

Entering the next stage of a world-class treasury system to deliver strategic value

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By the end of 2023, two years after the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued *Opinions on promoting the establishment of a treasury system for central enterprises to further strengthen capital management* (hereinafter referred to as the “SASAC Circular No. 1”) in January 2022, the treasury system for central enterprises had been largely established. Meanwhile, the changing internal and external environment and increasing uncertainties brought new challenges and higher requirements for the treasury management of state-owned assets (SOAs) and state-owned enterprises (SOEs). As such, we shared our insights on the evolving trends that Chinese enterprises need to pay attention to in order to adapt to the changing world in 2024, especially when entering a new stage of treasury management and proposed a framework for strategic value-based treasury management. We expect the framework to be helpful for Chinese enterprises to build a world-class treasury management system with Chinese characteristics.

A review of the evolution of treasury management among SOEs

Over the past two years, central enterprises have largely established their treasury system tailored to their strategic goals and business development needs, with the provincial and municipal SASAC providing guidance to enterprises under their administration by releasing policy documents or organizing seminars. In areas that have not been issued policy requirements, enterprises should make arrangements tailored to their needs in line with SASAC’s top-level and local requirements, setting a management paradigm and taking the lead in the development of treasury system.

According to a series of documents including SASAC Circular No.1, the treasury system should encompass more beyond treasury function itself. SOAs and SOEs should boost digital and intelligent finance transformation underpinned by treasury management.

An analysis on evolving trends of treasury management among global leading companies

The treasury management system among global leading companies has evolved from initial development to a leading practice. At the initial stage, companies aimed to secure normal business operation in line with local policies when treasury function served the role of cash management including account management and settlement. At the development stage, companies improved the effectiveness and efficiency of treasury management through unified standards and centralized financial resources at region-wide level. Nowadays, business groups have further improved their treasury competence in value creation for multiple dimensions including capital operation, risk early warning and decision support, by aligning with global treasury management standards and leveraging information technology, to address increasing uncertainties in external environment with intelligent transformation of treasury management.

As the financial industry has evolved, risk modeling and fintech have become integral to management transformation. Driven by online processes and connectivity between banks and corporate finance teams, leading companies have introduced capital risk modeling and digital technologies such as big data, cloud computing, robotic process automation (RPA), machine learning, artificial intelligence (AI) and blockchain to help executives make effective and efficient decisions and mitigate risks. Areas that have benefited from these implementations include the improvement in automation and intelligence of cash flow forecasting, foreign exchange risk management, anti-money laundering or anti-terrorist financing and investment and financing management.

01 Extending the role of treasury beyond cash management to create greater value

Today, the role of treasury has been extended to perform overall management of portfolio of assets and liabilities beyond cash management to maximize the integration of resources and adapt to business needs. With extended responsibility for managing a portfolio of assets and liabilities beyond cash and bills, the role of treasury has been expanded into capital operation from cash management, with an aim to maximize the integration of limited financial resources from a holistic perspective to underpin business strategy implementation within business groups.

Through an overall management of assets and liabilities, business groups can further integrate resources from a holistic perspective to facilitate robust cash, asset and capital operation and create greater value.



Figure 1: Improving overall management on assets and liabilities from a holistic perspective

02 Developing capital risk models to improve risk-aversion capability

In an increasingly complex business environment, business groups are more susceptible to risks brought by external uncertainties including the changing foreign exchange rates and interest rates, regulatory changes and counterparty credit risks as traditional authorization-based approaches to internal risk management can no longer meet the needs of risk management amid globalization. Enterprises need establish a model for capital risk management to offer dynamic visibility and predictive analysis of risk exposure, being proactive rather than reactive to improve group-wide risk-aversion capability.

SOAs and SOEs should further explore building capital risk models for dynamic penetration and to monitor risk exposure. These models should incorporate hedging strategies, Value at Risk (VaR) estimation and scenario simulation, as well as valuation of financial derivatives, and leverage anti-money laundering, anti-terrorist financing and anti-tax evasion information and market data to enable quick and efficient risk management decision-making.

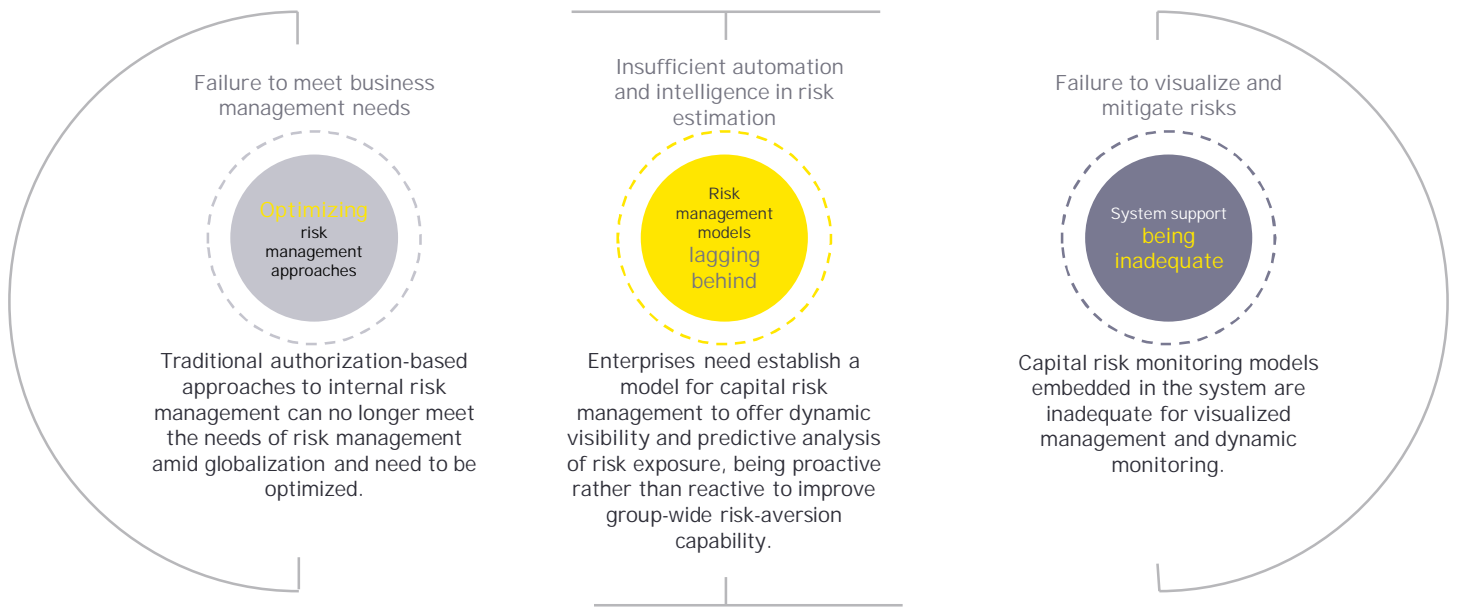


Figure 2: Building a capital risk model to improve risk-aversion capability

03 Building a more digital and intelligent treasury management system

Looking at the existing treasury management system, the treasury function itself needs to be improved. As for integrating with other financial systems, creating value and managing risks, the functionality of treasury system needs to be expanded. Meanwhile, emerging technologies need to be further promoted and applied.

Enterprises should proactively explore ways to enhance treasury competence in value creation and preservation to improve capital operation efficiency, cash flow prediction accuracy through data analysis and visualization and establish risk early warning, prevention and interference functions. In addition, a digital treasury platform needs to be developed with intelligent analysis based on integrated technologies including AI, cloud computing, big data and machine learning for more intelligent and autonomous decision-making empowered by digital and intelligent technologies.

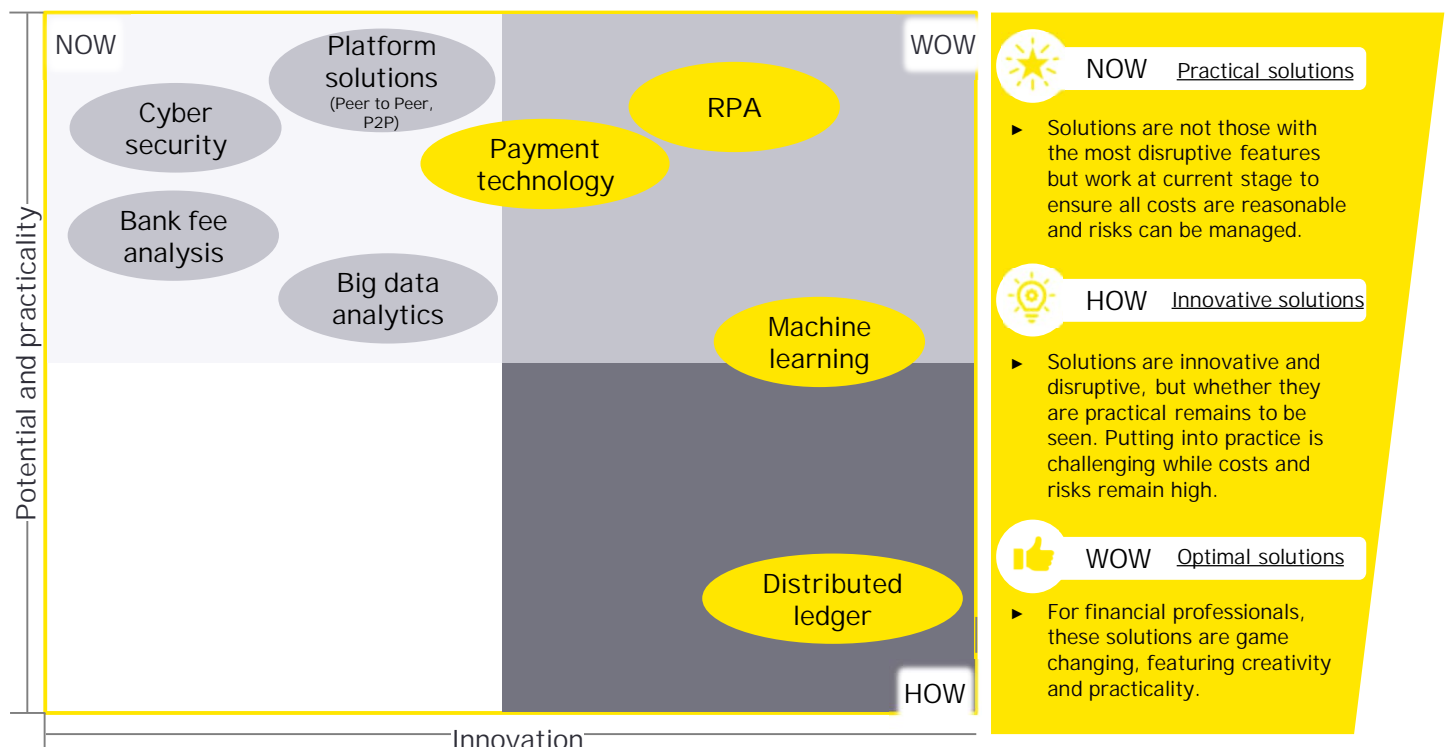


Figure 3: Analyzing potential application of emerging technologies in treasury management

04 Optimizing overseas management system to bolster globalization

Under the Belt and Road Initiative, SOAs and SOEs grew significantly in their overseas operations and cross-border trade, showcasing the importance of treasury management in a globalized world due to the increasingly complex offshore environment.

Firstly, a management mechanism needs to be established. Leading companies perform overall management of offshore capital by setting up treasury centers in international financial hubs including Hong Kong, Singapore and Dubai. Centralized management may vary depending on the local regulations in the jurisdictions where companies do business. Alternatives include jurisdiction-level management, decentralized and centralized management.

Secondly, a capital management model needs to be built, including designing an offshore account system, developing a capital pooling system and selecting banks for cooperation. Enterprises need to conduct integrated research on country-by-country foreign exchange regulations and anti-money laundering or anti-terrorist financing requirements. This research will provide them with deeper knowledge of local regulations on foreign exchange administration, accounts and physical or nominal capital pooling in the jurisdictions where enterprises do business, to ensure offshore capital management system is compliant and costs are within budget.



Figure 4: Developing offshore treasury system

With the changing external environment, expanding business presence, improved industrial chain and ecosystem, accelerated globalization, and rapidly evolving financial technology, the role of treasury management is shifting from “back-office support” to “front-desk leadership”, from a supporter assisting with business transactions toward a key function in generating profits, managing cash flow, and leading the way in the development of business strategy.

For the next stage of the treasury system, to deliver strategic value, SOAs and SOEs need focus efforts on identifying trends in reforms of value creation, risk prevention and management, digital and intelligent empowerment, and globalization support, while promoting the application of capital risk modeling and financial technology to build a world-class treasury management system with Chinese characteristics.

For more information, please contact us.

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