



BOARD / AUDIT / TREASURY GOVERNANCE

Treasury Accountability

Responsibility without expertise is not control.

A serious reminder that execution, approvals and treasury decisions must sit with people who can measure, explain and defend them.

What you need:

You need to have experts in treasury execution, risk and have an understanding of markets.

The accountability gap is the real treasury risk

Treasury activities are often “assigned” to officers as an administrative task. But these decisions move cash, change risk, fix pricing, create legal obligations and can permanently damage the organisation.

The uncomfortable question

If a transaction goes wrong, who can prove that the decision was expert, authorised, independently challenged, fairly priced and defensible?

What too many organisations do

They transfer responsibility to a person, but do not transfer expertise, market tools, independence, limits, evidence standards or genuine accountability.

A signature is not a control. A title is not expertise. A bank quote is not independent validation.

Boards, management, executors and auditors need to stop treating treasury execution as a casual operational responsibility.

What counts as a treasury decision?

Execution of transactions

FX spot and forwards, swaps, options, commodity prices, interest rates, deposits, borrowings, bond or loan drawdowns, early repayments, rollovers, intercompany funding, bank fee/pricing acceptance, derivatives other treasury instruments.

Risk positioning

Whether to hedge, not hedge, delay, pre-fund, refinance, concentrate balances, use a particular tenor, choose a bank, or accept market exposure.

Controls and evidence

Price challenge, limits, approvals, segregation of duties, quote comparison, trade recording, confirmations, settlement checks and exception reporting.

Once the transaction is executed, the economic result is locked in — gains, losses, spreads, legal obligations and accountability travel with it.

1

A non-expert can create a real financial obligation in seconds.

2

Weak execution is usually invisible until cash is lost.

3

After-the-fact audit cannot reverse a bad trade.

The red-line rule: do not accept responsibility unless you can defend it

Do not execute, approve or “own” treasury transactions unless you understand the risk, the pricing, the alternatives and the consequences.

The doer must be able to answer

- What exposure are we managing?
- Why this instrument and this tenor?
- What is the fair market level?
- Which banks quoted and how were quotes challenged?
- What could go wrong and who authorised the risk?

The company must be able to prove

- Clear mandate and limits.
- Segregation between execution, approval and settlement.
- Independent market validation.
- Documented rationale and audit trail.
- Escalation when limits, pricing or market conditions move.

Auditors must not ignore

- Who made the decision.
- Whether that person was competent.
- Whether evidence existed before execution.
- Whether transactions matched policy and risk appetite.
- Whether accountability was real or merely delegated on paper.

Where treasury failures are born

- 1** **Mandate without expertise**
Someone is authorised to act, but not equipped to understand or challenge the transaction.
- 2** **Bank dependence**
The organisation accepts relationship-bank pricing and advice without independent market verification.
- 3** **No pre-trade discipline**
No exposure measurement, no alternative analysis, no scenario loss, no fair-value benchmark before execution.
- 4** **No segregation**
The same person initiates, executes, records and explains the transaction.
- 5** **Audit comes too late**
The issue is only discovered when losses, liquidity stress, breach, litigation or reputational damage already exist.

The control point is before execution, not after the crash.

Case studies that match the real concern

These cases are selected because the central lesson is not hidden fraud. It is that treasury and derivative transactions executed with a commercial objective can still expose management, officers and auditors when expertise and controls are inadequate.

Showa Shell Sekiyu

FX forwards created a massive loss; executives, treasury personnel and auditors faced consequences.

Gibson Greetings

Derivatives moved beyond the board mandate; CFO and Treasurer faced SEC cease-and-desist findings.

P&G vs Bankers Trust

Leveraged swaps sold as risk management produced major losses and litigation over understanding and duties.

Metallgesellschaft

A hedging strategy created a liquidity crisis and about \$1.5bn in losses when basis/liquidity risk was mismanaged.

Hammersmith & Fulham

Local authority swaps became unlawful and potentially crippling; auditors and legality were central.

Aracruz / Sadia / Korea KIKO

Exporters used FX derivatives for hedging, then suffered huge losses, CFO resignations, shareholder suits and bankruptcy pressure.

Case study 1: Showa Shell Sekiyu - FX forwards in good faith, accountability in pain

What happened

Showa Shell announced a very large foreign-exchange loss from forward contracts. The transactions related to FX exposure management, not a hidden rogue book. The loss was multiples of pre-tax profit.

Why it matters

The problem was not simply that the yen moved. It was that the company's FX execution and oversight created a result that management could not absorb or defend.

Who felt the pressure

Reported consequences included dismissal of the treasury manager responsible for FX deals and action affecting executives and auditors. This is exactly the accountability point: the doer and oversight chain became visible.

A “hedge” does not protect the executor if the exposure, tenor, amount and downside were not expertly controlled.

- Before accepting FX execution responsibility, the officer must know the exposure profile, hedge ratio, maturity matching, liquidity impact and mark-to-market downside.
- Management must not confuse operational familiarity with FX expertise.
- Auditors should ask whether FX authority is tied to competence, independent valuation and risk limits.

Case study 2: Gibson Greetings - approved officers, inadequate controls

What happened

Gibson initially used interest-rate swaps linked to debt. The activity expanded into multiple derivatives and restructurings, many highly leveraged and not aligned to the original board mandate.

Competence failure

The SEC found Gibson lacked controls to identify whether derivative transactions were consistent with corporate objectives and lacked procedures for limits, types, nature and risk assessment.

Accountability consequence

The SEC named the CFO and Treasurer as responsible for accounting, disclosure, books, records and controls; both consented to cease-and-desist orders without admitting or denying findings.

This is the client message:

- A board resolution is not enough if no one defines product limits, valuation method, risk appetite and escalation rules.
- A treasurer's signature does not make a complex derivative suitable, accounted for, or disclosed properly.
- When losses happen, regulators and auditors examine the responsible officers - not only the bank counterparty.

Case study 3: P&G vs Bankers Trust - sophisticated company, unsuitable understanding

What happened

P&G entered leveraged swap transactions with Bankers Trust. The trades generated major losses and P&G sued, alleging misrepresentation and other claims linked to the transactions.

Why this is relevant

This was not a petty operational mistake. It was a highly consequential treasury decision where product complexity, bank duties, internal understanding, suitability and documentation became the battleground.

Accountability lesson

Even large companies can be exposed if officers approve complex instruments without independent challenge. Courts, boards and auditors will ask what the company knew before execution.

The bank's quote is not the company's defence. The company needs its own understanding.

- Do not approve complex swaps or structured derivatives on relationship trust alone.
- Require independent valuation, scenario analysis and documented suitability.
- When the product is not understood internally, the right answer is expert review - not signature.

Case study 4: Metallgesellschaft - a hedge can fail if liquidity and basis risk are misunderstood

What happened

MG's energy subsidiary used a "stack and roll" futures hedge against long-term fixed-price fuel commitments. The commercial intention was risk management.

What went wrong

Short-dated futures against long-dated commitments created liquidity pressure and basis/term-structure exposure. When markets moved, margin and cash-flow pressure forced action.

Consequences

Management changed, positions were closed, losses were reported at about \$1.5bn, bank support was required and divisions were sold.

Treasury lesson

- A hedge is not competent merely because it offsets a commercial exposure on paper.
- Liquidity risk, margin calls, maturity mismatch, basis risk and stress scenarios must be understood before execution.
- The person executing hedges must be able to defend not only "why hedge" but "why this hedge structure".

Case study 5: Hammersmith & Fulham - authority and legality cannot be assumed

What happened

A local authority's finance department entered very large interest-rate swaps. The positions effectively became a one-way bet on interest rates falling, and exposure grew far beyond ordinary cash management.

Audit and governance red flag

Reports describe elected members, the chief executive, auditors and the Audit Commission as being unaware of the activity until a market participant raised concern.

Legal outcome

The House of Lords held that local authorities had no power to enter interest-rate swaps. The issue was not only market loss - it was whether the activity should have existed at all.

Treasury authority must be legal, explicit, competent and visible - not assumed inside the finance function.

- Auditors should test whether delegated treasury activity is lawful and within power.
- Management should not allow treasury products to be treated as a private technical domain inside finance.
- When products are material or complex, external expert review is a control - not a luxury.

Case study 6: Exporters using FX derivatives - hedging can become survival risk

Aracruz

Brazilian pulp producer Aracruz unwound most of its toxic FX derivative exposure at a reported \$2.13bn loss after the Brazilian real moved sharply against prior expectations.

Sadia

Brazilian food group Sadia reported very large FX derivative losses; reports noted its CFO was fined and barred from management after the regulator probed the losses.

Korea KIKO / Snow Ball

Korean exporters bought FX option structures intended to manage currency risk. Some suffered losses, CFO resignation, shareholder lawsuits and bankruptcy pressure as exchange rates moved.

Why these cases belong in this document

- The initial rationale was often hedging export or currency exposure - not criminal intent.
- The failure was product complexity, leverage, asymmetry, market stress and insufficient internal ability to understand the payoff.
- When the product is “free” or offers enhanced rates, treasury must ask what risk has been sold to make it free.
- Executors and approvers need to understand knock-in, knock-out, leverage, notional multiplication and downside before signing.

The accountability test for every treasury activity

Pre-trade

- Exposure measured
- Instrument rationale and implications understood
- Fair-value benchmark
- Scenario downside
- Authorisation and limits

Execution

- Multiple quotes where practical
- Quote timestamps
- Independent challenge
- No self-dealing control conflict
- Exception escalation

Post-trade

- Confirmation matched
- Settlement verified
- Accounting treatment understood
- Performance reviewed
- Evidence retained

Oversight

- Board risk appetite
- Delegation matrix
- Competence requirements
- Audit review
- Breach consequences

If these cannot be evidenced, responsibility has been delegated without control.

Message to officers asked to “handle treasury”

Do not be the person who signs, clicks, books or confirms what you cannot explain.

The trade ticket will have your name.
The approval trail will show your decision.
The loss explanation will start with your process.
The auditor will ask what you knew before execution.

UNLESS you are competent, mandated and independently supported, do not accept the accountability.

What to do instead

- Request expert treasury support before execution.
- Require independent quote validation.
- Escalate unclear risks or pricing.
- Refuse to approve outside mandate or competence.
- Document that the decision needs specialist review.

What not to rely on

- “The bank said it is fine.”
- “We have always done it this way.”
- “It is only a rollover.”
- “The exposure is small.”
- “The auditor will pick it up later.”

Message to Boards and management

You cannot outsource accountability to an untrained officer

Delegating execution without competence, limits, systems and independent challenge is not governance. It is exposure transfer to the weakest control point.

You cannot wait for a loss event to ask for evidence

By the time the board asks “how did this happen?”, the spread has been paid, the trade is booked, the funding has moved, or the legal obligation is live.

Minimum expectation

- Approved treasury policy with limits and permitted instruments
- Delegation matrix tied to competence and transaction size
- Independent price/risk validation before material execution
- Segregated initiation, approval, execution, recording and settlement
- Post-trade exception reporting and evidence retention
- Periodic Board/Audit Committee review of treasury execution quality

Message to auditors: the failure point is before execution

Auditors cannot only audit treasury after crash events. They must challenge whether treasury decisions are being made by competent people, within mandate, with defensible evidence before transactions are executed.

Audit questions that matter

- Who is executing and approving transactions?
- What competence and market access do they have?
- Where is independent valuation or quote challenge?
- Are limits, products and tenors clearly authorised?
- Are exceptions escalated before execution?
- Can the audit trail defend the trade after the event?

Audit conclusion to make visible

Where non-experts execute or approve material treasury activity without independent support, the issue should be raised as a governance deficiency — not treated as a minor process observation.

The clean audit question is not “was a trade recorded?” It is “should that person have been allowed to do that trade in the first place?”

A serious client conversation: treasury responsibility needs expert infrastructure



Clients should be told plainly: if treasury execution and decision-making sit with non-experts, management is accepting preventable financial, legal and reputational risk.

FX / hedging

Do not execute because a bank quoted. Execute because the exposure, hedge ratio, tenor, price and downside have been validated.

Debt financing

Do not roll over terms by habit. Challenge pricing, covenants, tenor, repayment profile and refinancing risk.

Intercompany funding

Do not move funds casually. Pricing, approvals, documentation, tax/accounting implications and settlement discipline matter.

Cash management

Do not accept fragmented balances, idle cash, avoidable overdrafts or manual opacity as “normal”.

The pressure point: companies must decide whether treasury is controlled by experts — or merely processed by whoever was available.



Final reminder

Treasury responsibility is not a formality.

It is a decision to put the organisation's cash, risk and reputation in someone's hands.

Do not take the responsibility unless you can defend the outcome.

Selected sources for corrected case studies

- Showa Shell Sekiyu: UPI, “Showa Shell cuts top executives over massive losses,” 25 Feb 1993; World Scientific / IDEAS summary of Showa Shell derivatives loss.
- Gibson Greetings: SEC Administrative Proceeding Release No. 34-36357, Gibson Greetings, Cavanaugh and Johnsen, 1995.
- P&G / Bankers Trust: Procter & Gamble Co. v. Bankers Trust Co., 925 F. Supp. 1270 (S.D. Ohio 1996).
- Metallgesellschaft: Penn State EBF 301 case study on Metallgesellschaft hedging losses.
- Hammersmith & Fulham: Arlingclose case summary; Maitland Chambers summary of Hazell v Hammersmith & Fulham LBC.
- Aracruz / Sadia / Korea exporters: Reuters on Aracruz FX derivative loss; Bloomberg/Euromoney reporting on Sadia; Korea Times on Snow Ball/KIKO derivative losses.

Note: The cases are presented for governance and accountability lessons, not as legal advice. Facts are summarised at a high level for client discussion.