code of Best Practice». Another 39% did not know, and most Treasurers assessed impacts in the form of additional controls or reporting requirements to be minor. This demonstrates the limited practical relevance of the Swiss Code for treasury and financial risk management up to now.

## 2. Financial risk management

- The majority of the companies surveyed (81%) continue to apply an active risk management approach. 15% stated to fully hedge exposures and

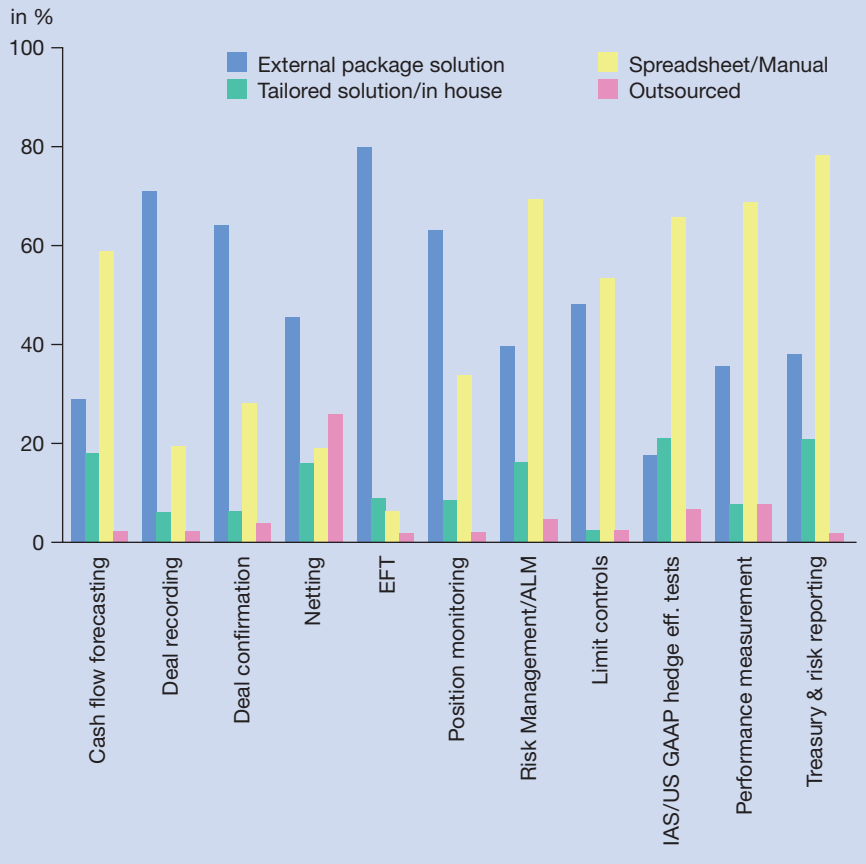
tion. This also demonstrates that corporates do not want to build up additional risk positions and thereby tying up economic risk capital.

- Treasurers employ a broad range of derivative instruments such as interest rate swaps, forward rate agreements, caps and floors for interest rate management. However, effective controls for interest rate exposure are still fairly limited and related performance measurements are missing at most corporates.
- The number of Swiss-based multinational companies using either the Euro or US Dollar as their reporting currency is increasing. Corporates primarily focus their FX risk management on transaction exposures. 96% of the corporates either fully or partially hedge their FX transaction exposure, whereby individual hedging strategies vary substantially, e.g. with regard to the period covered or hedge ratios. FX translation and FX economic exposures are addressed differently. 60% of the participating corporates do not hedge their FX translation exposure and 90% do not hedge their FX economic exposure.
- Of the 39 survey participants that either apply International Financial Reporting Standards (IFRS) and/or prepare the Group’s consolidated statements under US GAAP, 64% apply hedge accounting for certain areas (mainly for currency and interest rate risk) or specific transactions and therefore have established hedge documentation and effectiveness



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Graph 2  
Technology used for treasury activities

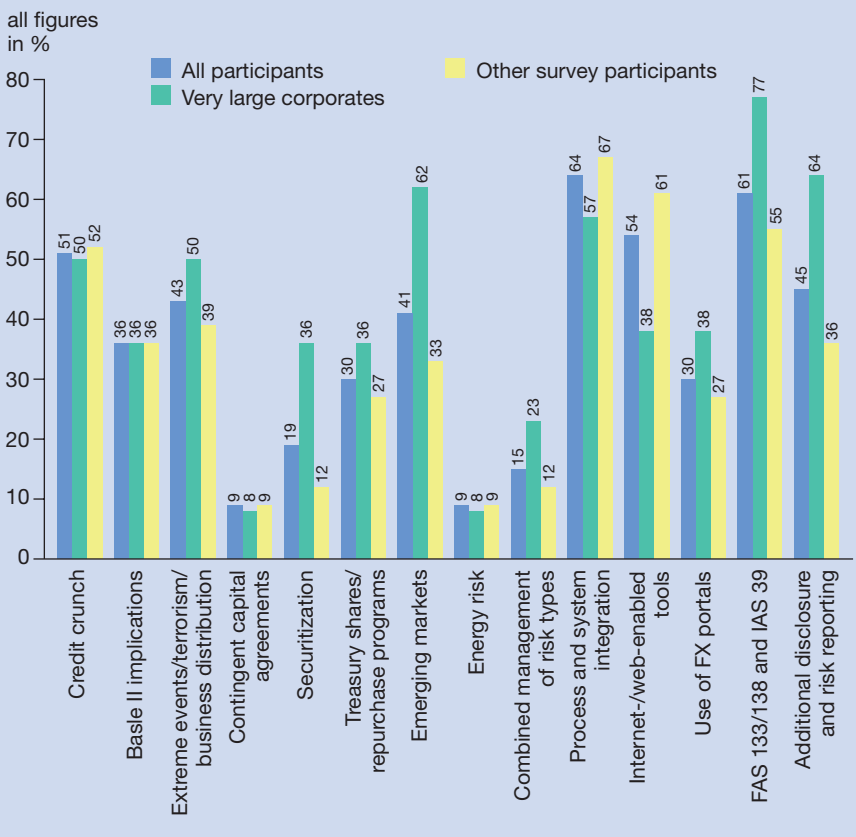


tests. Furthermore, about every fourth participant applying either IFRS or US GAAP consciously decided not to seek hedge accounting and is prepared to accept certain earnings volatility.

### 3. Treasury management systems and performance measurement

- The number of treasuries making use of a *treasury management system* to support the monitoring and management of treasury transactions and financial risks has significantly increased compared to our 1999 survey. Interestingly, spreadsheets are still broadly used in areas such as treasury & risk reporting, performance measurement, cash flow forecasting or to perform risk management and hedge effectiveness tests (*graph 2*).
- Is treasury working efficiently and adding value to the Group? The definition of performance measurements and specific benchmarks are a pre-requisite to assess whether treasury is doing a good job. Despite of

Graph 3  
New developments with very significant or significant impact during the next three years



awareness and the importance of performance measurement *still 30% of the participants do not measure treasury's performance at all.*

*direct lending (credit crunch), ensuring compliance with the accounting standards on financial instruments (IAS 39, FAS 133) as well as process*

«About every fourth participant applying either IFRS or US GAAP consciously decided not to seek hedge accounting and is prepared to accept certain earnings volatility.»

#### 4. New challenges for treasuries


- The survey participants were asked to assess how new trends and products will impact their treasury and risk management during the next three years. High impact is primarily expected from *banks' reluctance in*

- and system integration and internet/web-enabled tools. Furthermore, increasing investors' and regulators' expectations in the wake of US accounting scandals will have significant effects on corporate risk disclosures (*graph 3*).
- Finally, participants were asked to express their opinion which *key*

challenges Group Treasurers may be facing in the future. Most frequently received comments comprise: access to financing sources/increased financing cost, pro-active financial risk management and integrated risk management. *Liquidity and credit risk management will gain more sig-*

*nificance* over the next few years, and systems integration and straight-through-processing are seen as key challenges.

The survey highlights a trend towards a comprehensive and integrated enterprise-wide risk management. There is a

fast pace of change and treasurers face many challenges. The Board of Directors, Audit Committee and Senior Management need to ensure that the increasingly complex treasury and risk management activities are closely supervised and effectively controlled. 

## ZUSAMMENFASSUNG

# Corporate Treasuries in Switzerland – Survey

Im Herbst 2002 führte PricewaterhouseCoopers eine Umfrage zu Politiken, Richtlinien, Aufgaben und organisatorischem Aufbau, Risikobewirtschaftung, verwendeter Systemtechnologie und der Berichterstattung über finanzielle Risiken bei Corporate Treasuries durch. Befragt wurden Unternehmen (Nicht-Banken) mit einer Konzern-Treasury oder einem regionalen Treasury-Center in der Schweiz. Der Bericht zu «Corporate Treasuries in Switzerland – Survey 2002» folgt auf zwei frühere Studien (1996 und 1999) und fand erneut die Unterstützung der Swiss Association of Corporate Treasurers (Swiss ACT).

Die wesentlichsten Erkenntnisse lassen sich folgendermassen zusammenfassen:

- *Firmen zentralisieren vermehrt wichtige Treasury-Funktionen und die Bewirtschaftung bedeutender finanzieller Risiken auf Gruppenstufe.* Für einige Unternehmen ist es bereits schwierig, durch weitere Zentralisierung und Automatisierung zusätzliche Effizienzgewinne zu erzielen, während sich andere noch in einem frühen Entwicklungsstadium befinden.
- *Der Trend, finanzielle Risiken nicht isoliert, sondern zusammen mit anderen Risiken integriert und unternehmensweit zu bewirtschaften,* hält an. Bereits 36 % aller Firmen set-

zen diesbezüglich Spezialisten wie einen Chief Risk Officer oder einen Corporate Risk Manager ein. Auch der höhere Anteil an Treasury & Risk-Komitees von 60 % im Vergleich zu 53 % im Jahr 1999 verdeutlicht das wachsende Risikobewusstsein.

- *Treasurer benötigen neben fachtechnischen Kenntnissen ein eingehendes Verständnis für die Geschäftstätigkeit des Unternehmens.* Im Durchschnitt können Treasurer auf eine neunjährige Tätigkeit im Konzern zurückblicken. Die Studie zeigt zudem auf, dass *die «typische» Konzern-Treasury sechs Mitarbeitende (Median) beschäftigt,* doch diese Zahl variiert stark. Dazu tragen vor allem unterschiedliche Konzernstrukturen und die Unternehmensgrösse, der Zentralisierungsgrad, der dem Konzern-Treasury zugewiesenen Aufgaben sowie die verfügbare Unterstützung durch Systeme bei.
- *93 % der Befragten stufen Corporate Governance als wichtig oder als sehr wichtig ein.* Die im Februar 2002 von Economiesuisse fertigestellte Richtlinie «Corporate Governance – Swiss Code of Best Practice» hat *bisher jedoch nur beschränkte praktische Relevanz* im Bereich Treasury und finanzielles Risikomanagement.
- *Treasurer setzten verschiedene derivative Instrumente wie Zins-*

*satzswaps (IRS), Forward Rate Agreements (FRAs), Zinsoptionsprodukte (caps und floors) zur Bewirtschaftung von Zinsänderungsrisiken ein.* Der *Gebrauch von effektiven Kontrollinstrumenten für Zinsrisiko-Exposures ist noch limitiert,* und die Anwendung des Performance-Measurements fehlt bei vielen Firmen.

- *Auf die künftige Treasury-Tätigkeit wird von der restriktiveren Kreditgewährung der Banken (credit crunch) sowie der Anwendung der komplexen Vorschriften zur Rechnungslegung für Finanzinstrumente (IAS 39, FAS 133) ein grosser Einfluss erwartet.* Die *Liquiditätsrisiko- und Kreditrisikobewirtschaftung wird in Zukunft an Bedeutung gewinnen.* Als besondere Herausforderungen sehen die Treasurer die Systemintegration und das «Straight-through processing» (STP).

Die Studie zeigt einen Trend in Richtung eines integrierten, unternehmensweiten Risikomanagements. Treasurer sind mit einem steten Wandel und zahlreichen Herausforderungen konfrontiert. Der Verwaltungsrat, das Audit Committee und die Geschäftsleitung sind gefordert, die immer komplexeren Treasury- und Risikomanagement-Aktivitäten zu überwachen und wirksame Kontrollen sicherzustellen.

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