

SUNGARD

PAYMENTS SOLUTIONS FOR
CORPORATE TREASURERS

THE PAYMENT
FACTORY:
STRENGTHENING
COMPLIANCE
AND IMPROVING
INTERNAL CONTROLS
FOR CORPORATE
TREASURERS

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This Whitepaper is Co-Authored with



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INTRODUCTION

Machiavelli made the following observation about change in 1513:

“Leading the introduction of a new order is hard. There is nothing more difficult to take in hand, more perilous to conduct or more uncertain in its success. The innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new. This coolness arises partly from fear of the opponents, who have the laws on their side, and partly from the incredulity of men, who do not readily believe in new things until they have had a long experience of them.”

Hundreds of years later, Machiavelli’s words are relevant to our current business environment. While companies must continue to evolve and change to gain market advantage and to remain competitive, many fear change and are slow to implement new ways of doing business,

In contrast, marketing-leading corporations recognize the challenges of change and embrace them.

Moving to a centralized treasury function—a Payment Factory—is one such change that many are slow to implement even though corporations around the world recognize the benefits that a Payment Factory can bring to their business. Centralizing the treasury function enables corporations to reduce the number of banking relationships they must maintain. It reduces cross-border payment fees and the number of cash transfers by automatically offsetting payments between subsidiaries. This in turn reduces foreign exchange charges, wiring costs and lifting fees from the receiving banks. In addition, the corporation is able to more aggressively negotiate lower banking fees based on higher volumes of transactions with a single bank. Centralizing the treasury function also provides corporations with better visibility into funding needs and liquidity management which translates into improved control over payment timing

By replacing the current environment of decentralized treasurers and local accounts with Payment Factories, corporations would improve cash management through reducing or even eliminating the need for intra-day integration of accounts across the company. The Payment Factory would also provide internal controls that ensure accountability and auditability. It’s critical, however, that the Payment Factory provides accountability down to the individual level.

1. COMPLIANCE

Countries around the world are beginning to follow the lead of U.S. regulators and develop and implement appropriate corporate internal controls. The 8th EU Directive includes parallels to the Sarbanes Oxley (SOX) legislation in the U.S. France, with LSF (Loi de sécurité financière), Australia and Japan are legislating rules-based internal controls and countries including China, Canada and South Africa are following suit. Germany has passed a corporate governance code "a Law for Transparency" from 1998 (KontraG) and a financial directive with SOX-like aspects. Italy's Law 231 and 262, Switzerland's 663 and 728 Swiss Code of Obligation, and the Netherlands Tabaksblad Code incorporate elements of SOX. Other countries such as Hong Kong and the UK are requiring that corporations explain their compliance rather than mandating it; Mexico and Brazil are operating on a voluntary system.

Although the list of countries implementing SOX-like controls remains small, the trend is clear: internal controls are becoming more important in the minds of both the regulators and the companies operating within those countries.

Corporate boards of directors are becoming increasingly concerned about liability as a result of news stories of employee fraud, corporate identity theft, computer breaches and malfeasance. For example, U.S. retailer TJ Maxx recently agreed to pay a \$40.9 million settlement to Visa issuers relating to a computer security breach in which over 94 million Visa and MasterCard accounts and possibly customer driver's licenses may have been exposed.

Media coverage of stories such as the TJ Maxx lawsuit heightens corporate awareness. As corporations become more knowledgeable about liability risks and the reputational damage that accompanies that liability, they are actively seeking to implement better internal controls and expand and enhance existing tracking mechanisms.

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2. THE CASE FOR INDIVIDUAL ACCOUNTABILITY

While corporations may use different payment forms, these forms are all supported by national or global payments standards. For instance, most originating payments systems require appropriate authentication and authorization validation before approving and releasing individual high-value payments.

Corporate treasury systems generate these payables files which are then released electronically by a treasury operator with approval authority. However, this system of internal controls often breaks down. The majority of corporations do not have any controls in place to track who touches the payables file between its release from their ERP or treasury system and its transmission to the bank. Additionally, system passwords are scribbled on Post It notes and adhered to treasury workstations so that if the approver is unavailable, another employee can log into the system to release payments and meet the bank's daily cutoff time. Multiple employees using a "communal" logon and password to authorize payments create a murky audit trail.

When processing runs smoothly, employees can provide transaction history, sufficient organizational transparency, tracking of financial transfers and supporting documentation. However, those same corporations stumble when providing historical data for exception processing and meeting changing regulations. Proving compliance during an audit can be challenging and accountability limitations increase financial risk to both the corporations and the banks serving them.

There are additional problems with control: when a corporate treasury department transfers bank payments, most bank systems only verify access and do not validate the actual identity of the employee using the logon and password. To fully protect against identity fraud, corporations need to authenticate the identity of the person accessing the system. Although many corporations issue one-time-password tokens or digital certificates or have implemented site key verification, very few authenticate the user before issuing the credentials. Without individual identity authentication, companies cannot trust that the person accessing the system is actually the party who should have the access credentials.

By not tying individuals to the work they do and the transactions that they generate, corporations can miss behavior and activity patterns that could identify potential fraud. Tracking and accountability per individual must be enterprise-wide and comprehensive.

3. ACHIEVING INDIVIDUAL ACCOUNTABILITY: AVANTGARD TRAX PAYMENT FACTORY USING IDENTRUST CREDENTIALS

Today, individual accountability is tied to system logon and activities performed under that logon. However, accountability for the approved bulk files of payments (more than one payment) is available only at the corporate level. This lack of individual identification is true of most information transferred in files rather than individual transactions (e.g. electronic invoice files).

IdenTrust in combination with the AvantGard Trax Payment Factory provides individual accountability for bulk files by using a unique, internationally interoperable capability that identifies each signature at an individual rather than company-level. IdenTrust's Rule Set, an open standards-based approach for identity authentication and validation developed by the global financial services community and its customers, delivers a framework which ensures regulatory compliance for high assurance identities which are legal binding and applicable globally for all types of transactions and electronic documents. This technology is embedded in the AvantGard Trax Payment Factory, ensuring full traceability back to the individual signing the payment instructions or batches. And since all transactions are tracked at the individual level, corporate treasury organizations have audit trails of what was performed and by whom.

The IdenTrust credentials are issued by financial institutions to their corporate customers who perform the required Know Your Customer validation for every individual. Because these

Tracking and accountability per individual must be enterprise-wide and comprehensive.

Institutions belong to the IdenTrust network, every credential is interoperable and can be used across multiple banks with any application that is IdenTrust enabled. Within each transaction, IdenTrust only validates the identity associated with the transaction not the data associated with the transaction preserving the integrity and confidentiality of any transmitted data.

The IdenTrust Rule Set within the AvantGard Trax Payment Factory automates three key activities:

1. **Authenticate** - Prove the identity of individuals or businesses.

- IdenTrust identities allow individuals or businesses to prove that they are who they claim to be and permit other individuals or businesses to rely on that proof.
- Because IdenTrust identities are backed by banks around the world, individuals or businesses that rely on that identity are covered by a liability structure provided through the banks (similar to the structure provided in the credit card industry) even if the identity is proven false.

2. **Encrypt** - Control visibility into and integrity of transactions or documents.

- IdenTrust identities secure the contents of a transaction file and/or document, making them tamper proof.
- IdenTrust identities can scramble information, making it impossible to read or decipher by an unauthorized person.
- IdenTrust identities also encrypt and control process flows, eliminating both phishing and man-in-the-middle attacks by ensuring that no one can intercept or redirect the transaction or document.

3. **Electronically Sign** - Create a legally binding and non-repudiable electronic signature.

- IdenTrust identities can be used to replace “wet” signatures, giving electronic documents and transactions

the same levels of legal protection and enforceability associated with traditional ink-based paper signatures.

- Global legal interoperability results from a closed contractual system that governs:
 - o Liability and recourse among all parties: a certificate authority (CA) confirms to the relying party (RP) that the subscriber's certificate is not revoked, reducing repudiation risk.
 - o Legal recognition of digital signatures.
 - o Electronic contract formation.
 - o Dispute resolution over signature validity.

By using these three functions alone or in combination, corporations can hold individuals within their organization accountable for creating, transferring, reading or discarding payment transactions. This entire process is fully compliant with U.S. regulatory requirements such as Sarbanes-Oxley (SOX), the Health Insurance Portability and Accountability Act (HIPAA), the Federal Financial Institutions Examination Council (FFIEC) multifactor authentication banking guidelines and global initiatives such as anti-money laundering (AML) and Know Your Customer (KYC) requirements around the world.

5. AVANTGARD TRAX PAYMENT FACTORY

AvantGard Trax Payment Factory is a single rule based solution allowing corporations to automate and centralize their payments processing across all regions, affording them increased control. Utilizing a single solution improves visibility of cash flows for better liquidity management and significantly reduces operational and transaction costs. Automating the payments process enables an organization to improve the effectiveness of their internal controls and regulatory compliance.

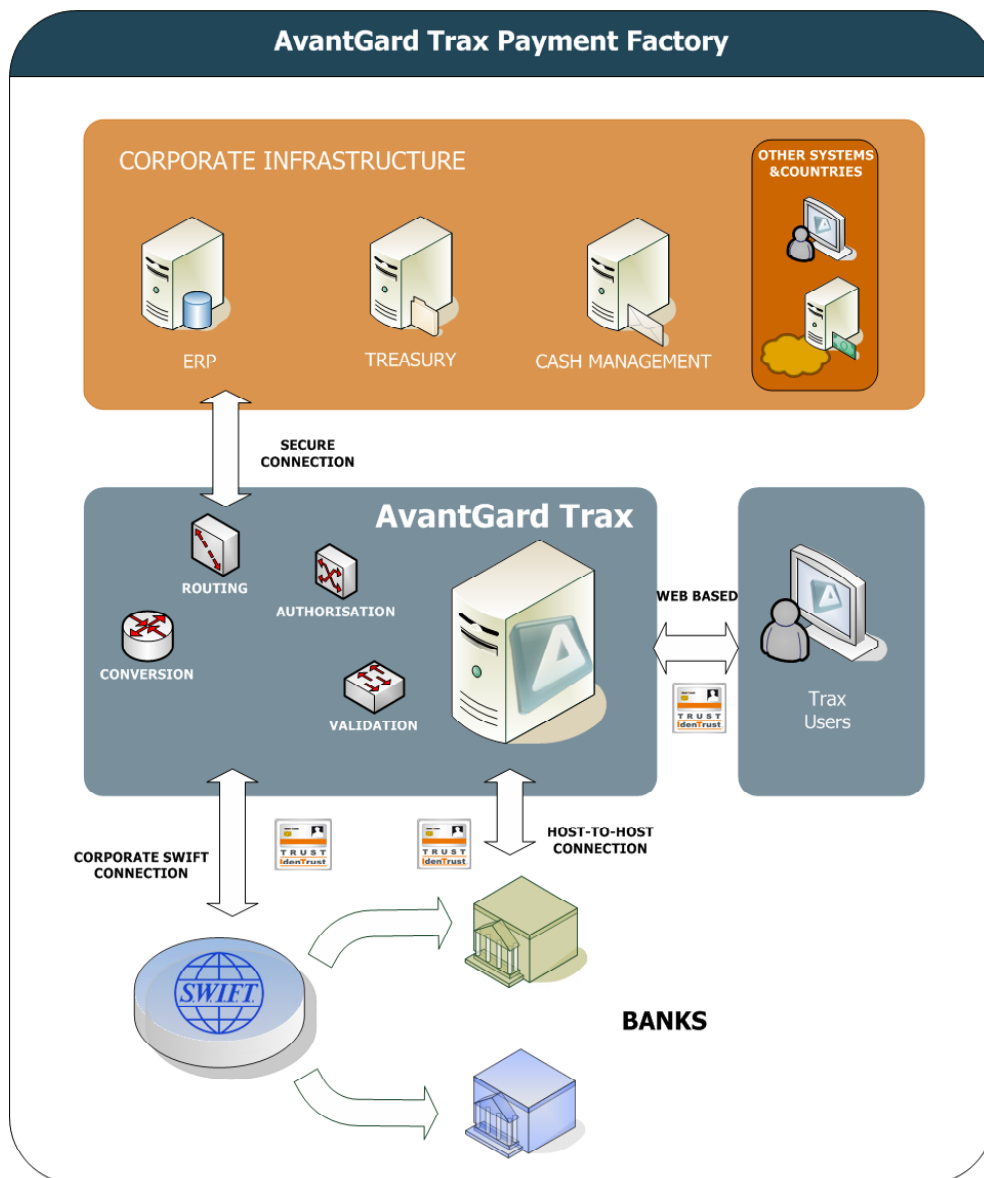
AvantGard Trax Payment Factory is a highly adaptive solution able to integrate seamlessly with existing corporate cash management and ERP infrastructures. It offers the convenience of "out-of-the-box" availability combined with the advantage of highly customizable workflows. This complete end-to-end offering can obtain payment data from various sources and

Automating the payments process enables an organization to improve the effectiveness of their internal controls and regulatory compliance.

process payments for multiple domestic and international formats.

Whether payments are manually entered or generated out of the ERP or TMS system, the highly customizable payment workflow offers comprehensive functionality, which includes validation, enrichment, multi-step authorization, formatting and routing.

The solution can be integrated with bank specific applications as well as multi-bank standards, such as SWIFTNet, FTP/SFTP and local protocols such as the French Etebac protocol in an entirely secure way, eliminating the need for multiple e-banking solutions and thereby increasing Straight through Processing.



It offers the ability to handle a wide range of payment formats through a set of readily available libraries and adjustments can be made for them both quickly and accurately, keeping up to date with evolving payment standards such as SEPA. The solution offers best practice workflows for payments, direct debits, account statements, intraday statements and miscellaneous financial messages.

AvantGard Trax Payment Factory standardizes payment processing across systems, geographic regions, entities and payment types. Therefore it creates enhanced visibility of cash flows, facilitates reporting and improves liquidity management.

SUMMARY

As the commercial market continues to expand both business and commerce electronically, investors want reassurance that internal controls are in place. The specter of unlimited liability in the event of an unauthorized access by either an employee or a hacker is a deterrent to further funding which in turn limits growth and competitiveness. Bank-supplied authentication of all identities--whether internal or external—prior to granting access or approval is a critical part of a comprehensive approach to internal controls. It eliminates the need for corporations to maintain multiple authentication methods for communications both internally and with their financial institutions and limits liability. It also expedites the processing flow and reduces risk since authentication is based on a single identifier. This standardized approach to identity authentication is another step toward expanding Straight Through Processing (STP).

IdenTrust and AvantGard Trax Payment Factory enable individual identity signing of payments, providing a complete end-to-end audit trail. The Rule Set on which the IdenTrust framework operates uses globally accepted Know Your Customer (KYC) guidelines to authenticate the identity, ensuring that the user's identity is authenticated and validated before access is granted. This increased level of accountability enables better regulatory reporting and comprehensive audit tracking across the entire transaction flow from initiation through completion. IdenTrust and AvantGard Trax Payment Factory expand the transparency needed for liability protection.

Authenticating and validating each individual provides bulk file transfers with an additional level of tracking and improves risk controls and regulatory compliance for corporations worldwide. IdenTrust helps financial institutions and their customers expand trust to all types of files and other communications over the Internet while still maintaining privacy. This prevents identity and other types of fraud, makes compliance easier and strengthens authentication which reduces the need for further regulation.

ABOUT SUNGARD

With annual revenue of \$5 billion, SunGard is a global leader in software and processing solutions for financial services, higher education and the public sector. SunGard also helps information dependent enterprises of all types to ensure the continuity of their business. SunGard serves more than 25,000 customers in more than 50 countries, including the world's 50 largest financial services companies. Visit SunGard at www.sungard.com.

ABOUT AVANTGARD

SunGard's AvantGard is a leading liquidity management solution for corporations, financial institutions and the public sector. AvantGard provides chief financial officers and treasurers with real-time visibility into cash flows and increased operational controls around treasury, receivables and payments management. The solution aggregates data for a single view of cash, drives productivity through automation, and fosters collaboration between trading partners. For more information, visit www.sungard.com/avantgard.

ABOUT IDENTRUST

IdenTrust is the worldwide leader in trusted identity solutions, providing global financial institutions, governments, and corporations the peace of mind required to operate in 175 countries. IdenTrust provides a Rule Set which is an open standards-based approach for identity authentication and validation developed by the global financial services community. This IdenTrust framework ensures regulatory compliance for high assurance identities which are legal binding. IdenTrust credentials are issued by financial institutions and can be used interoperably with any IdenTrust enabled application, across any network, and across any border. For more information, visit the Web site at www.IdenTrust.com.

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