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Auchan

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Case Study: Auchan Replaces Spreadsheets with a Specialist TMS

About AUCHAN treasury department

Auchan is a multinational retail group, with headquarters in Croix, France, while treasury is located in Marquain, south west Belgium. The treasury department manages the group's liquidity requirements, those of its network of domestic and international subsidiaries, and oversees foreign exchange (FX) and interest rate risk.

Auchan's liquidity requirements are met via issuance in the capital markets, bank finance and promissory note issuance. The treasury management team determined that an Excel-based solution no longer adequately supported an increasingly complex treasury operation in today's demanding financial control and reporting environment.

In reaction to the developments of 2008 – most notably in the financial markets, subsequent regulation and internal realisation of the changed environment's operational risks, Auchan re-thought its treasury operation. We decided to develop group treasury's structure and processes into a new organisation, based on a banking treasury model. The planned evolution included improvements such as segregating treasury duties and responsibilities, improved control and enhanced governance. It was also necessary to redesign our treasury processes to properly reflect this new structure.

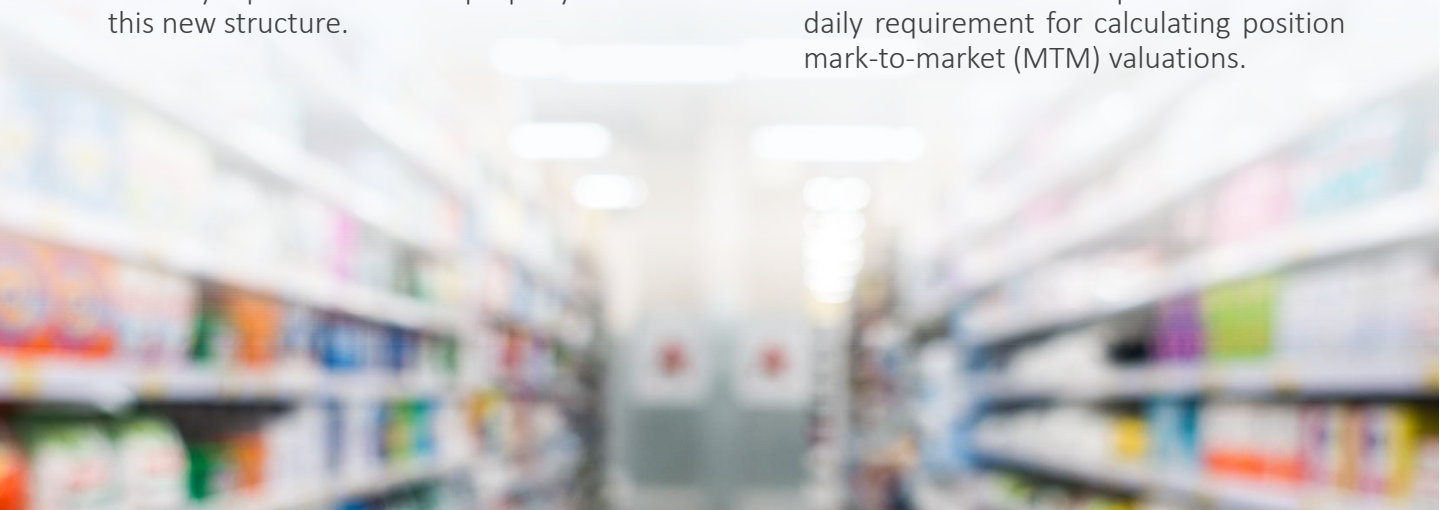
The Background

Auchan's treasury department is now organised into three core sections: front office, back office and treasury control, which is in charge of the middle office and financial reporting.

As a key part of the re-thinking exercise the team researched the Excel-based solution then in place, which had been developed by the in-house technical team. This system was supported by an Access database, which handled interest rate calculations, intra-group loans and consolidation of exchange rate exposures. It exported this information daily to our treasury software for tracking and reporting subsequent operations.

Our analysis identified various problem areas and limitations:

- It wasn't possible to implement a front-to-back office automated workflow, so there was no real control to provide assurance that operations being performed and reported gave a true reflection of the underlying reality of the treasury business.
- Generation of reporting was difficult and time consuming, compared with manual alternatives.
- The solution was inadequate to fulfill the daily requirement for calculating position mark-to-market (MTM) valuations.



- It was difficult to perform the required position reconciliation function.
- A reliable audit trail was unavailable, so fundamental control and transparency was missing.
- The system lacked the segregation of duties needed for effective treasury control.
- There was no workflow automation for our repetitive operations, so the process was inefficient.
- There was no obvious route for complying with the European Market Infrastructure Regulation (EMIR), for statutory automated reporting of over-the-counter (OTC) derivative hedging operations.

From Excel to a TMS

Our conclusion was that we should replace the spreadsheet based system with a specialist treasury management system (TMS), allowing us to address identified problems and limitations and empowering us to meet evolving compliance demands such as those imposed by EMIR and international financial reporting standards (IFRS). We could also meet the requirements of our upgraded treasury organisation and policy and also comply with the new standards of operation.

It took 15-18 months from inception to the completion of the review, planning and TMS selection exercise. The work included detailed requirements analysis, specification and documentation, as well as organizing the professional staffing to support the new treasury regime.

Upon evaluating TMS solutions, we learned that Auchan's banking affiliate already used 3V Finance's Titan system and were operating a banking treasury before this type of organisation had been implemented at group level, using Titan to support their operation. This provided an effective proof of concept for the solution in the live operating environment of a banking treasury. We confirmed the vendor's performance standards and the solution's effectiveness in an actual business environment, so were happy to select Titan for interest rate risk management. Our analysis of the system's performance at our affiliate, the reactivity of the vendor's business teams and the quality of technical development work were key factors that supported the choice of a single solution for our new TMS requirements and convinced us to proceed.

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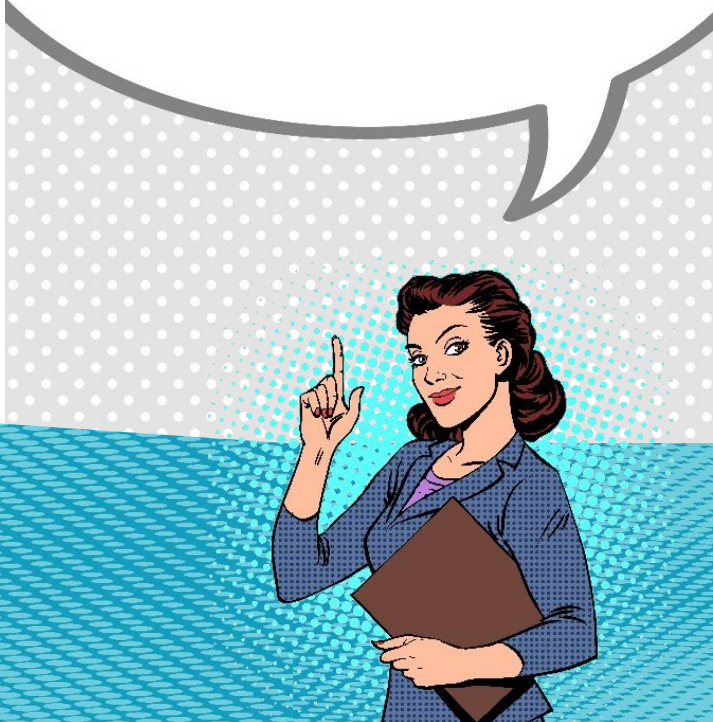

Implementing the TMS

Implementing the TMS took about six months elapsed time. The team was led a project manager, with a representative from the front, middle and back office of the treasury department. Weekly project management meetings, both internal and with the vendor's professional services teams, monitored progress against the plan.

The new TMS is effectively a database providing Auchan treasury with a range of the latest financial market-based information. All our reporting is now generated through selecting relevant information from this database. We continue to use Excel, but now it fulfills its proper business role producing of formalised reports as data tables and graphs. This output is based on the information constructed and stored in the TMS, which is exported to Excel for formal presentation.

Business Benefits

Auchan treasury now enjoys a range of new business benefits from the TMS:

- Generation of a full range of analytical reports on interest rate and exchange rate risk exposure management, enhancing the visibility of financial risk positions and control.
- Automated effectiveness testing on our hedging portfolio, using automation to facilitate this complex process.
- Effective counterparty risk management t via the system's estimation of the default risk relating to each market operation and to each transaction's bank counterparty, so we can respond to any adverse changes in credit status.
- The software solution allows for segregation of duties in the performance of all treasury processes, thus meeting the levels of control and operational quality required of a banking treasury environment.
- Recording of changes in treasury positions and interfacing with other treasury software has been completed, achieving process automation objectives.
- All evolving informational and analytical facilities of the TMS software are used to benefit the entire Auchan enterprise.
- For IFRS compliance, the precision and accuracy of the system's MTM calculations has been validated. This enables us to break down the revaluation results into their time and intrinsic value components, enhancing compliance quality and financial position visibility.



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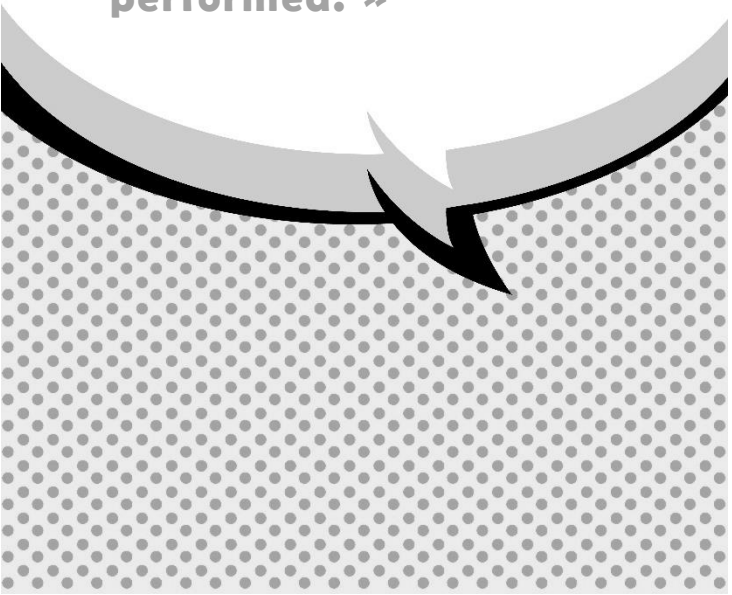
« We have replaced Excel as our primary treasury support tool and installed the required front to back office automated solution that enables transparent, audit-compliant daily liquidity, FX and interest rate risk management operations to be performed. »



EMIR Compliance

The department is currently working on the next evolutionary step for treasury operations – EMIR compliance.
We must implement a daily reporting exercise across our entire derivative portfolio, for both external and inter-company hedging transactions.
The new report's format is based on the automated construction of a 70 character table.
The TMS solution is indispensable for such a demanding technical task and our vendor is working on developing the EMIR reporting solution with the Depository Trust and Clearing Corporation (DTCC), the principal trade depository to which we must report daily by automated means to achieve full compliance with EMIR's rigorous criteria.

Conclusion

Our system implementation and operational usage have been central to the development of treasury that met Auchan's strategic objectives.

We have replaced Excel as our primary treasury support tool and installed the required front to back office automated solution that enables transparent, audit-compliant daily liquidity, FX and interest rate risk management operations to be performed.
Our technical platform gives us a secure basis to adapt to evolving market and regulatory requirements.