

# 8 Ways to Generate Cash

## Financial Risk Management .....in a Volatile Environment



## PwC - Treasury Solutions Group

### 400+ Treasury Consultants Worldwide

#### Professional Experience

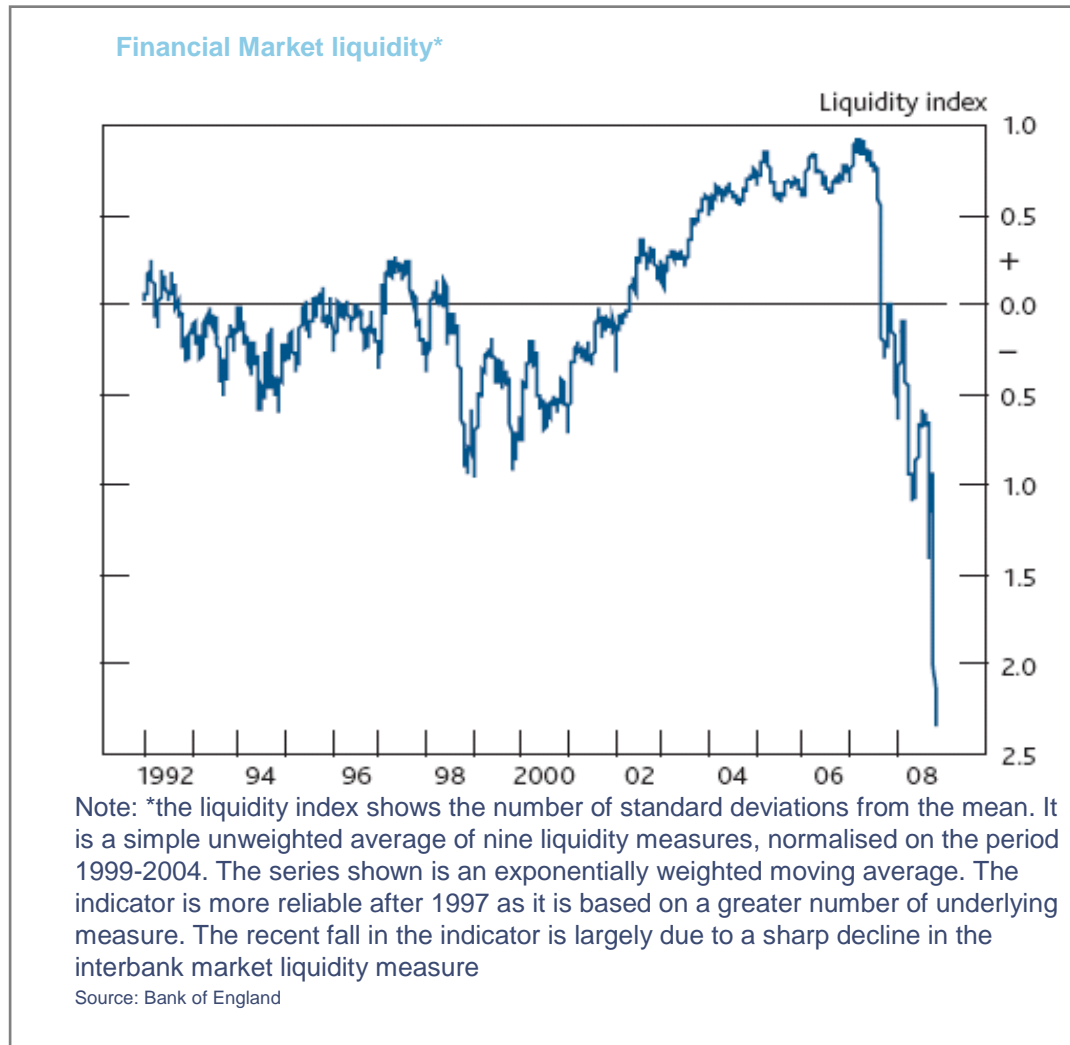
- ✓ Ex-Treasurers
- ✓ Ex-Bankers
- ✓ Systems development, integration, implementation and management
- ✓ Accounting and Tax

#### Functional Skills

- ✓ Operations
- ✓ Technology
- ✓ Financial Risk Management
- ✓ Accounting for derivatives
- ✓ Change Management
- ✓ Project management

- Thought-leadership and original research in developments and standards occurring in the treasury and banking space
- **PwC Corporate Treasury Solutions Group voted #1 Treasury Consultant by Treasury Management International's global readers for the last eight consecutive years**

# Availability of liquidity has fallen rapidly

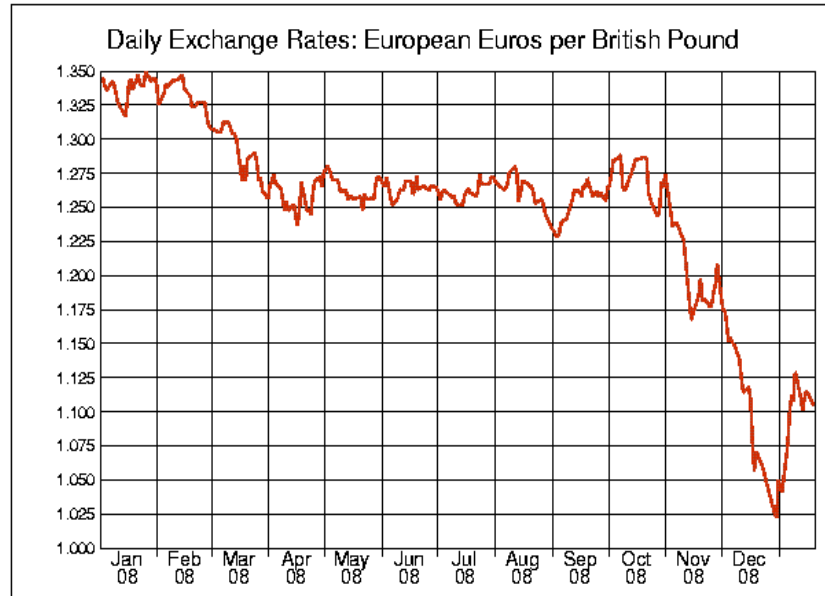


“In the last 9 months credit has gone from being a very positive market to a very poor market.”

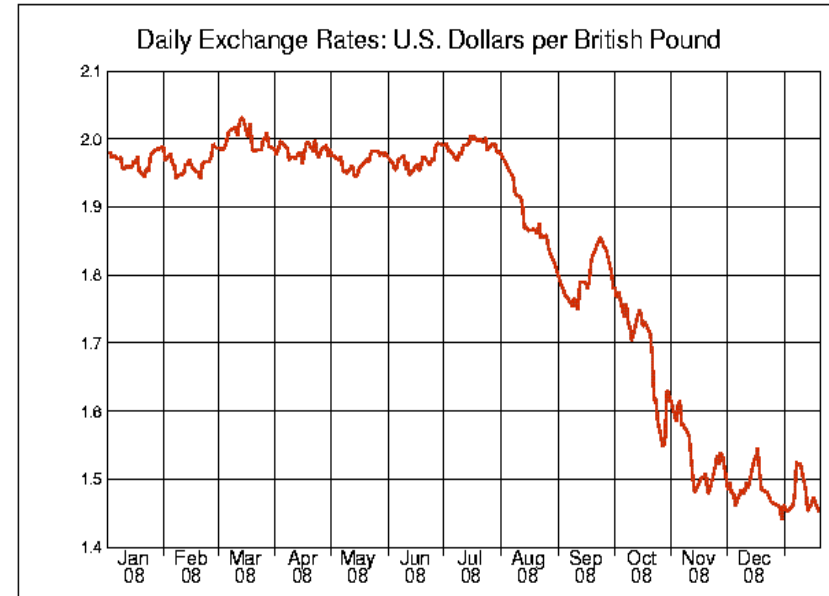
Group Treasurer, FTSE 100

*Source PwC Survey 2008*

## There has been FX volatility with GBP falling in value

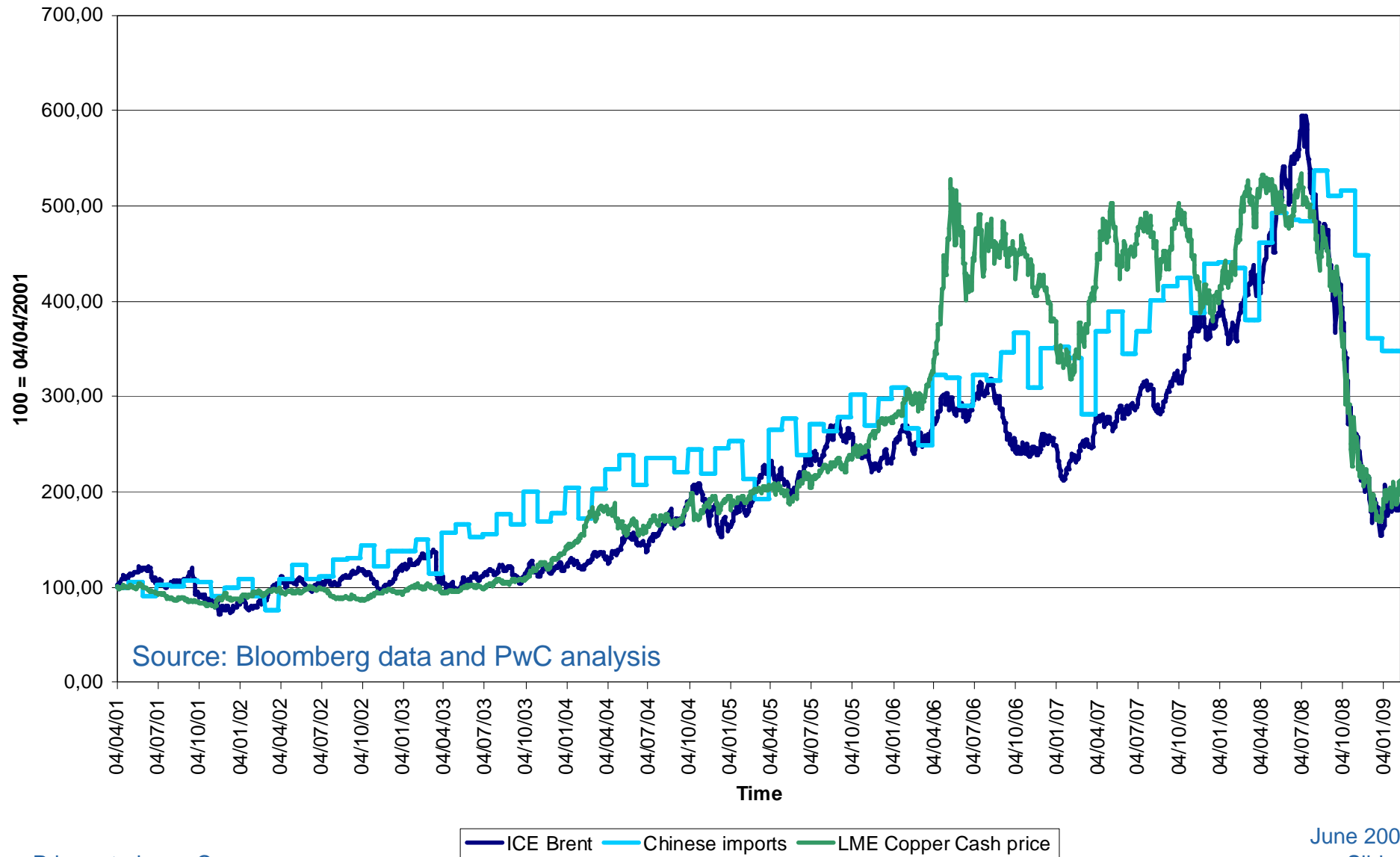


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# Commodity Prices have boomed and crashed



Source: Bloomberg data and PwC analysis

# Credit risk has risen

UK, US and EU Bank CDS Spreads Index



What challenges posed by the Credit Crunch?

## 1. Funding & liquidity

What challenges need to be tackled in the short term?

1. Funding & liquidity

2. Credit & counterparty risk

What challenges need to be tackled in the short term?

1. Funding & liquidity

2. Credit & counterparty risk

3. Financial risk management

- Interest Rate Risk
- FX Risk
- Commodity Price Risk

What challenges need to be tackled in the short term?

1. Funding & liquidity
2. Credit & counterparty risk
3. Financial risk management
4. Accounting

What are the financial ***operations and controls*** that could have mitigated the impact of the credit crunch and market volatility on you?

# What Operations and Controls could have mitigated impact of the credit crunch on you?

Better/ real-time view on...

## 1. Counterparty Risk Management

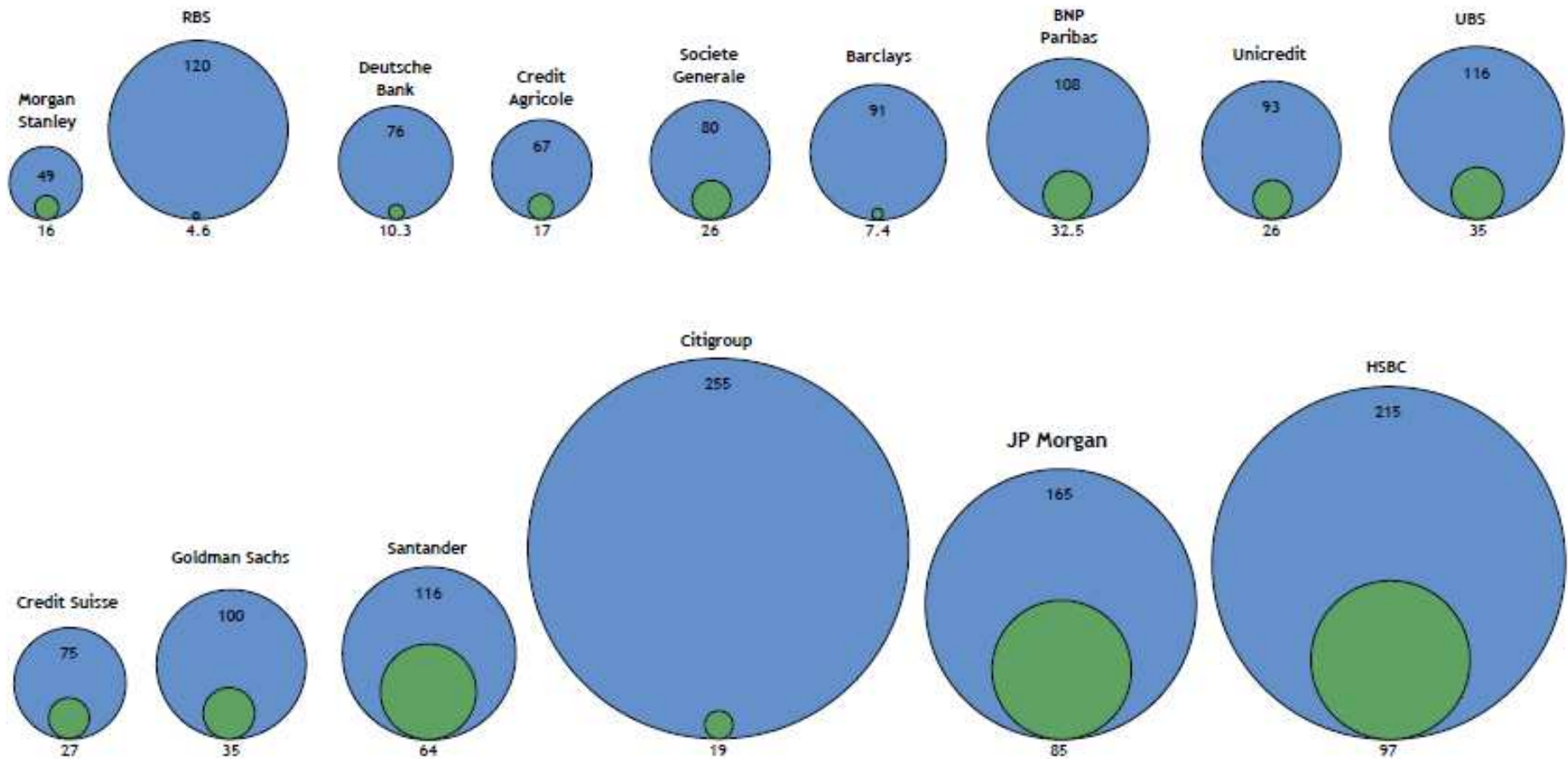
- They're bigger, they take the risk!
- Limits per Counterparty, Counterparty group, Market, Instrument etc.
- Fair Value Limits NOT Nominal
- Plan if credit rating goes down or limits are breached?



# What Risks are you Taking on Your Financial Counterparty?

● Market Value as of January 20<sup>th</sup> 2009, \$Bn

● Market Value as of Q2 2007, \$Bn



# What Treasury Operations and Controls could have mitigated impact of the credit crunch on you?

## 2. Funding & Liquidity Risk Management

- How many still have excel forecasts of cashflows and related FX - once a month or even once a quarter?
  - A lot can happen in a month !!
- How accurate are your forecasts? Do you analyse the variances?
- Headroom calculations – under different stress scenarios
- WCM monitoring – best use of existing finance
- Increase centralisation and pooling of cash to fund deficits/ invest wisely



# What Treasury Operations and Controls could have mitigated impact of the credit crunch on you?

## 3. Financial Risk Management

- Single, timely view of all exposures
- Worst case scenario stress testing
  - Impact if rates move by extreme amounts?
  - Impact if cashflow pattern changes drastically?
- Alternative valuation models in the absence of liquid markets



# What Treasury Operations and Controls could have mitigated impact of the credit crunch on you?

## 4. Flexible/ Balanced KPI's to suit the environment

- Last year → How much return on our investment portfolio?
- This year → How much did we lose compared to our competitors?
- Better – What is our maximum probable loss? What is our risk adjusted return?



# Technology Solutions to Credit Crunch Controls?

Controls and measurement of performance & compliance

“If you don’t measure it  
.....you won’t manage it”



## Conclusion

- **There is nothing new here !!!**
- **The solutions existed already**
- **Why weren't we using them????**
  - 1. Budget**
  - 2. Priority/ Resource**
  - 3. It'll never happen to me.....**

## Conclusion

The spot-light is on  
**YOU**

Now is your  
opportunity to get  
things done!!



# Thank you!



Damien McMahon  
Partner  
Finance & Treasury Solutions Group  
[damien.mcmahon@pwc.be](mailto:damien.mcmahon@pwc.be)  
+32 2 710 9439