

# ALL ROADS LEAD HERE

## G30 Recommends Improving Risk Management and Liquidity

Improving [risk management](#) is more important than ever at a time when the available resources of institutional treasurers are typically in short supply. Its importance warranted special mention by the Group of Thirty, which made it a major component of its January report on financial reform.

In the G30's latest report, [Financial Reform: A Framework for Financial Stability](#), issued Jan. 15, the esteemed think tank recommended "an improved level of disclosure and transparency around regulated firms' risk profiles, risk reporting, and valuation practices." It also underscored the importance of firms having the capacity to continuously monitor their largest counterparty credit exposures and making that information available, as appropriate, to their senior management, their board, and regulators.

The report comes as institutional treasury departments face increasing demands to provide timely portfolio information to senior management and their boards. The challenge for treasury professionals is compiling this information in a timely manner when the information comes from different sources and in different formats, and is not always available at the same time.

Fulfilling these reporting requests is possible with the right tools. But these tools typically cost money, and treasury departments, as cost-centers, are not usually given the budget to purchase them. To attempt to lower their costs — and their risk — some institutional treasury departments are using [money market trading portals](#) coupled with analytics to leverage their existing resources and stay ahead of the game.

It has been my job spanning most of the last couple of decades to speak with institutions about how they invest their cash and how they seek to keep it safe and liquid. When the topic of risk management comes up, many of them feel overwhelmed as they do not currently have the tools or resources to simply gather all of this disparate information. I have talked with firms who feel this problem is too big and that they are too small to deal with it. Some of them have convinced themselves that they have been safe so far so they shouldn't need to make any change. Most firms I speak with realize they need to do something. Here are the steps that I suggest:

- The first step is **recognizing that action is required** and getting the support of the board and senior management to take action.
- The next step is **gathering the information and formatting it in a way that makes the data uniform** so it can be measured and monitored in a meaningful way.
- The most important step is simply **discussing this information**. There is not a black box that you can run this information through to ensure you avoid risk altogether. In my opinion, the most important thing is that there is a platform and process to openly discuss what this information means and to act when necessary.

The Association for Financial Professionals (AFP) recently polled its members to understand the topics that are important to them. In my opinion what was notable about this survey is that it really showed some common themes that cut across all sizes of organizations.

**Top 5 Issues for Small Companies:**

- \*Ensuring the safety and liquidity of my organization's surplus cash
- \*Balance the desire to optimize the return on my organization's cash while protecting the principal
- \*Ability to monitor, measure and have access to the exposure of my organization to any financial institution
- \*Understanding the financial health of financial institutions participating in existing or potential credit facilities
- \*Understanding the best practices for safeguarding against fraud and spotting suspicious activity

**Top 5 Issues for Large Companies:**

- \*Ensuring the safety and liquidity of my organization's surplus cash
- \*Understanding the financial health of financial institutions participating in existing or potential credit facilities
- \*Ability to monitor, measure and have access to the exposure of my organization to any financial institution
- \*Using technology to improve and enhance treasury processes
- \*Balance the desire to optimize the return on my organization's cash while protecting the principal

**Top 5 Issues for Senior Level:**

- \*Ability to monitor, measure and have access to the exposure of my organization to any financial institution
- \*Understanding the financial health of financial institutions participating in existing or potential credit facilities
- \*Ensuring the safety and liquidity of my organization's surplus cash
- \*Ensuring access to adequate capital to fund my organization's strategic plans
- \*Improving the cash forecasting process without adding systems or headcount

As you can see, companies big and small are all concerned with the safety and liquidity of their cash and their ability to monitor, measure and access information about their cash. Using money fund portals coupled with risk-analytics is an alternative that more institutions are pursuing. One thing I have noticed in the most successful organizations that I deal with is that the firm makes it a [rule](#) to share available information with the board, senior management, finance, treasury, accounting and auditors. Properly formatted information, available in a timely way, openly discussed with different people across the organization typically results in greater insight and the best result.

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[Aron Chazen](#) is a Managing Director of [Treasury Curve](#), LLC. Prior to co-founding the firm, Aron was part of a team that founded the \$250 billion Global Cash business at J.P. Morgan. As a Managing Director at J.P. Morgan, Aron was responsible for running the Global Cash business in the Americas providing asset management solutions for corporations and public sector clients.