



FINANCIAL RISK MANAGEMENT

Finance and Treasury Management

ADVISORY

AUDIT ■ TAX ■ ADVISORY

Introduction

Public and private sector companies are increasingly exposed to volatile economies, shareholder demands, and onerous regulatory and accounting mandates. While many companies are prepared to take action, rapid change requires additional emphasis on cash management, risk strategy, analytics, systems, and governance.

As global markets and economies consolidate, companies aggressively seek methods to identify and respond to cross border economic, political, and financial risks. Similarly, companies operating in a declining market or post acquisition environment are developing strategies and innovative solutions to integrate disparate operations, generate additional cash flow, increase automation, and reduce costs.

Additionally, as the volatility of commodity, energy, and raw material prices reach and sustain record levels, companies are pressured to evaluate and build capabilities to treat these and other non-financial risks.

Whether your most pressing issue involves cash and working capital management, financing future growth, reducing costs, increasing earnings, or simply managing your company as a going concern, KPMG China is prepared to help.



Service Offering Overview

KPMG's finance and treasury management service is designed to help corporate and public sector CFOs, Treasurers, Controllers, Risk Managers, and Tax Directors achieve tactical and strategic goals. The finance and treasury management service applies to companies of all sizes and complexities, but it is best suited to organisations with significant cash, financial risk, liquidity and funding constraints, international operations, or comprehensive cost-cutting initiatives.

Each service represented below is based on KPMG's finance and treasury management methodology and industry accepted practices. KPMG recognises each company is unique, and as such, each service is tailored to address distinct client size, complexity, development stage, and business objectives.

While each service may be delivered as a stand alone initiative, combined activities can accelerate organisations towards improved risk integration, coordination, and optimisation.





Treasury Management



Treasury Management services include activities associated with cash management, financial risk management, and treasury operations.

KPMG recognises the need for robust, efficient, and realistic core treasury functions. As such, KPMG created services to add or enhance core treasury functions, capabilities, and systems support.

KPMG Service	Activities
Cash, liquidity, and bank account management	<ul style="list-style-type: none"> Review cash account and bank fees for cost savings opportunities Recommend cash receipt and disbursement processes to improve efficiencies, position transparency and liquidity, position management (e.g., central cash pooling), and cash and capital repatriation Recommend shared service or centralised functions (e.g., in-house banks)
Financial modeling and hedging	<ul style="list-style-type: none"> Identify and model financial exposures including foreign exchange, interest rate, credit, commodity, and other enterprise risks Identify and model alternative risk mitigation strategies (e.g., financial hedging) and the associated risks, benefits, and costs
Investment management	<ul style="list-style-type: none"> Recommend or benchmark investment policies, procedures, and delegation of authorities against industry practices Identify strategies to drive additional value from surplus regional and consolidated cash Identify and assess risk and reward profiles associated with incremental investment activities and counterparties
Systems selection and implementation	<ul style="list-style-type: none"> Assist management to identify and select treasury and finance systems Identify minimum business and functional requirements, establish vendor RFP, and facilitate vendor demonstrations Assist management to project manage systems implementation activities
Credit and collections	<ul style="list-style-type: none"> Identify methods to assess and measure counterparty, customer, and vendor credit risks Assist management in identifying measures to evaluate credit downgrades and the impact to borrowing costs, collateral requirements, and market liquidity Identify and evaluate alternative credit risk mitigation methods applied by industry practices (e.g., contract terms, collateral guidance)

Treasury Organisation and Transformation

KPMG Service	Activities
Treasury centralisation and outsourcing	<ul style="list-style-type: none"> Evaluate opportunities to outsource or centralise certain treasury functions. Examples include: funding, operations, accounting, cash management, and risk management Review alternative geographies or vendors providing optimal economic, financial, and tax benefits
Mergers and acquisition	<ul style="list-style-type: none"> Provide pre-transaction due diligence support addressing valuations, risk estimates, and subject matter knowledge Provide integration planning, project management oversight, or tactical implementation support (e.g., systems, process, controls, and risk management)
Funds transfer pricing	<ul style="list-style-type: none"> Establish transfer pricing protocols, baseline revenue and cost assumptions, and general allocation protocols Evaluate pros and cons associated with treasury as a transfer pricing profit center and recommend related business, functional, and governance requirements
Treasury infrastructure and staffing	<ul style="list-style-type: none"> Determine treasury infrastructure, and systems Determine treasury resource levels (front, middle, back office), governance protocols, transaction volumes and types, performance and cost metrics, and roles and responsibilities
Treasury value creation, improved efficiencies, or cost savings	<ul style="list-style-type: none"> Evaluate opportunities to streamline treasury functions or processes through technology automation Evaluate opportunities to segregate, streamline, or enhance treasury responsibilities including accounting, tax, and risk management



As organisations evolve, the treasury and finance function typically moves from a decentralised cash, funding, and operations department to a coordinated and strategic value center. This evolution is particularly relevant as organisations embrace global markets and evaluate the need for consolidated and cost efficient treasury and finance activities. When fully embraced, the treasury transformation process broadly addresses treasury resources, organisational structures, systems, processes, tax, and governance.



Whether your organisation is interested in maintaining compliance with internal policies or keeping pace with industry practice, KPMG can provide tailored and in-depth support addressing various aspects of your finance and treasury organisation. KPMG studies typically fall into three categories. The first study type assists management to evaluate treasury and finance activities, infrastructure, and controls against industry or peer practices. The second study type assists management to identify, measure, and report key treasury and finance risks in terms of financial, regulatory, or strategic impact. The final study type assists management to review treasury and finance activity compliance with approved internal policies and executive risk mandates. In all cases described above, KPMG's efforts are intended to promote improved risk transparency, operating performance, and governance.

Risk Assessment and Governance

KPMG Service	Activities
Risk governance	<ul style="list-style-type: none"> Review treasury and finance governance framework and processes, make recommendations and develop implementation plans to improve current structures and controls Assist management to assess risk parameters, risk oversight committees, and roles and responsibilities of front, middle and back offices
Risk identification and assessment	<ul style="list-style-type: none"> Assist management to identify and assess treasury and finance risks covering qualitative or quantitative aspects
Internal policy compliance	<ul style="list-style-type: none"> KPMG reviews treasury and finance activity compliance with internal policies, procedures, and executive objectives KPMG's risk assessment may include a broad risk identification and measurement effort

Commodity and Energy Risk Management

KPMG Service	Activities
Risk identification and modeling	<ul style="list-style-type: none"> Identify and report existing commodity, energy, and raw material contracts, explicit and implied financial risks (e.g., optionality), credit risks, and operational exposures Identify and model commodity, energy, and raw material financial exposures using industry applied risk methods and tools
Procurement and hedging	<ul style="list-style-type: none"> Identify and evaluate opportunities to consolidate or renegotiate procurement contracts in an effort to minimise costs and reduce risk Identify and model alternative risk mitigation strategies (e.g., financial hedging, insurance, and other) and the associated risks, benefits, and costs Identify and model financial exposures using industry applied risk methods and tools
Infrastructure and governance	<ul style="list-style-type: none"> Recommend minimum infrastructure requirements supporting a comprehensive commodity risk management program Recommend risk tolerances, risk oversight committees, operational roles and responsibilities, and controls Assist management to identify typical Board and Audit Committee activities, responsibilities, and requirements
Systems selection and implementation	<ul style="list-style-type: none"> Assist management to identify potential commodity risk management systems, analytics, and supporting modeling assumptions Identify minimum business and functional requirements, assist with vendor RFP, and facilitate vendor demonstrations Assist management to project manage systems implementation activities



Commodity and energy prices were historically too small to warrant management or stakeholder consideration. As raw material and energy prices rise and fall sharply, the impact to company cash flows and earnings may be significant or catastrophic. Treasury and finance functions increasingly assume commodity risk management responsibilities principally based on existing risk analytics and infrastructure, derivatives and external experience, and the growing desire to consolidate enterprise risk management activities in a single location.



Corporate and public sector treasuries generate significant cost savings and efficiencies through streamlined or improved cash and working capital management processes. Working capital management is typically defined as an organisation's ability to maximise cash flow through the complete transaction lifecycle beginning with a forecast and continuing through cash settlement. The working capital management process is particularly relevant to companies with sizeable accounts receivables, payables and inventories. Other contributing factors include significant capital expenditures, real estate, and fixed asset holdings.

Working Capital Management

KPMG Service	Activities
Inventory "Forecast to fulfill"	<ul style="list-style-type: none"> Analyse sales forecast processes including production schedules, product configurations, production BOM / routing, ship orders, etc. Evaluate production and material execution plans for scheduled and executed orders Review and recommend product quality protocols, transaction inventory tracking, and general controls
Receivables "Order to cash"	<ul style="list-style-type: none"> Evaluate opportunities to manage or generate value from credit and collections, contracts, customer relationship management, and invoicing and billing Evaluate standardised and global proposal, pricing, and quotation policies to confirm consistent and timely revenue recognition Evaluate improved reporting capabilities to deliver enterprise-wide visibility and consistency throughout the order to cash process (profitability analysis, customer segmentation, etc.)
Payables "Purchase to pay"	<ul style="list-style-type: none"> Analyse company expenditure and spending patterns Evaluate standard procurement lifecycle methodologies including working cash vs. discount modeling, invoice synchronisation, and vendor payments management

Treasury Accounting

KPMG Service	Activities
New accounting pronouncement analysis and support	<ul style="list-style-type: none"> Assist management to identify and review new accounting pronouncement guidance and implications (e.g. IFRS, USGAAP and PRCGAAP) Assist management to perform impact analysis and evaluate optional implementation activities, as applicable Assist management to identify business and functional requirements, perform current state gap analysis, and prioritise implementation recommendations
Risk documentation	<ul style="list-style-type: none"> Identify and recommend documentation requirements commensurate with US and international accounting guidance Assist management to document accounting procedures, assumptions, critical data, and user/department accountabilities
Risk modeling and technology support	<ul style="list-style-type: none"> Identify methods applied by industry participants to calculate and evaluate hedge effectiveness (e.g., dollar offset, regression, etc.) Support derivative accounting system selection and business and functional requirements definition
Accounting governance	<ul style="list-style-type: none"> Recommend derivative accounting controls and governance practices Recommend an internal audit program to continuously monitor derivative accounting activity and compliance with internal policies



Treasury organisations are typically active users of derivative instruments and complex financial products. This trend is expected to increase as corporations grow internationally (giving way to new foreign currency exposures) and as markets experience increased volatility.

While derivatives serve a major and increasing role in company risk management practices, new and evolving regulations require strict adherence to local and international accounting standards. Considering these risks and growing external scrutiny, leading companies seek external assistance with accounting research and guidance, local and international accounting support, or accounting documentation and governance.



As organisations grow, corporations typically evaluate alternative funding mechanisms for cost efficiencies, liquidity, and capital flexibility. In stable economies, management may lean on traditional bond or commercial paper alternatives, while more volatile markets may drive structured or creative financing solutions. Regardless of the choice, management analysis typically involves a comprehensive cash and liquidity requirements study, funding alternative cost/benefit analysis, and a product, counterparty, and market risk assessment.

Capital Markets and Funding

KPMG Service	Activities
Alternative funding analysis	<ul style="list-style-type: none"> Identify and evaluate alternative funding solutions (e.g., credit lines, CP, notes, bonds, LOCs, inter-company lending, factoring, etc.) Evaluate funding constraints including local market liquidity, regulations, and tax Measure potential funding costs including banking, investment, and registration fees, interest exposure, tax impact, and infrastructure and resource requirements Evaluate funding alternative benefits including liquidity, flexibility, cost, and duration matching Evaluate derivatives as a mechanism to achieve desired cost of funds
Pre-funding cash flow analysis	<ul style="list-style-type: none"> Assess local and international liquidity needs and cash availability Evaluate cash flow forecasting capabilities supporting sales and financing activities Model forecasted project or business activity cash flows
Trading	<ul style="list-style-type: none"> Establish a business case and analysis supporting new or expanded trading activities. Typical areas addressed include: a) proposed products, volumes, counterparties, and tenor; b) anticipated market, credit, and other risks; c) anticipated business activity and financial value add, and; d) proposed limits, controls, and governance structure Identify industry metrics supporting trading activities including resources, risk and valuation methods, controls, and reporting templates

Tax

KPMG Service	Activities
Tax planning and analysis	<ul style="list-style-type: none"> Review treasury and financing transactions for opportunities to reduce tax liabilities and maximise cash flows Assess existing or proposed cash management and funding strategies for negative tax implications, and recommend improvements as applicable Review mark-to-market treatment of financial transactions to identify potential negative tax implications where unrealised marked to market gains are taxable, creating negative cash flows Review proposed transaction for anticipated tax risks, treatment, and financial impact (GAAP and tax)
Ruling and opinion support	<ul style="list-style-type: none"> Prepare and submit tax positions to agree tax treatment with local tax authorities Provide a tax opinion based on KPMG analysis
Tax analysis and research	<ul style="list-style-type: none"> Research and report global tax law updates and significant rulings Analyse potential tax impact analysis and remediation strategies considering new or evolving tax legislation
Tax implementation	<ul style="list-style-type: none"> Identify local and international tax guidance, rulings, and treaties Identify programs, policies, and tools to implement management-defined tax strategies



Tax requirements associated with many treasury and finance activities are complex, unique to local and international geographies, and susceptible to change. Without sufficient upfront consideration for, and deep knowledge of, relevant tax considerations, a routine or seemingly advantageous transaction can create significant financial risk and compliance costs. Given the significant exposure and the onerous operational requirements associated with tax issues or transactional analysis, leading organisations are turning to external support with deep geographic resources and specialisation.

Finance and Treasury Management Advisory Projects

Case Studies in China including Hong Kong

Case Study 1: Training services on the internal audit of treasury operations

A financial institution required assistance in enhancing the internal audit review of its treasury operations. KPMG provided training services to the institution's internal audit staff, covering the audit of both manual and IT controls, complex structured products and valuation methodology, and leading practices in treasury processes. Through a combination of training seminars, facilitated workshops, sample transaction walkthroughs and experience sharing/briefing sessions, the institution's internal audit staff were able to improve their technical knowledge and enhance their auditing skills on treasury operations.

Case Study 2: Comprehensive review on treasury processes

A financial institution had significantly expanded its treasury operations in recent years and wanted a professional firm to perform an independent review on its treasury processes to identify control weaknesses and potential improvement opportunities. KPMG assessed the design of the internal control procedures in the front, middle and back offices of the institution's treasury business operations, tested the operating effectiveness of the key control procedures, identified areas for improvement, and provided recommendations with reference to the industry best practices.

Case Study 3: Review on the finance and treasury operations

A quasi-government organisation required KPMG to perform an independent review on its treasury operations and processes to ensure control adequacy and identify potential improvement areas. KPMG obtained a good understanding of the existing finance and treasury processes by reviewing policies and holding discussions with the relevant management. We also assessed the internal control procedures of various sub-processes, such as cheque payment, fund transfer, cash forecasting and investments, and performed testing procedures to validate the operating effectiveness of key controls procedures. Once the project was completed, the organisation was able to recognise areas for improvement on the control environment of its finance and treasury processes.

Case Study 4: Process streamlining on trading system

A commercial company primarily engaged in the market operations of securities and futures in Hong Kong required assistance in process streamlining, with a particular focus on the operation of the market trading system. After performing a critical analysis on the Company's operational environment, risk and control procedures and the impact on the influencing systems, KPMG helped the Company identify a number of potential cost saving areas, and provided practical recommendations on implementation steps.

Case Study 5: Assistance in formulating a market entry strategy for equity derivative market

An international equity trading company planning to enter the equity derivatives market in a number of Asia-Pacific countries requested KPMG to investigate and assess the relevant rules and regulations. KPMG reviewed the Company's draft guidelines on foreign exchange risk management and the equity derivatives activities in these countries. Through a series of structured interviews with key market participants in the region, an analysis of the relevant rules and regulations, and discussions with management, KPMG assisted the Company in formulating a market entry strategy for its prospective business.

Case Study 6: Review of policies and guidelines on foreign exchange risk management

A non-government organisation with significant contracts/commitments denominated in foreign currencies required an independent review of the organisation's foreign exchange risk management procedures. After obtaining an understanding of the organisation's anticipated risk exposures and risk appetite, KPMG reviewed the draft policies and guidelines on foreign exchange risk management and provided recommendations on improvement areas to further strengthen the organisation's risk management framework.

Case Study 7: Advisory services to enhance market risk framework and procedures

The China branches of two international banks required assistance to enhance their market risk management framework. Through a review of the branches' market risk management policies and manuals, in-depth interviews with key market risk personnel, and comparisons with local frameworks (such as the Guidance to Market Risk Management of Commercial Banks issued by the China Banking Regulatory Commission and international practices), KPMG offered a number of recommendations on improvement areas, including both overall risk management framework and specific processes-level procedures.

Case Study 8: Advisory services on the valuation and accounting treatment of derivative instruments

On the request of clients across various industries, KPMG has provided valuation assistance services with a particular focus on derivative instruments, such as interest rate swaps, foreign exchange and commodity contracts (including both vanilla and structured financial instruments) and provided accounting advisory services for different types of financial instruments under International, US, Hong Kong and PRC Accounting Standards.

Case Study 9: Review on cash management processes

A global apparel retailer and wholesaler with significant operations in China required an independent firm to provide advisory services on how to improve cash management. KPMG reviewed the client's cash management processes covering cash receipts and disbursements, cash flow monitoring, accounts payable and other payable monitoring, bank accounts and banking facilities management. We assessed the design and operating effectiveness of key control procedures in cash management processes, and provided recommendations on both control and process enhancement perspectives.



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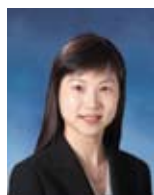


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