



## Low-yield: survival plan

In a prolonged low rate environment, treasurers are under pressure to find secure, liquid investments that offer even a small return. Keeping up-to-date with the development of new liquidity products and solutions has never been so vital.



**Women in Treasury**  
**Jennifer Ramsey-Armorer**  
Treasurer  
**BlackBerry**



**The Corporate View**  
**Christine McCarthy**  
Executive Vice President, Corporate Real Estate, Alliances and Treasurer  
**The Walt Disney Company**

**Risk Management**  
Smart FX hedging

**Corporate Finance**  
Pensions and the treasurer

**Cash Management**  
Understanding overlay pooling

**Bigger Picture**  
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# Filtering what matters

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# Addressing SEPA's shortcomings

In mid-May the European Payments Council (EPC) launched a three-month public consultation on possible changes to the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Rulebooks. Treasurers, along with other industry stakeholders, now have until 15<sup>th</sup> August 2014 to share their views on the Council's potential modifications. This date is of course, just a few weeks out from the end of the 'extended' SEPA migration period – 1<sup>st</sup> August 2014.

So what changes might take place? Well, according to an April newsletter from the EPC, four common themes are emerging from the SCT and SDD feedback that the Council has already received (28<sup>th</sup> February 2014 was the official deadline for receipt of suggested changes). Here's what market participants are asking:

1. SDD Core standard time cycle. Is it possible to make the current option to use a shorter time cycle for the presentation of first, recurrent and one-off direct debit payments mandatory?
2. Could SDD sequence types be simplified?
3. Can more flexibility be introduced regarding the use of electronic mandates for SDDs?
4. Is it possible to introduce longer remittance information for SCTs and SDDs?

With these suggestions gathered from – among others – PayPal, Caterpillar Financial Services, the French Corporate Treasury Association (AFTE) and the European Payment Institutions Federation, it is clear that the needs of all market participants are being taken into consideration here. But while it is all well and good that the EPC is receiving comment from such varied and expert stakeholders, realistically, what is the likelihood of any of the possible changes actually being implemented?

"Proposed changes to the schemes that find broad acceptance in the entire stakeholder community and are technically and legally feasible are taken forward," explained Javier Santamaría, Chair of the EPC, in a press statement. "Proposed changes that lack such broad support are not – regardless of whether such a change is proposed by a PSP or by a user representative. This ensures that the SCT and SDD schemes evolve in line with requirements of the majority of all market participants."

Treasurers who would like to participate in the public consultation should visit the EPC website where they will find the relevant change request documents and the related response templates.

Completed documents should be sent by email to: [change-request.EPC-scheme@epc-cep.eu](mailto:change-request.EPC-scheme@epc-cep.eu) by 15<sup>th</sup> August 2014.

The next generation Rulebooks (SCT Rulebook version 8.0, SDD Core Rulebook version 8.0 and SDD Business to Business (B2B) Rulebook version 6.0), and associated implementation guidelines will be published in November 2014 and will come into effect in November 2015.

Treasury Today will keep you updated on the results of the public consultation. In the meantime, if you would like to share your views on any of the proposed changes, please email: [editorial@treasurytoday.com](mailto:editorial@treasurytoday.com).



## Operating in a low-yield environment

Interest rates remain low across the globe. For corporate treasurers, this presents both opportunities and challenges. So how are treasurers changing their liquidity strategies to survive the low-yield environment and how are banks developing their product suites in light of regulatory changes?



### Jennifer Ramsey-Armorer Treasurer

**BlackBerry**

As treasurer of the company that makes her number one efficiency tool (yes, you guessed it), BlackBerry's Jennifer Ramsey-Armorer has an infectious enthusiasm for excellence. In this interview, Jennifer talks about everything from jazz to yoga, while sharing her experiences from the male-dominated world of treasury.



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## Pensions: the treasurer's balancing act



Increasingly, the treasury function is being called upon to play a more active role in the management of company pension schemes. We analyse why treasury is well placed to do this, while asking how treasurers can help to relieve the burden that pension deficits are placing on companies across the globe.



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## Working capital management: reaching the next level

Four ING experts explain why working capital should be seen as an area that deserves critical attention from all stakeholders, and a potential source of value to be monetised.

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**THE BIGGER PICTURE 21**

**The history (and future) of MMFs**

With a regulatory shake-up now imminent, these are uncertain times for money market funds. Can the history of the industry tell us anything about its future?



**RISK MANAGEMENT 31**

**FX hedging: make it a non-event**

Hedging currency risk should never be an automatic response but what must be considered to ensure the correct policy is in place – and how should it be implemented?



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**24 The Corporate View**

**Christine McCarthy**  
Executive Vice President, Corporate Real Estate, Alliances and Treasurer



From a planned career in biosciences to heading up a broad sweep of financial functions in one of the world's most famous and enduring companies, Christine McCarthy talks to Treasury Today about teamwork, opportunity and "kick-ass" characters.

**CASH MANAGEMENT 34**



**Overlay cash pooling**

The 'umbrella arrangement' of overlay cash pools offers large MNCs distinct advantages in terms of their cash management. We examine how the provision of the structure will evolve in the future.

These pages contain edited versions of a few of the Treasury Insight pieces written in the last month. The full versions are posted on [treasurytoday.com](http://treasurytoday.com) as they are ready. The Treasury Insights weekly email summarises the new pieces from that week plus other news relevant to treasury. You can register for this free service at [treasurytoday.com](http://treasurytoday.com)

## Getting international trade moving with e-presentation

After years of painful experiences, finance and commercial/shipping teams in bulk commodity suppliers are realising the value of using technology to make the critical process of sending and receiving key trading documents more efficient.

Here, moving to an electronic 'e-presentation' system accelerates the process of carrying out transactions under a letter of credit by removing the need to repeatedly courier original paper documents. Meanwhile, the fact that e-presentation of trade documents is now a practical option for open account, documentary collections, BPO and letter of credit transactions has also increased demand for their use.

According to Tom Rahder, VP product strategy, Bolero International, "Much of the greatest value in the technology lies in its ability to legally replace original paper documents with 'original' and universally-accepted electronic ones, radically cutting the time they spend in transit. As well as accelerating the speed at which the documents are delivered, the ability to exchange 'machine-readable' structured data creates further opportunities for straight through processing in both banks and corporate enterprises."

For this reason, says Rahder, the more widespread adoption of electronic e-presentation systems which take advantage of the ICC's already internationally-accepted eUCP standard has been extremely important. The fact that these electronic documents, including an electronic bill of lading (eBL), are accepted by all parties and sent electronically removes the need for paper documents to be transported. As such, the technology can be used not just for simple company-to-company invoices but also to carry out the type of complex letter of credit presentations and transactions frequently seen in international deals, he explains.

To-date, those organisations already using electronic trade finance platforms have benefitted from faster payment, quicker connections with their banking partners and the opportunity to move away from the inherently risky and time-consuming letter of indemnity (LOI) process.

"As well as seeking to speed up settlements and take the sting out of fast-changing market conditions, in some organisations reducing the risk of fraud and reputational damage has been a strong motivating factor in the decision to switch to electronic letters of credit and eBLs," Rahder notes.

"Meanwhile, from a banking perspective, suppliers of structured credit have realised that there is some interesting funding that can be done off the back of eBLs, which is increasingly being used to create new financing products around the individual shipment of goods.

"Current evidence supports the fact that using automated trade finance such as e-presentations rapidly cuts dependency on LOI. In the first six months alone, businesses have reported a 90% reduction in the number of letters of indemnity issued against transactions where e-presentations and eBLs were used."

## Getting trade partners on board with electronic workflows

In order to make a successful transition, Rahder believes that the growing number of businesses now rushing to adopt e-documentation solutions for complex, cross-border trades need to be mindful that on-boarding end users and counterparties is a critical part of the process.

"In this respect, there are a lot of parallels that can be drawn between e-invoicing and multi-bank trade finance and e-presentation, which also rely on the participation and collaboration of banks, corporates and the wider carrier community. Here too, the technology needs to work in the real world as well as in theory," he explains.

## Sustainability: the heart of the business

On 22<sup>nd</sup> April, environmental activists across the world celebrated Earth Day, an annual event intended to promote environmental protection. But it was not just individuals getting involved. Corporates also showed their support for the cause.

Apple used the occasion to launch an ad highlighting its environmental credentials. Its message, "There are some ideas we want every company to copy," was a brazen dig at rival Samsung, with whom a legal battle over patent infringement is ongoing. However, with a picture of a field of solar panels, the company also wanted to draw attention to its commitment to environmental sustainability – the company says all its data centres, and 120 of its Apple Stores, run entirely on renewable energy.



Despite the increasing importance of environmental sustainability to corporates, the treasurer's involvement is typically quite limited.

## Treasury involvement

Environmental sustainability is not usually one of the highest priorities of the treasury function. "It's not an area that treasurers really focus on; it's not directly driven by the borrowing or investing of money, so it's difficult to see how treasurers can act as a catalyst there," says Tony Hooper, Group Treasurer at listed water and waste management group Pennon.

But, he argues, it can indirectly impact the treasurer when it comes to raising funds. "For treasurers looking to go to banks or the capital markets to raise some money, it always helps to explain that you've got good credentials in terms of sustainability and corporate social responsibility. This ticks some extra boxes and you can sometimes obtain a bilateral loan from a counterparty, for example, by virtue of that. It can play a peripheral role here, but I wouldn't say it's a primary aspect," he adds.

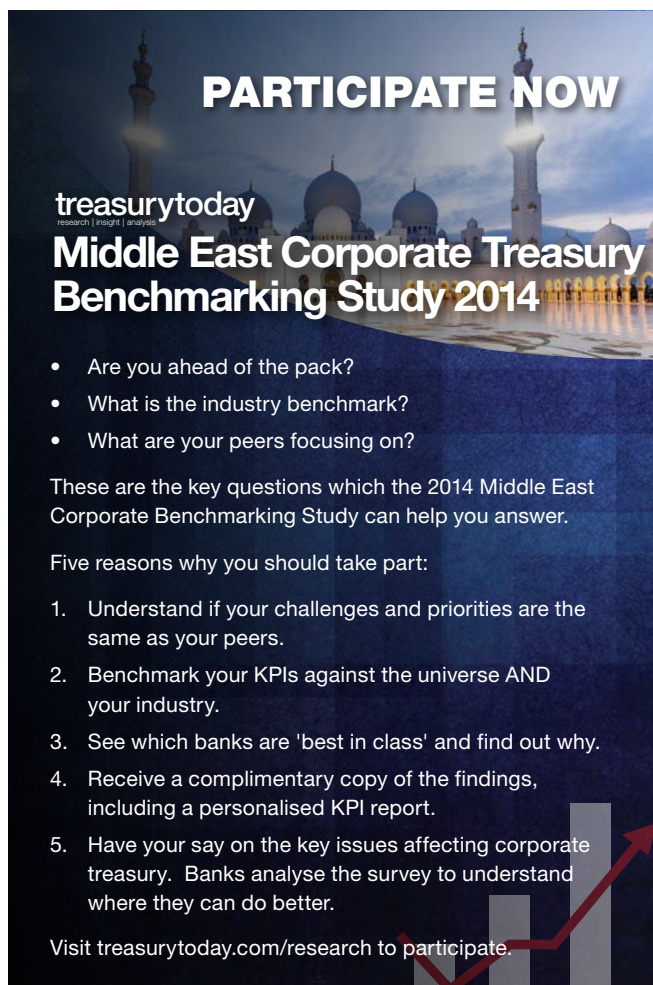
Environmental credentials are a primary aspect, however, in some financing methods. This is particularly true with 'green bonds'. These bonds are issued by corporates to exclusively finance environmentally friendly projects. In March, consumer goods group Unilever issued a £250m green bond that many have seen as bringing the instrument into the mainstream.

And there are other ways in which environmental sustainability has an effect on the treasury. For example, the UK Government's Enhanced Capital Allowance Scheme gives corporates tax relief of up to 100% on investments in equipment that meets its energy saving criteria, such as insulation, variable-speed drive motors, low wattage bulbs, and solar panels. Similarly in the US, corporates can get tax deductions by meeting the US Environmental Protection Agency's Energy Star standards. "Corporates that source environmentally sustainable components can get better tax treatment. If you are paying less tax, and have more cash flows, that's definitely something that should excite treasurers," says Pennon's Hooper.

## Going further

But sustainability goes further than protecting the environment – it can be key to safeguarding the future of a business, especially in areas where cost trends can radically impact a company's operating costs, and ultimately its risk profile. And the treasury can play an important role in protecting the business against sustainability risk. ■

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# This much I know

## Jennifer Ramsey-Armorer

Treasurer



### What is your motto in life?

Be excellent at what you do. I aim for excellence in all aspects of my life – as a mother, a wife, an employee, a manager and a boss. I work every day to balance all of these roles and be at my best in all of them.

### Which single tool enables you to achieve precisely that level of excellence in your role?

My BlackBerry! I would say that even if I didn't work for the company – I don't know how I would function without it. Whether by email, phone, or WebEx, my BlackBerry really is the essential tool to help me stay on top of tasks and communicate with my team and stakeholders around the world.

### In your view, what is the biggest regulatory concern facing the treasury profession right now?

One challenge that I know a number of treasurers have navigated is the central banks in various markets. I'm fortunate to have experts that help us manage the regulatory requirements in each market where we operate, but I do know the industry is impacted by the many changes happening around the world.

### What would you say is your biggest business challenge as treasurer of BlackBerry?

Given the public perception of the challenges our company has faced, the most difficult thing this past year is our ability to get credit, and make sure we have enough credit available to transact in global markets. As in most organisations, a challenge for us is always managing the cash flow and the credit of the company. Payment fraud is, and always will be, a treasury challenge, as the criminals get more creative and more technically sophisticated. Since we deal with 43 different currencies, we also have to keep up with varying foreign exchange regulations and reporting requirements, which can be time-consuming and complex, but we have a great team to help manage this.

### How can treasurers do more to make their voice heard in an organisation?

Treasurers should ask, 'What's the risk of not being vocal and taking action?' I think it's important to identify what the risks are, create awareness of them through clear communication that sets up a business case and recommendation, and then take action. In order to be heard, treasurers should also have good judgment and earn trust in their CFOs. I'm fortunate that my CFO is very accessible by BBM (BlackBerry Messenger), and has solid knowledge of treasury and understanding about risk. He also trusts my judgment – if I tell him the sky is falling, he knows I mean it.

“I'm fortunate that my CFO is very accessible by BBM (BlackBerry Messenger), and has solid knowledge of treasury and understanding about risk. He also trusts my judgment – if I tell him the sky is falling, he knows I mean it.”

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### ON THE WEB

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To read all the interviews in this series go to [treasurytoday.com/women-in-treasury](http://treasurytoday.com/women-in-treasury)





"It's been interesting," says Jennifer Ramsey-Armorer when describing her career path. And it is fair to say that she didn't necessarily take a traditional path to the role of treasurer. In fact, Jennifer started in music, studying jazz as a vocal major and an instrumental minor at Humber College in Toronto. Despite her obvious passion for all things musical, Jennifer's head for numbers soon kicked in: "I got all the way through, earned my degree, and realised that I'd never make enough money to survive." It was time to look for a more stable way to earn a living.

"My first job was as a receptionist in a small Trust company. This was before electronic money transfers, and one of my tasks was handling cheques coming into the organisation. The day I held a \$2,000,000 cheque was the day I decided that wherever that cheque came from, that's where I wanted to work," she quips. So Jennifer went directly to that department, and by chance fell into a treasury role – one of their employees was about to go on maternity leave, and they needed someone right away.

After stepping into the role with unexpected ease, Jennifer found that the learning curve was steep – not having a business background and trying to find her way in an industry she didn't know well was always going to be a challenge. "It was suggested that I get a formal financial education, and for the next three years, working and with a small child at home, I earned my CFA (Chartered Financial Analyst) designation in 1993 from The CFA Institute," she says. The hard work certainly paid off. Over the next nine years, Jennifer moved up in the field of treasury and took up the reins as Director of Treasury at Mutual Life of Canada, which eventually became Sun Life Canada.

"The day I held a \$2,000,000 cheque was the day I decided that wherever that cheque came from, that's where I wanted to work."

Keen to continue expanding her horizons, from 2002 to 2005, Jennifer earned a Bachelor of Arts from the University of Waterloo, which was located right across the street from what was then the original Research in Motion (RIM) campus, known today as BlackBerry. "I decided to take a bit of a break from work while enrolled in school, and worked part-time as a consultant at RIM in the early years. In fact, I helped set up BlackBerry's treasury function. When my contract ended, I moved on to treasury roles at several other organisations – MDS (medical devices) and Hatch (engineering) over the next five years," Jennifer explains. But then, in 2009, RIM reached out to her. "I returned full circle to the company as Director of Treasury, and have been enjoying every day since," she enthuses.

## Staying true

As well as loving the company she works for, Jennifer finds herself motivated by the many and varied challenges presented by the treasury role itself. "In my opinion, treasury is the more interesting side of finance – it's not just accounting; it's credit analysis and investments, foreign exchange trading, quantitative analysis, risk tolerance and cash management – very compelling and crucial responsibilities."

So what advice does Jennifer have for women aspiring to the higher treasury ranks, and how does she put this into action within her own team? "The role of treasurer is probably as high as you'll go in this profession. I got all the way here, having really started from the very bottom, so I have great appreciation for every person on my team – their contributions and their career aspirations, as well as the expectations they have of me to lead them and help them grow.

"I emphasise cross-training on my team. Every person becomes more valuable when they not only know their own role, but they also understand how others impact the team. Someone in banking should also understand cash management; FX traders need to understand investments and interest rate swaps. That's the biggest thing I encourage people to do – don't just do your job, try to learn more about what others do and how that makes you a better employee," she advises.

Finally, from a leadership perspective, making sure you're hiring the right people is vital not only to the company's success but to your personal success too, says Jennifer. "If my boss trusts me in making decisions, I need to trust my team in making decisions – I need to be able to rely on them as much as my boss relies on me." And in her role at BlackBerry, it certainly seems that Jennifer can do just that. ■



Jennifer Ramsey-Armorer is the Treasurer at BlackBerry, and oversees the company's global Cash Management and Foreign Exchange functions, focusing on strategy, policies and process improvements. She is responsible for the Investment Portfolio for BlackBerry, managing all FX exposure (current and forecast) as well as Corporate Banking, Settlements and Global Payments. Jennifer is a graduate of the University of Waterloo and has been a Chartered Financial Analyst (CFA) charterholder since 1993 and a Certified Treasury Professional (CTP) since 2007. Prior to joining BlackBerry, she was Director, Treasury Operations at Mutual Life Insurance, Treasury Manager at Hatch Ltd (Engineering), and a Financial Analyst at MDS Inc.



# Treasury as a strategic business partner

“ I've heard a lot about making sure treasury is a strategic partner to the business. Can you clarify what steps treasurers can take to achieve this and what are the benefits? ”



## Michal Kawski, Head of Treasury, Gazprom Marketing & Trading:

At Gazprom Marketing & Trading we operate a fully centralised global treasury function headquartered in our London offices. The department has been structured so that it facilitates strategic partnership and ensures continuous interaction with other areas of the business. Overall, it is our role to understand the business requirements and ensure that we deliver these quickly and efficiently. To do this, we provide quality support for the business in any geographical location and at any time of the day.

To achieve our role as strategic partner to the business, we have implemented an operational model which applies to both the business units and the entities. Firstly, our support to the entities (namely our subsidiaries) is managed and analysed by our cash management team, which focuses on their short-term objectives. One member of the team is assigned to an entity, or a group of entities, and acts effectively as a treasury manager for these, maintaining key discussions in areas such as short-term cash and liquidity management. These managers are also supported by the local financing and accounting teams on the ground that assist in reporting the treasury requirements and ensuring that we can meet them.

Our support to the business units on the other hand, focuses on their medium to long-term strategies, offering analytical support for these. We apply a similar structure to our support for the entities, allocating a member of our liquidity team to a particular business unit. These then work alongside their unit and offer assistance on a plethora of treasury issues, such as their working capital requirements, interest rate costs and FX implications, to name just a few.

Treasury is also deeply involved in the cash side of the business units' planning and budgeting process when developing a financial strategy. As a department we interact with the business units and discuss treasury related factors which can impact them, such as their cash profile and cash requirements. We then evaluate this information and estimate the costs of funding, helping to derive a financial strategy for that business unit.

It can often be the case when treasury gets centralised that treasurers disappear from the subsidiaries and from companies across the group as the department begins to detach itself away from the rest of the business. This directly impacts communication channels and the ties with the rest of the business begin to disappear. Because of this, strategic decisions will not be well informed from a treasury point of view, and to my mind, centralisation will fail if treasury doesn't become a strategic business partner.

At Gazprom Marketing & Trading, communication amongst the group is a key driver to how our business operates. The structure of the treasury therefore has been designed specifically to allow information to efficiently flow through the department. This permits us to accurately anticipate the requirements and respond to these quickly and efficiently. We can also communicate where the company sits with regards to funding and liquidity levels, which has a direct impact on the decision making process of the commercial side of the business and allows us to become a strategic business partner.

## Ciar Timon, Senior Regional Treasury Manager, Honeywell:



A winning treasury organisation is one which clearly demonstrates how it can add real value for its company to both operational activities and projects. Treasury needs to be a proactive partner to the company, not just responding to specific requests but continually providing information about any new technology or processes which can enhance the company's business model and drive efficiencies. There should be constant communication and a sharing of best practices between treasury, tax, contracts, credit control, legal and accounting departments and treasury should also foster a relationship between the company and the banks.

Honeywell treasury's role is to support the acquisition, growth and operational strategies of the company and to leverage strong banking relationships to this end. We become involved early in the acquisition process, participating in the due diligence exercise and then working on the integration of the acquired company – some treasury processes can be put in place even before the deal is signed. Within a short time, our customer and value-focused strategy can produce cost savings, process improvements and elimination of waste.



We support Honeywell's global growth strategies by anticipating the company's needs and providing solutions. In each country or region, we provide our businesses with a bank capable of supplying the most forward-looking, efficient and cost-effective cash management infrastructure, with a strong, secure control environment and robust processes. Our strategy is to standardise and automate every process where practicable. However, we don't automatically accept the status quo, but adopt an approach which takes into account the cultural, regulatory and logistical constraints in each country.

Treasury should be able to demonstrate quantifiable returns. A strategy of using one bank per country and strong negotiating tactics has enabled Honeywell to take advantage of economies of scale and to reduce cash management costs dramatically. Improvements in electronic banking connectivity, automation of banking processes and online bank guarantee solutions produces measurable time savings. Elimination of waste, eg the closing of redundant bank accounts and monitoring and cancellation of expired bank guarantees, results in tangible cost savings as well as freeing up precious bank guarantee credit lines. The implementation of an inter-company netting process, such as the one we have set up with Bank Mendes Gans, reduces payment flows and associated costs to one per month, as well as minimising foreign exchange costs.

Honeywell treasury's role also includes: implementing the use of cash pools for cash concentration, to allow effective deployment of funds from cash-rich to cash-poor entities and to minimise external borrowing; focusing on key metrics and analysis to assist the businesses with decision-making; ensuring the implementation of full cash visibility for planning and investment purposes; promotion of hedging programmes to minimise foreign exchange risk; and reduction of bank guarantee risk by promoting the use of standard wording and by regular training which emphasises the implications of using non-standard wording, for example, open-ended expiry and assignment clauses.

### Sander van Tol, Partner, Zanders:



Integration between treasury and the business is a prerequisite for an effective and efficient treasury organisation. The remit of the treasury function has changed over the last few years, and treasury is now expected to be much more of a pro-active advisor to the company.

Traditionally, the added-value of the treasurer was primarily based around how to manage cash flows effectively. This rather operational role of the treasury function has gradually evolved over the last decade towards treasury becoming more of a strategic partner to the business.

Currently, treasury is seen as the expert in the quantification of financial risks and the time value and accessibility of future cash flows. The specific knowledge around those two areas, quantification of financial risks and time value of money, can and should be used in an integrated way towards the business.

There are numerous examples of where this specific knowledge is required and can add value to business processes, for instance in the capital allocation process. Treasury plays a leading role in advising the CFO on decisions around complex investments, taking into account country specific risks, diversifying companies' debt portfolios, project-specific WACC calculations and impediments from restrained cash.

Yet another, mostly still undiscovered, area where treasury can play a pivotal role for the business is on the commercial side. Best market practice is to evaluate (forecasted) sales by taking into account financial risk factors. By measuring the risk adjusted return on sales (RAROS) the company can gain greater insight into the true profitability of individual projects and business transactions.

Furthermore, with treasury's integration with the business, we are seeing the scope of the treasury function increase, to include areas such as pension funds, working capital management, credit risk management, insurance and procurement. With regard to the latter, treasury is often asked to support procurement around purchasing commodities and energy, as well as managing the related financial risks from this process.

Elsewhere, in the area of managing working capital, treasury is well positioned to take a leading role to work towards a more efficient use of cash within the supply chain. With financial supply chain management, the company is able to decrease working capital while at the same time increasing supply chain resilience. This is vital for most corporates, since supply chain disruptions are proven to be costly.

Against this backdrop and with the increased focus on centralisation and standardisation that we are seeing with treasury working in close co-operation with AR and AP departments, companies are increasingly outsourcing their payments, and to some extent their collections process, to a shared service centre (SSC). With the use of a payments and collections factory and concepts like payment on behalf of (PoBo) and receivables on behalf of (RoBo), corporates are able to significantly increase efficiency, control and visibility. In the light of increased demand for real-time visibility and accessibility of global cash positions this is considered best market practice.

In short, due to the increasing 'added-value' brought by the treasurer to business processes, the remit of the treasury function has actually grown. Treasurers should grasp the opportunities that this change brings, thereby adding even greater company value. ■

#### The next question:

"A merger or acquisition can be an unstable time for a company. How might M&A impact the treasury function and what can the department do to make the transition smoother?"

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## Urs Müller-Ortolf

Head of Finance and Controlling **ERCO**

ERCO is a family-owned medium-sized company headquartered in Lüdenscheid, Germany. The company was founded in 1934 and has grown to become one of Europe's leading manufacturers of architectural lighting and lighting control, with a footprint in a number of major markets including the US, UK, China and South America. In the 2012-2013 financial year the group recorded consolidated sales figures of €135m.

ERCO wanted to improve the management of its foreign exchange exposures by gaining more visibility and control over group cash flows. Commerzbank provided an innovative solution that allowed the company a complete overview of its global accounts across multiple banking partners, and same day retrieval of account and transaction data which automatically feeds back into the ERP system.

# Problem...

With more than three-quarters of group revenues generated abroad and volatile cash positions in each country, managing currency risks is of vital importance to the continued financial health of lighting manufacturer ERCO. Before taking into account natural hedges, the company's foreign exchange exposures amount to approximately €20.1m. The treasury department at ERCO is aware that, when it comes to managing an exposure of this scale, visibility into the cash positions of business units is almost as important as hedging itself. "Being such a global business, with a different and strongly fluctuating cash situation in each country, we needed to optimise our cash and information management," says Urs Müller-Ortolf, Head of Finance and Controlling at ERCO.

Cash pooling, of course, is the most efficient and cost-effective means for corporates to allocate group liquidity. However, ERCO, with multiple banking partners across the globe was looking for something that would provide treasury an overview of accounts held with, not just one, but all its banks. Complicating matters further, the finance department insisted that the preferred solution should allow processed account information to be made available electronically for straight through processing (STP) in the company's SAP R/3, eliminating the need for the company to employ and maintain multiple systems.

# ...Solved

"We decided to go with the solutions offered by Commerzbank, as these are flexibly tailored to our company's specific requirements," says Müller-Ortolf. The first milestone towards a more efficient cash management operation was made through the establishment of a global information management system. Cash pooling involves far-reaching changes to intra-group processes, but with the help of Commerzbank, the set-up and transmission procedure for electronic account information from third-party banks in Germany and abroad was implemented quickly and with minimum disruption.

The data provided via the SWIFT MT 940 standard was made available for ERCO to call up along with the account information from Commerzbank. Here, ERCO adopted Commerzbank's electronic banking application, Commerzbank MultiCash. With Commerzbank's MultiCash, booking and value data balances, cash pooling transactions and operational account transactions on all accounts included are made completely transparent at the click of a mouse. In addition, Commerzbank MultiCash functions as the 'source' for STP in SAP R/3. This has also enabled much of the routine work in accounting to be automated.

The data quality of individual accounts that could be viewed by calling up electronic account information also had an impact on the approach taken in the cash pooling project. An assessment of the current situation was made, which included looking into which entities in which countries could be included in the cash pool, and with which accounts. As a result of this assessment, ERCO and Commerzbank set priorities together and divided the project up into different implementation phases.

In a short space of time, either zero balancing or target balancing was put into place – depending on the business unit, with ERCO able to set the target balance individually where appropriate. "Ultimately, the solution enables us to increase our net cash flows, because liquidity can now be transferred same-day to where it is needed," Müller-Ortolf adds. "This has brought great improvements in terms of the efficiency of our foreign exchange transactions and financial management as a whole." ■

# Cracks in globalisation and EU to break euro?

*Despite the rise of globalisation and rapid advances in technology, geopolitics is once again starting to play a key role in Europe. What does this mean for European leaders, and what will be the impact on the future of the euro? ECR Research investigates.*

European markets have been in a relatively 'good mood' for some years. However, the list of political-economic and geopolitical challenges that Europe has to contend with is long and daunting. Opinions differ about the monetary policy the ECB should pursue. Some claim the central bank has done little more than put an artificial and fragile safety net under the Eurozone.

Furthermore, there is substantial discord on the degree of fiscal consolidation that will be required to restore Europe to health. On top of that, doubts about the robustness of the banking sector have not gone away and there are misgivings about the underlying vigour of quite a few economies. Also, it is feared that a paralysing anti-European storm of protests will sweep through Europe at the same time as 'Cold War 2.0' is about to break out.

## Naive faith in globalisation?

Should optimistic views about globalisation like those of American foreign policy academic and author Michael Mandelbaum hold true, Europe may manage to defuse the crisis as new markets open, economic ties strengthen, and member states realise they have a common goal. Namely, to increase prosperity and profit from the ongoing technological innovation.

This unbridled positivism may be too upbeat. Technological advancement is not always a blessing. Increasingly, people find that the "Big Brother is watching you" nightmare is still there when they wake up. Mandelbaum (and others) seems overly optimistic and eager to turn a blind eye to the human talent of turning gold into lead.

The belief that there is a global consensus that a market economy is a prerequisite for the creation of prosperity may be partially true, but the concept is viewed in a variety of ways. Moreover, the credit crisis has highlighted the vulnerabilities of capitalism while soaring inequality undermines societies, as people like French economist Thomas Piketty argue.

The final argument that underpins this unwavering faith in globalisation states that politicians are now solely judged on how prosperous the economy is on their watch, with GDP almost the new god. But to quote Dutch columnist Bas Heijne: "Identity, religion, tribe, flag, nation, tradition, history, group loyalty, simplistic stereotypes of the enemy, dreams of

glorious peoples and countries – the time has come to acknowledge that these are not exotic notions that belong in an earlier century. They are frighteningly contemporary. This storm will not subside."

That geopolitics is rearing its head again shows that economics is not the whole story. The problem is that, so far, the politicians have used economic arguments to sell Europe to voters. One reason why Europe suffers blow after blow is that its foundations are perceived to be purely economic. Therefore its identity is wafer thin, particularly now that EU politicians seem unable to deliver in terms of growth and prosperity. Simultaneously, they are manoeuvred into a corner by a blatantly aggressive – albeit realistic – leader like Vladimir Putin.

## Lessons from the past

Putin has used the Ukraine crisis to return to old-fashioned power politics. Many EU leaders are unnerved and alarmed. "This is no longer the way we interact," they say. Well, apparently it is. We are witnessing a faltering and fatigued superpower, competing emerging great powers, social unrest, geopolitical tensions, and a Russian ruler who dreams of imperial expansion. Therefore it would be naive to rule out large-scale conflicts on the European continent, with global implications.

The belief that there is a global consensus that a market economy is a prerequisite for the creation of prosperity may be partially true, but the concept is viewed in a variety of ways.

This mistake has been made before. Namely, on the eve of the First World War, by some of the brightest minds around. Economic interconnectedness simply is not enough to avert war.

Another lesson we can draw from the First World War is that it was impossible to forecast based on trends in the preceding years and decades. On the contrary, according to Cambridge Professor Christopher Clark, the war resulted from "short, sharp realignments in the system which no one predicted." As



he lucidly explains, a handful of small unforeseen events that might seem mundane at first glance could have far reaching consequences “when politics fails, when conversation stops, and compromise becomes impossible”.

Still, a Cold War 2.0 seems unlikely (also because the appetite is lacking in the West and Russia does not have enough resources). Thankfully, a “Hot War” between West and East is not really on the horizon either. All the same, war is not extinct on the European continent. In fact, in times of economic turmoil, there could be more cause for concern, not less.

## The SS officer and the Iron Lady

So far, the Ukraine crisis has done little to bring Europeans to their senses or prompt them to work together. Quite the opposite; the crisis has exposed the chinks in Europe's armour. This is not surprising if we look at the evolution of the European integration project. On closer examination, geopolitics and power games have never been absent.

In 1945, SS leader Himmler wrote a letter to French leader De Gaulle in which the German laid out the options for France: “So you have won. Now what do you do? Join the Anglo-Saxons? They will treat you as a satellite. The Soviets? They will subjugate France and liquidate you. The only road for you is an entente with vanquished Germany.” De Gaulle saw that, to some degree, this message rang true. He saw the EU as “Greater France”. The Dutch historian Mathieu Segers cites a Dutch official: “The six without the UK (the nations that founded the ECSC, the precursor of the EEC) mainly mirror French egocentric politics... Germany will follow France's lead but think to itself: later on, Berlin will call the shots in European politics.”

Some say that Margaret Thatcher had the same vision. For instance, she was greatly opposed to German reunification after the Berlin Wall came down. During an impromptu summit it turned out that she greatly mistrusted the Germans. She pointed out that during its first period of unification (1870-1945) Germany had constantly veered between aggression and self-doubt. Ultimately, this wreaked havoc around the world but it was equally traumatic for the Germans themselves. Thatcher believed that this gave rise to dangerous tendencies in Germany. Although the Germans voluntarily agreed to become part of a federal Europe, the

British Prime Minister believed that this would provide Germany with the opportunity to grow into the dominant country on the continent. The aftermath of the euro crisis indicates that Mrs Thatcher had a point.

The cosy get-togethers and intrigues in Brussels have been good for Europe, which has been peaceful and prosperous for decades. However, growing affluence is no longer a given and now that geopolitics has returned to the continent, European citizens are no longer inclined to swallow the rhetoric.

## Political firestorm to trash euro?

That brings us back to 2014: Berlin calls the shots as the euro is still going strong and markets appear cheerful. However, socio-economic repercussions of the crisis continue to cause suffering. Politicians, lawmakers and central bankers have their work cut out. They need to come up with credible monetary policy, healthy public finances, a resilient banking system, and sound economic foundations. Simultaneously, Europe is under pressure from geopolitical power games and anti-European populist nationalism, partly because of concerns over the degeneration of the welfare state, plus anxiety triggered by globalisation.

Socio-economic disparity widens into a yawning political abyss and it will be an uphill struggle to implement structural reforms. The cosy get-togethers and intrigues in Brussels have been good for Europe, which has been peaceful and prosperous for decades. However, growing affluence is no longer a given and now that geopolitics has returned to the continent, European citizens are no longer inclined to swallow the rhetoric. A new climate is emerging: less technocratic, more political and thus also less rational and predictable, more intuitive and emotional. The wind is getting up and storms may be about to strike. ■



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# Managing liquidity in a low-yield world

*How are treasurers adapting in the era of low interest rates? In this article we speak to banks and asset managers to find out how the low-rate environment is changing treasury practices. We also source their tips for securing better returns on short-term investments.*

It seems that low interest rates are here to stay. In the wake of the global financial crisis, the central banks in a number of western economies – most notably in the US and Europe – cut short-term rates in tandem with a range of other unconventional monetary policies designed to restore liquidity to glacial credit markets by driving yields down at both the long and short ends of the curve.

Rates are at rock bottom across the board. In the US, the Federal Funds Rate has remained at 0.25% since the onset of the crisis, as has the benchmark interest rate in the euro, while the Bank of Japan, under the 'Abenomics' doctrine, have gone one step further by bringing their benchmark rate down to 0%. Even as the recessionary gloom finally begins to lift in some countries, central bankers seem in no rush to change course.

Indeed, a number of economists believe that the 'new normal' on interest rates in the US, UK and Eurozone will not be nearly as high as it was in the decades prior to the crisis.

A low rate environment is very much a double-edged sword for the corporate treasurer. On the one hand, it is a great opportunity to refinance and lock in lower priced debt; we have seen no shortage of corporates taking advantage of that in the past several years. However, in the context of liquidity management, a prolonged period of low rates is less of a cause for celebration. "If you are a corporate with a lot of cash on the balance sheet then these are clearly very challenging times," says David Morton, Asia Head of Corporate Banking at HSBC. This is because investing in such conditions is difficult for the corporate treasurer – and not only because of the increasingly

elusiveness of yield. It also poses great challenges in the context of risk management.

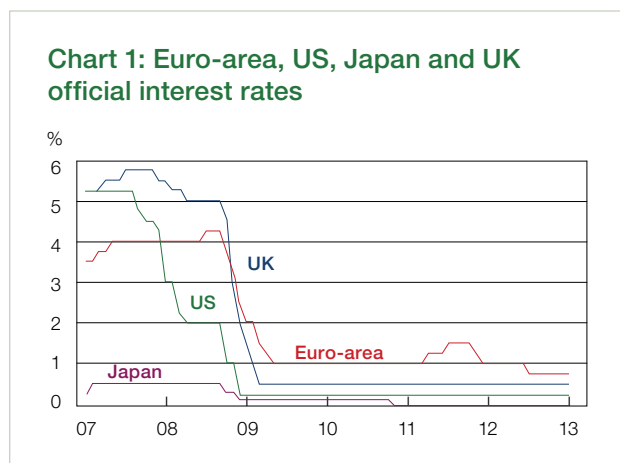
## Time to prepare

One danger that might stem from talk of a 'new normal' in interest rates is the complacency it could foster amongst corporate treasurers. If central banks do indeed decide to hold rates below historical averages in the years to come, corporates will be assured that any inefficiencies in their management of the working capital cycle can be papered over by their continuing access to cheap funding. But to rely on that would be a momentous mistake says Sandip Patil, Asia Head of Liquidity Management at Citi. Superimpose that with Basel III implementation in the banking industry and its impact upon credit availability, and this requires serious consideration.

The more sophisticated of Patil's corporate clients recognise that now is the right time to prepare for the future, to establish good liquidity risk and control policies, to determine long-term funding needs, and to improve cash flow forecasting and working capital management. "Treasurers now have more time to plan and focus on core treasury infrastructure," says Patil. "Given that a couple of years down the road we might be in a higher rate environment, I think this is an essential step at this juncture."

For many, the low rate problem is compounded by the growing pool of cash sitting on the balance sheets of corporates across the globe. According to the estimates of the Economist Intelligence Unit (EIU), total cash positions held by non-financial companies range as high as \$18.5 trillion globally, of which 41% is held in the Asia Pacific region. The initial focus then should be on making better use of the capital across the group, rather than on looking for higher yield. In most cases, a typical corporate with several hundred entities will have cash surpluses in some areas and deficits in others. "This is the time," says Patil, "for them to try and figure out whether they can introduce a more centralised structure, such as a regional pooling solution, that will give them the ability to use their surpluses to fund shortages in a structured and sustainable manner."

On this point, transaction banks are at least singing from the same hymn sheet. Liquidity pools are a tool that corporates should be seeing a lot of value in at the moment, Mireille Cuny, Global Head of Liquidity and Investment Solutions, Société Générale. "A global approach is increasingly important," maintains Cuny. "That is something we are continuing to work on here at SocGen, to provide our clients with a global view of what is happening in their subsidiaries across different geographies."



Source: Stanlib

## Synthetic repatriation

Using cash surpluses to balance shortages across the group could also have the benefit of reducing reliance on debt. After all, if companies are holding more cash on the balance sheet, why borrow to raise funds? However, a recent report by Standard & Poor's appears to indicate that the very opposite is happening at large US companies. The report quantifies that since 2010, for every \$1 of cash growth among issuers that S&P rates, debt increased by \$3.67.

That may seem paradoxical at first glance, but there are two apparent reasons. Firstly, and most obviously, rates are so low right now that it is both easy and cheap to take on debt. The second reason is that most of this cash is being generated offshore. As it is often difficult to repatriate these balances, due to a combination of local regulation and domestic tax considerations, companies are instead choosing to supplement their domestic cash deficits with debt with debt issuances. It is a trend the report refers to as "synthetic repatriation"; a means for companies to deliver shareholder returns while avoiding the tax penalties for repatriating foreign earnings.

## Help from your banks

The "synthetic repatriation" phenomenon is, of course, mainly a product of US tax law. A corporate headquartered in Europe or Asia should enjoy more flexibility in the way it manages cash across the group, particularly now that China is beginning to relax its foreign exchange restrictions. Assuming that it is possible to release cash, and that there is still some liquidity left after entities have been funded, treasurers must then figure out what to do with it. At this stage, taking a more proactive approach by speaking to banking partners and finding out about products that offer better returns often pays off. Such is the current environment that any additional return may not be that substantial, but the treasurer's prerogative, of course, is to preserve the principle, not to make a profit.

"There are a few basis points available for those treasurers who are a little more proactive," says HSBC's Morton, adding that he finds it rather surprising how many companies still keep money in "rainy day accounts" that are not actively managed. A sensible first step would be to look again at the composition of the cash on the balance sheet. There is room to be a bit more adventurous and extend maturities of deposits when it comes to so-called 'steady cash', evidenced, says SocGen's Cuny, by the growing attention in term deposits of up to 12 months, witnessed by the bank in recent years. "But even with longer maturity it is still very difficult to increase the return at the moment," she adds.

Since deposit facilities suitable for the investing of operational cash must come with a cash or cash equivalent classification, the options are more limited still. Nevertheless, treasurers who maintain regular dialogue with their relationship banks should be aware of the growing range of new products and solutions most global banks now offer.

At SocGen, for example, fidelity premiums are offered the longer cash is held in the deposit account. "It is easy to administer because it is similar to deposits, and provides the same level of liquidity as it can be stopped every month or every three months, depending how it is tuned." The fidelity premiums mean the return on the deposit is much improved, with rates on \$1 ranging between 50 and 75 basis points, relative to the rate on a typical SocGen account which is presently around the 30 bps mark.



“So they can double or even triple the return they would normally expect through this scheme.”

## A perfect storm

An uncertain economic environment demands, more than ever, that treasurers spread risk by diversifying their investments. That might mean spreading deposits between a greater number of banking partners or, perhaps by using money market funds (MMFs).

In Europe, the past couple of years have borne witness to something approaching a perfect storm for investors at the short end. The funds, which manage approximately €1 trillion in assets – mainly on behalf of corporates and institutional investors – saw net outflows almost double last year to €69.2 billion. “If you look back five years, the market then was really dominated by bank supply,” says Bea Rodriguez, Head of Portfolio Management for Cash Management at BlackRock. But that is no longer the case. Banks began to deleverage and simultaneously term out their funding to make them more sustainable. That along with their declining credit quality left a shortage of investible short-dated money market instruments.

The consequence of all this is less liquidity and returns so wafer-thin that investors are often in the negative after accounting for inflation. “For a treasurer that will be a big concern,” says Rodriguez. The trap for the treasurer is that, in this environment, the incentive to stretch for yield is very strong, she explains. “The danger, of course, is that in most cases it will mean a drop in credit quality.”

For asset managers, the challenge is to develop liquidity funds that are able to provide their corporate clients with an incremental return without adding material risk. As a result of this endeavour, a mass of new products have arrived on the market in recent years, such as BlackRock’s Euro Assets Liquidity Fund. The fund was launched on to the market in 2013. The rationale was to move away from the requirements imposed by ratings agencies on AAA-rated MMFs. It gives the fund the freedom to go longer on investments they believe offer value and have less invested in near yield-less government securities.

But for the corporate treasurer, surely the peace of mind provided by credit ratings is half the point of MMFs? Are treasurers not raising questions with Rodriguez regarding risk

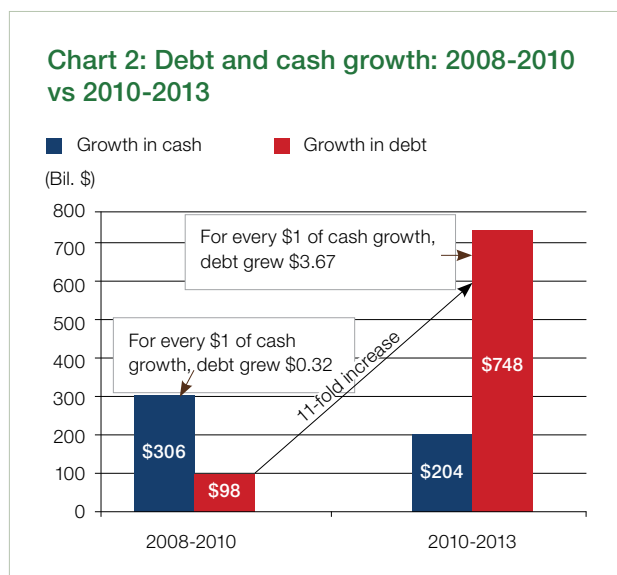
management? “We say to treasurers, there is nothing in our Euro Asset Liquidity fund that is not in our prime rated fund,” Rodriguez says – the only difference is in the way the fund is weighted. “The biggest thing a treasurer needs to worry about is whether the fund is credit worthy. If you think that we are good as your prime rated fund manager then there is absolutely no reason that you should be uncomfortable with our Euro Asset Liquidity Fund offering.” Although the product might seem rather exotic to the European treasurer, similar structures have been used in some US funds for some time now. A year on since its launch, the model is now beginning to gain a foothold in Europe, surpassing the billion euro mark in March.

## What else is there?

If the absence of yield did not present a big enough problem for the MMF industry, there is also the prospect of unwelcome regulatory changes in the coming year. Although yet to be confirmed by the respective legislatures, regulators in both the US and Europe have announced proposals that will require funds to sell and redeem shares based on variable net asset value (VNAV) rather than the constant \$€1 per share asset value determined by amortised cost accounting. “That is a very different mindset,” says Rodriguez. “Some of our more sophisticated clients are happy with that as they understand that the variability will be very low as we invest in very short-term assets. But some corporates may still be a little concerned about that and decide they want to keep the money elsewhere.”

The problem is that for treasurers the number of suitable homes to deposit operating cash is shrinking fast. One alternative solution that has received a lot of attention of late is separately managed accounts (SMAs). These individually managed investment accounts have been around since the 1970s, and are now receiving increasing attention in light of all the uncertainty surrounding MMFs.

“We’ve had more conversations around those than at any other point in time,” Rodriguez remarks. For larger corporates holding substantial amounts of excess liquidity, SMA are at least worth considering, even if one loses the full liquidity benefits of being in a fund. “You can get around the maturity mismatch that is being created if you choose a SMA because you can be bespoke, and you can really tailor the risk to meet your needs,” she adds. “If you are smart, you will also understand the mismatches that are happening in the market structurally and allow yourself to be playing in them.”



Source: Standard & Poors 2014

## It’s good to talk

Perhaps the overriding lesson that treasurers can derive from the above is that low rates, while problematic from a liquidity management perspective, can be countered. Often better rates on deposits can be achieved simply by proactively talking to banking partners and fund managers, and keeping up to date with new liquidity products and solutions.

Finally, while some experts forecast rates to remain far from their historical averages for some years to come, recent central bank announcements appear to indicate that – with the possible exception of Europe – they will begin to slowly push upwards again in the coming years. With that in mind, treasurers need to do all they can in the meantime to prepare for the future by improving, as much as possible, the way in which the group manages working capital. That, of course, is the hallmark of any forward-looking treasury. ■



## Jani Kivikari

Group Treasurer **ONEMED**

Swedish multinational medical supplies distributor OneMed's standalone bank account structure across multiple countries resulted in minimal liquidity and high interest charges. The group's implementation of Nordea's Global Cash Pool unshackled its internal financing and freed up its operating companies to focus on the areas where they can really add value.

# Problem...

A little over two years ago, OneMed kept a number of standalone bank accounts in a variety of countries and currencies, and with different banks. The company's internal financing was sluggish, as it had to be channelled through internal loan contracts. Furthermore, the set-up was time-consuming for treasury staff, as each account had to be monitored individually to ensure it was either in credit or had not exceeded its overdraft limit.

"Our liquidity was scattered among different accounts in different countries, and was far from cost-effective," says Jani Kivikari, Group Treasurer at OneMed.

This situation was a particular problem for OneMed as a large amount of cash was tied to these standalone accounts to maintain credit balances, and some of these accounts had overdraft facilities that were being used sub-optimally. The previous structure, with its myriad standalone accounts in foreign currencies, also posed a foreign exchange risk to OneMed. In addition to hindering the group's internal financing, the old structure did not promote accurate cash forecasting among OneMed's entities.

The company needed a solution which would enable it to manage a single bank account or a single cash pool. "As our name suggests, OneMed aspires to be as centralised as possible in its operations. This is also true in our banking relations – we wanted to have as close to one bank account as possible," adds Kivikari.

# ...Solved

OneMed was able to address its issue with multiple local standalone accounts by implementing Global Cash Pool in spring 2012. Global Cash Pool is Nordea's balance netting solution for real-time cross-border, cross-currency cash pooling. The solution replaces local cash pools and standalone accounts, and allows real-time concentration of liquidity throughout the company.

"Global Cash Pool's master account gives us complete visibility of our cash position across our Nordic companies," says Kivikari. "We still have legal bank accounts for individual currencies, but effectively we only need to monitor a single account, which has simplified the process no end."

The solution, which is available to corporates with accounts in all major currencies in Nordic countries, Germany and the UK, allows treasuries to ensure there are no value day losses from internal transfers within the cash pool. It also maximises net interest, while minimising short-term financing costs.

"Global Cash Pool is so straightforward and intuitive to use, you hardly realise you are using it at all," says Kivikari. "Combining our cash balances with the solution has freed up a significant volume of cash, and centralising our overdrafts has cut down on interest costs."

Implementing the solution has also saved OneMed's treasury time by reducing the administrative burden of its previous structure.

Reporting on Global Cash Pool is customisable, allowing users, for example, to view group accounts by currency or entity, with middle layers for reporting individual cash balances. Internal credit terms and conditions can be adapted to reflect a corporate's transfer pricing policy.

In addition to these benefits, Global Cash Pool has also helped with OneMed's cash forecasting. By combining the group's bank accounts into a single cash pool, the solution aligns the interests of OneMed's entities – if one entity is out of cash, all the entities are out of cash. "Now we are all in the same boat; our operating companies are much more motivated to provide timely and accurate cash flow forecasts as they are now directly impacted by the group's net cash position," says Kivikari. He says that as a result of implementing Nordea's solution, the deviation between forecasted and actual entity account balances has dramatically reduced.

Kivikari believes Global Cash Pool has not only improved the group's liquidity position, but has also fostered a spirit of collaboration with its operating companies. "In addition to releasing liquidity and cleaning up our account structure, Global Cash Pool has encouraged teamwork in our forecasting and efficiency in the use of short-term financing. It has shifted control of liquidity management to the group treasury and empowered our operating entities by giving them more time to focus on where they can really add value," he says. ■



# Corporate pensions: the treasurer's balancing act

*In recent years, pensions have not only caused a headache for many corporates but have left a large hole in their balance sheets. Various companies worldwide are now burdened with significant pension deficits, made even more challenging by market volatility and regulatory changes. As a result, the treasury department has been called upon to take a more 'hands-on' role in this space.*

Without doubt, corporate pensions are a burden – not least Defined Benefit (DB) schemes. In fact, legal firm Lane Clark & Peacock (LCP) calculated this burden to be close to \$500 billion for FTSE 100 companies in 2013. Meanwhile, across the Atlantic, Mercer estimated that S&P 1500 companies' pension liabilities totalled \$2.14 trillion in the same year. What is more, both UK and US schemes are largely underfunded, with assets covering 91% and 95% of liabilities respectively.

Understandably, the vastness of these commitments and their impact on the balance sheet means that corporate pensions have largely moved away from their traditional home in the HR department and are creeping up the priority list for corporate

treasurers. And with life expectancy increasing in many developed countries, such as the UK, the US and Canada, (all of which carry large DB scheme liabilities) the management of corporate pensions, and their deficits, is a genuine cause for concern. But this has not always been the case.

## How we got here

"Up until 2007, pension schemes, especially in the UK, were in a healthy position in terms of their funding levels," says Chris Coulston, Director, Tax at Deloitte. "Then the financial crisis hit and funding levels across the board deteriorated." For example, in June 2009, FTSE 100 schemes faced a deficit of



£90 billion, a loss of £82 billion on the previous year's £8 billion deficit, he explains.

Since then corporates have invested billions into their schemes to cover these shortfalls. However, economic conditions have continued to be largely unkind, with market volatility, low interest rates and inflation compounding funding issues. Liabilities have also been increasing, not helped by falling bond yields.

Regulatory changes, such as IAS 19 accounting standards, have further emphasised the challenge for corporates, seeing the complexity as well as the cost of managing DB schemes increase. Corporates are now required to account for the whole value of the deficit on their balance sheet, which last year saw Royal Dutch Shell's previous retirement benefit surplus of £4 billion sink to a deficit of £8.3 billion. "Overall, corporate focus has dramatically increased on pensions and their risk," adds Ward. "Schemes have been hit so badly in the past decade that now corporates are making the management of these a high priority."

## Risky business

As the treasurer's evolving role highlights, since the financial crisis, companies have become more aware of the vulnerability of DB pension schemes and the assortment of risks they are exposed to. One such threat is financial risk – more specifically deficit instability. Over recent years companies have ploughed cash into their schemes to tackle shortfalls in funding; however, deficits often increase. For example, Mercer research shows

that between March 2011 and March 2012 UK FTSE 350 companies contributed £20 billion to their schemes, although during that time the deficit increased by £17 billion. This trend was replicated in the United States.

"This is primarily due to volatile growth asset performance, interest rate risk, inflation risk and longevity risk," says Mercer's Ward. "In recent years these risks have often contrived to go against companies and their plans." For a corporate sponsor, this affects the cash position and the funding position of the company. A larger deficit also causes the costs of the schemes to increase. For example, in the UK a larger deficit can mean that additional payments need to be made, such as the Pension Protection Fund (PPF) levy. "Overall, the deficit can be a key concern and may require large amounts of cash to be pumped into the scheme, which could otherwise be used for the business," says Ward.

Of course, general market and economic activity also affects corporate pension liabilities. Quantitative easing (QE), for example, has resulted in a reduction in UK gilt yields, which in turn has caused an increase in pension liabilities. The National Association of Pension Funds indicates that UK schemes' deficits increased by £90 billion in 2012 on the back of this. On the other hand, Deloitte estimates that a 1% increase in gilt yields could see funding liabilities reduce by 15% to 20%, which would then also raise the risk of overfunding the scheme and trapping cash.

## The role of the treasurer

Not only has corporate focus on pensions increased, but the treasury department's role has intensified in this area too. "As soon as cash becomes a key objective for the corporate, the treasury becomes more integral to the process," says Deloitte's Coulston.

Nevertheless, the role of the treasurer in corporate pensions is not set in stone and will vary from company to company. In some cases treasurers may take an active role managing the scheme, while in others they may serve just as advisors to pension managers and trustees. Whichever path they take, Mercer's Ward believes that "treasurers can add a lot to the mix, but what they really bring to the table is their skillset, in terms of understanding risk." Treasury professionals will be well-versed in many of the tools which are key to managing the risks surrounding pensions, such as interest rate swaps and inflation swaps, to name a few. "Corporate treasurers are therefore well placed to bring pensions into the overall risk management framework," says Ward.

UK-based manufacturing company Renold introduced its treasury into the management of the company's pension scheme in 2007. "The reason for this," says Andy Hawes, Pensions and Treasury Analyst at Renold, "is that we already had a deficit at this point which had existed for around five years. It therefore became much more important to manage the liquidity of the pension scheme alongside the group."

It is Hawes' belief that the management of the group's and the pension fund's liquidity work hand in hand. "At Renold, we have a substantial pension payroll each month," he says. "The majority of this is funded through the deficit repair contributions and also from the income from the assets of the scheme." Funding for the business, however, cannot be neglected. "Treasury is therefore well positioned to take a more hands-on role in the balancing act of ensuring there is enough money to fund the scheme and also the business," says Hawes.

It is not only the funding side of pension management which treasurers are finding themselves more involved in but also the liabilities side. "The financial crisis put a lot of emphasis on the management of pension assets," says Rando Bruns, Head of Group Treasury at pharmaceutical and chemical giant Merck, which has large pension schemes across Europe and in the US. "However, I think treasurers now have a more holistic approach to pensions overall and are increasingly focusing on the liabilities. At Merck for example, the treasury takes an active role in looking at the impact of both sides through sensitivity analysis and forecasting future scenarios, thus allowing us to know where risks are and what impacts these will have, not only on the pension schemes but also the company's overall balance sheet."

Getting involved in the company's pension scheme can also help to raise the treasury function's profile with other departments, and highlights treasury's ability to add value to the organisation. "For example, we have regular meetings with HR and accounting in order to discuss any changes to the pension plans," says Bruns. "Together, we can then evaluate the impact on all areas of the business."

Once the corporate sponsor has handed over the cash to the pension scheme, they are then exposed to the investment decisions of the trustees. If investment decisions are poor and return on assets low, further cash injections will be required. "It is because of this that we are seeing treasurers increasingly sitting on trustee boards," says Coulston. "They can then apply their expertise and provide greater input to the investment of the funds." Some treasurers are also employing independent actuarial advisors to highlight the risks of the schemes and ensure that the trustee board are making the best decisions.

Finally, the complexity of DB schemes means that corporates are also exposed to regulatory and operational risk. An eye must be kept on the ever-evolving regulatory landscape which may bring tougher funding requirements for corporate sponsors. One such example of this is the Solvency II Directive, which, if passed in its current form, will require corporates to fund and reserve their pensions in the same way as insurance companies. This will dramatically increase the impact of pensions on the balance sheet and at worst could add £600 billion to the liabilities of UK company pensions.

"When it comes to the management of pensions, it is primarily about being two steps ahead, and thinking two steps ahead of that," says Renold's Hawes. "We need to be aware of what is around the corner to ensure that we can continue to pay the pensions and also ensure the company has sufficient cash."

## The balancing act

As such, the treasurer's role in managing corporate pensions is truly a balancing act between risk and return. "The trade-off between the two is really the million-dollar question, especially in volatile markets," admits Merck's Bruns. There is no single right answer as each company will be in a unique funding position. "There is also the balancing act of knowing when to carry the risk and when to reduce it," says Mercer's Ward. "If treasurers look to close off the risk too quickly the apparent funding levels would appear to decline and the deficit would increase, seeing more cash required from the company." When it comes to pensions there are balances within balances.

All pension experts agree, however, that a long-term strategy is needed for managing corporate pensions. Bruns advises that this should include funding and investment strategies which can stand the test of time. "Schemes can't be ultra-safe and see no return on investments, but on the other hand, they cannot be highly aggressive and leave huge risk on the balance sheet," he says. "There needs to be something in between." The strategy also has to have the flexibility to cope with shifts in economic conditions and be able to make the most of opportunities when they arise. For Bruns, "Managing pensions is a lot about looking into the future and carefully waiting for the opportunities – it's a long-term task."

## De-risking options

With no silver bullet to hand, companies are of course looking for methods which can increase their assets, reduce their liabilities, and ultimately remove any deficit. These can be small incremental changes to reduce their pension fund's risk, or they could be larger, more advanced strategies, depending on the company's position and needs. There are a number of options available.

Asset-backed funding (ABF) is one such method, offering an alternative to cash funding. ABF sees the corporate sponsor

provide an income stream to the pension scheme from a special purpose vehicle, backed by collateral assets such as property, stock, or more imaginative items such as alcohol, made famous by Diageo, which promised £400 million of funds to its pension scheme with a structure using maturing whiskey stock. The pension receives a series of cash flows from this asset over a set period of time. This income stream is often given a net present value and treated as an asset by the trustees. "This delivers a more cash-efficient way of funding for the company and helps reduce the deficit," says Deloitte's Coulston, "which is exactly what the treasury is looking for."

Companies can also look to de-risk by offering transfer incentives and increase exchange options to its employees. For example, employees can be offered the option to take money at retirement as a lump sum. "This is a method which Renold has employed and it has helped reduce long-term liabilities substantially and has also created savings on our short-term monthly cash flow," says Hawes. Other options in this area include offering enhanced transfer values (ETVs), whereby non-retired DB scheme members are offered a certain amount of cash in advance and then the rest is moved to a more flexible pension vehicle, potentially offering greater value for the employee. ETVs have been popular in recent years and allow the corporate sponsor to reduce their liabilities and cost.

Many companies offer multiple pension schemes which are all separately managed. If this is the case, asset pooling can increase control, improve risk management and governance, while also delivering cost savings through economies of scale. "This is something which we carried out at Renold," says Hawes. "We historically had four or five pension schemes and combined them into one. To have the assets all in one large pot meant the returns became higher. We have also saved in areas such as administration costs." It must be noted however that there can be barriers to this method, including trustees being unwilling to relinquish control, as well as tax issues.

## The future for the treasury and pensions

With the majority of DB schemes now closed to new entrants and DC schemes fast becoming the norm, can we expect the treasurer's role in corporate pensions to decline? "If we look very long-term and assume there isn't going to be a shift back to DB schemes then the role of the treasurer in pensions should in theory decrease and become easier," says Mercer's Ward. "The tail of the DB, however, is very long and currently is not shrinking. So the management of these will continue to be challenging for a prolonged period."

Hawes agrees: "As the DB schemes decrease, management of the assets will be required as contributions will decline. Treasurers will therefore find themselves managing assets which are either static or decreasing, requiring further involvement in following and reporting where the investments are going and how they are behaving."

There is a light at the end of the tunnel, however. "The closer we get to D-Day, which may be 20 to 30 years away," says Hawes, "the management of DB schemes will become easier. "With many schemes closed there will be no new entrants and also liabilities will decrease. Once the DB schemes are finished, we can certainly put our feet up as we will know what our contributions will be each month and there will be no pensions deficit to manage," he says. ■



# The history (and future) of MMFs

*The money market fund (MMF) industry was born out of regulation. Now, fears are growing in some quarters that new regulation may cause the industry to die out. For corporates, money funds represent useful and, by and large, secure investment products on par with cash. For some politicians and regulatory bodies, they are too vulnerable to investor runs and need to be reformed or scrapped altogether. As is often the case in arguments that are as polarised as this, the truth lies somewhere between the two extremes. In this article we look back at the history of money market funds and ponder what might be in store for the industry in the years ahead.*

It's the early 1970s and the US economy is in a mess. The boom years of the 1960s are fading fast; the New York Stock Exchange (NYSE) falls by 40% in the space of just 18 months; economic growth is weakening and unemployment about to hit double digits.

If that is not bad enough, there is also the problem of spiralling inflation. The US Federal Reserve, in a relentless pursuit of full employment, allows the rate of inflation to rise to over 10% by the mid-1970s from a base of just 3-4% the decade previous. Cash

preservation therefore poses an enormous challenge for businesses in the US during this period; a challenge made particularly acute by the fact that the interest that banks are allowed to pay to their customers has a fixed limit.

## An industry is born

It was against this backdrop that the first money market funds were introduced. The first MMF in the US was established in 1971 by Bruce Bent and Henry Brown. It was created, chiefly,



for the purpose of side-stepping a federal banking law, Regulation Q, a rule introduced during the Great Depression which limited the rate of interest banks were permitted pay to depositors. Regulation Q had not been as much of an issue for depositors when inflation was around 3-4% as it was for much of the 1960s. When in the 1970s it began to surge to record highs, however, investors began to seek out alternatives to traditional deposit accounts.

In the commercial paper market, investors bypass banks altogether by lending directly to borrowers. The first MMFs were established when brokers and other financial institutions began to pool investors' funds into the purchase of commercial paper and other short-term securities. MMFs could not guarantee the same level of safety as banks with FDIC-insured deposits, but, by residing outside of the banking sector – and so beyond the purview of banking regulators – they were able to attract an increasing number of investors through the offer of higher rates.

Despite the legal classification, MMFs like the Reserve Primary Fund, shared some traits in common with regular corporate bank accounts. To begin with, security and liquidity were the top priorities. From day one, the purpose was to provide investors with easily accessible, cash equivalent assets which meant restricting portfolios to short-term securities representing very high-quality, liquid, debt and monetary instruments. And, by matching the term structure of the portfolios assets with the term structure of its liabilities, funds were able to guarantee investors that their money would be there to withdraw as and when they needed it.

In the early 1980s, Federal Reserve Chairman Paul Volker – who many years later drafted as part of the Dodd-Frank regulation the eponymous 'Volker Rule' – liberated the banks by revoking the limit on interest payments to customers. Investors quickly began to flee MMFs, pushing their funds into new, FDIC-insured high interest savings accounts set up by the banks. As Chart 1 illustrates, MMFs took a big hit from the change, losing close to 25% of their assets in the space of just a few months. Clearly, funds needed to find another way to compete against the banks.

The solution for the MMF industry was to persuade the Securities and Exchange Commission (SEC) to allow them to adopt a new accounting treatment that made the value of their portfolios appear more stable than it really was. A constant net asset value (CNAV) which prices to two decimal places, helped make the funds a more attractive investment. This was particularly the case for corporates, the biggest MMF investors, who hold large sums of cash on a short-term basis and want to avoid dramatic fluctuations in value. But, as we will see, the special accounting

treatment MMFs were permitted to use would, later on, become a target for regulators in the wake of the 2008 financial crisis.

## Banks enter the game

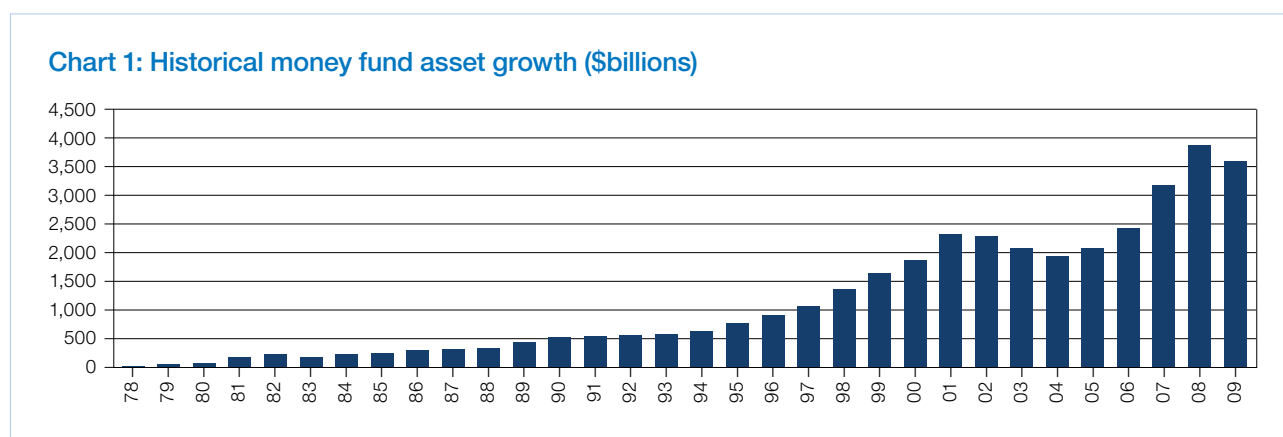
Throughout the subsequent decade, the volume of assets under management in the MMF industry continued to grow and, by the late 1980s and early 1990s, banks that had been casting an envious eye decided that they too wanted a piece of the action. The problem for banks, however, was that in the US they were still prohibited under the provisions of the Glass-Steagall Act 1933 from combining their banking operations with a business in securities. If a bank wanted to offer a money fund, there was only one legal means for it to do so: it had to outsource either the administration or the distribution of the fund.

New, third-party organisations quickly began to emerge to perform these activities on the banks' behalf. One of the largest of these, Concord Financial, was the company at which Ed Baldry, now the CEO in EMEA at ICD-Portal, began his career. "Our job was to go to these banks and, in addition to providing the administration, distribution or transfer agency functions, educate them around selling their institutional funds" explains Baldry. In fact, the large Wall Street banks – Citi and Bank of America, for instance – that entered the money market fund business at this time experienced little difficulty in finding clients. Banks, after all, were also the principal source of finance for many corporates and this gave them a clear advantage over non-bank funds. "For corporate investors I think that it was a fairly straightforward decision," says Baldry. "Do I give my money to a bank or do I give it to another fund that has never done anything for me?"

Unsurprisingly then, the bank share of the MMF business continued, with the help of intermediaries, to expand throughout the 1990s. Finally, after the Graam-Leach-Biley Act 1999 swept away the final remnants of Glass-Steagall, banking institutions, now sanctioned to own and control both bank and non-bank financial entities, began to assume a more direct involvement in the industry. In the years that followed, the assets under the management of non-bank subsidiaries of bank holding companies rose sharply (see Chart 2) and continued to grow right up until the recent financial crisis.

## Breaking the buck

Prior to the 2008 financial crisis only one relatively diminutive fund had officially 'broken the buck'; a colloquial expression used for when the capital price of a fund breaches tolerance levels and



Source: ICI, Crane Data

thus forces the fund to restate the actual share price below 1.00. But this fact only made the events that came to pass in the autumn of 2008 seem all the more shocking and catastrophic.

On Tuesday, 16<sup>th</sup> September 2008, the US' oldest MMF, the Reserve Primary Fund, began to inform investors that they would lose money. The Reserve had made a decision to own a huge amount of Lehman Brothers commercial paper. After these securities became, in September 2008, worth less than the paper they were written on, the fund was left with no choice but to revalue shares. Instead of each share being valued at \$1 for every dollar invested, the fund was forced to tell customers that shares were only worth 97 cents. It was the first time in 14 years that one of these seemingly super-safe investment vehicles had incurred losses and news of the impending \$64.8 billion firesale caused shockwaves in the financial world. Suddenly MMF investors became incredibly anxious and, as they sought to redeem their holdings, a large number of funds were forced to liquidate assets or impose limits on redemptions. Investor conviction that MMFs were no riskier than regular bank accounts now appeared to be gone for good. "That really changed the landscape forever," remarks Baldry.

In the space of just a few days following the Lehman Brother's default, redemptions across the MMF industry had reached an astonishing \$300 billion. The speed and scale of the exodus was so severe that the US government was left with little choice but to intervene by providing unlimited insurance to all money market fund depositors. A number of other funds in Europe were also underwritten by their respective governments.

## Regulatory backlash

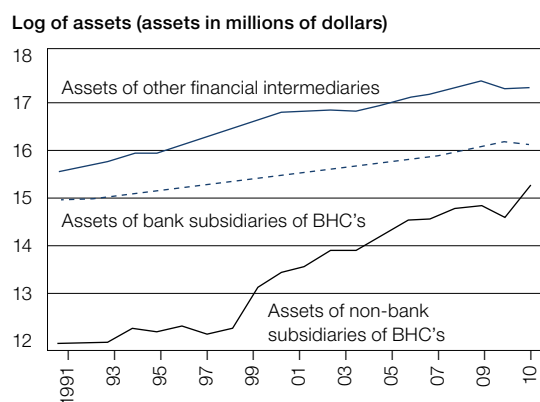
The story of the MMF industry – particularly in the US – is closely entwined, if not inseparable, from the evolution of financial regulation going right back to the Great Depression. Now, in the wake of a new global financial crisis, fresh regulatory proposals seem likely to drive change every bit as momentous as the industry changes seen in the past.

Government intervention may have brought a halt to the market panic and even saved the industry from probable implosion, but political leaders across the globe have been working ever since to ensure that funds are able to stand on their own feet in a future crisis. In the US, the SEC's first move was to introduce changes to Rule 2a-7 that established stricter quality and liquidity requirements on funds. But more proposals were soon to follow.

In June 2013, the SEC offered two alternatives for further reform. Under the first option, institutional or 'prime' MMFs would be required to transact at a floating NAV, rather using amortised cost to value their portfolio securities. The second course of action suggested that MMFs could continue to use their accounting treatment of preference, but would be required to impose liquidity fees and redemption gates in times of market stress. In Europe, meanwhile, the European Commission (EC) has been weighing up the introduction of similar accounting proposals in tandem with compulsory capital buffers set at 3%.

The suggested reforms have resulted in much public debate and, in the case of the NAV proposal, strong opposition from market lobbyists. Corporate end-users, in particular, have raised concerns regarding the impact that an industry-wide switch to VNAV (variable net asset value) might have upon their investment strategies. Large numbers of corporate treasurers, both in the US and Europe, prefer the simplicity of the tax and

## Chart 2: Growth in assets of bank and non-bank subsidiaries of bank holding companies and of other financial intermediaries



Sources: Board of Governors of the Federal Reserve System, Flow of Funds Accounts and Consolidated Financial Statements of Bank Holding Companies (FR Y-9C data)

accounting treatment under CNAV, and industry bodies have repeatedly cited empirical studies that suggest the form of accounting treatment will make little material difference to the behaviour of MMF investors in crisis scenarios.

No final decision has yet been made in either jurisdiction on the way to proceed. However, industry experts expect something to be agreed by the respective regulatory and legislative bodies within the next 12 months. Should the regulators choose to disregard industry concerns and press ahead with a mandatory switch to VNAV it is likely that we will see a seismic shift in investor preferences, with 20-30% moving away from MMFs into other investment vehicles according to estimates by the credit ratings agency Moody's. It might even be a greater exodus than that. In the Association of Financial Professionals (AFP) 2013 liquidity survey, 65% of respondents indicated their intention to reduce or sell off their MMF holdings entirely if CNAV funds are prohibited.

## Consolidation

These are uncertain times then for the \$2.7 trillion dollar industry which has become a mainstay of the financial world. For fund managers, the challenge of managing the prospect of changes to the way the industry is regulated has been compounded by the pressure of ultra-low interest rates on both sides of the Atlantic. The twin pressures of rates and regulation appear to driving the industry full circle.

Deregulation at the turn of the millennium helped banks assume greater involvement in the industry by allowing them, for the first time, to establish subsidiaries in the securities business. The number of banks in the MMF business multiplied in the wake of that change, but now the trend appears to be going into reverse. Consolidation is now the name of the game.

In the past year, we have seen Lloyds Bank announce the sale of SWIP to Aberdeen Asset Management, Barclays selling their fund BlackRock, and RBS offloading theirs on Goldman Sachs. Once again the winds of change are sweeping through the industry; only this time they are blowing in a different direction. ■



# The wonderful world of treasury

## Christine McCarthy

Executive Vice President, Corporate Real Estate, Alliances and Treasurer



The Walt Disney Company

With an educational background in biology and a career in banking under her belt, Christine McCarthy now has responsibility at the Walt Disney Company for enterprise-wide management of financial functions including corporate finance, capital markets, financial risk management, pension and investments, corporate credit and collections and global cash management, as well as corporate alliances. In addition, she oversees a vast global real estate organisation and, since 2005, has been an executive officer.

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*Since 1923 the Walt Disney Company has been growing its entertainment and media empire with a little help from some of the most recognisable and loved fictional characters anywhere. Today the NYSE-listed company employs 175,000 people across its five major business segments: Media Networks; Parks and Resorts; Consumer Products; Studio Entertainment; and Interactive. In 2013 it reported revenues of \$45 billion, up almost \$3 billion year-on-year.*

There are certain brands that transcend mere commercial activity, somehow managing to be more than the sum of their parts. The success of such brands is no accident, being the cumulative effect of the application over many years of a lot of skill, judgement and hard work. Of course, the same level of commitment may be observed in many companies, but the majority will never become a global household name.

Clearly something more is required to gain and sustain global recognition.

Here is a test. Scroll through Forbes' list of 100 of The World's Most Valuable Brands; every name will be familiar. But if you briefly stop to think how 'connected' you feel with each brand, it will soon become apparent that there are but a few which



resonate with any real depth. Of that subset there is likely only to be one which will have been a part of your life since early childhood and which, as you grow older, continues to unite you with friends and family across the generations. That brand is Disney. All it has to do is keep connecting with people!

To this end, the reach of the company and the quest for new audiences continues unabated. According to the shareholder letter written for the 2013 Annual Report by Disney CEO, Robert Iger, the company sees “tremendous opportunity” in rapidly emerging markets. Iger cites China, Russia, Latin America, South-East Asia and India as territories where Disney has active growth plans. For example, China will see the grand opening of the Shanghai Disney Resort at the end of 2015. And not only did Disney studios claim the largest share of the box office in India in 2013, but also Russia has now joined the UK and Japan as the biggest international markets for Disney movies. On the Interactive side, just ask anyone with children about Club Penguin and the new interactive game Infinity!

## Responsibility

Given the genuine fondness that millions across the world have for Disney, Christine McCarthy, Executive Vice President, Corporate Real Estate, Alliances and Treasurer of the Walt Disney Company is, for all intents and purposes, one of the custodians of the brand for future generations. In the context of keeping one of the world’s best-loved names in entertainment financially on track, her role has significant importance. As her title suggests, it covers a broad sweep of functions, encompassing many of the traditional areas of treasury as well as risk and insurance, corporate credit and collections and the corporate alliances functions. The latter concerns the enterprise-wide management of Disney’s relationships with global branded companies such as Coca Cola, General Motors and HP. Because much of the physical presence of these brands is in the theme parks, the role is co-managed with the CFO of the Parks and Resorts segment. The final part of the jigsaw for McCarthy sees her in charge of Disney’s vast global corporate real estate portfolio.

## From biology to treasury

The route to treasury for McCarthy did not, by her own admission, follow a natural path. As a biosciences undergraduate major at Smith College, Massachusetts, she says she had every intention of continuing in the field of academic science. “After my degree I was working in Los Angeles trying to figure out if I wanted to enter a PhD programme on the east or west coast of the US. Somebody asked why I really wanted to be a research scientist and I answered that it was what I knew and was my passion. They tried to convince me to go to business school. But why would I ever want to do that?”

However, on the basis that “sometimes, you just have to make it up as you go along”, McCarthy was ultimately persuaded to head off to Anderson School at UCLA where she earned an MBA in Marketing and Finance. “It was a very different experience for me, but I liked it.” Business strategy and marketing both grabbed her attention, but at the time (the late 1970s) she felt that in order to be taken seriously as a woman in a male-dominated business environment, the best route forwards would be via finance. Even then, she recalls, “I knew it was going to be tough and I knew it was not a female-friendly environment. But that was what I was going to do.”

Her mind set, in 1981 McCarthy stepped into the lion’s den that was ‘banking’. Initially on the strategy side with First Interstate Bancorp, she took all available opportunities and moved ahead in finance, being elected Executive Vice President in Finance for First Interstate in 1993 and staying through the hostile takeover by Wells Fargo, then tackling the role of Executive Vice President and Chief Financial Officer of the mid-tier Imperial Bancorp from 1997 to 2000.

Throughout her banking tenure, in an environment where “money is the fuel running the engine”, she was able to gain a breadth of experience that even included time in investor relations during the period that the institution she was with was under considerable financial and shareholder stress. Far from buckling under the pressure, McCarthy recalls that this was “a great time to be in investor relations”. Although somewhat like a warzone at times, she notes that the experience was invaluable, adding for good measure that “more five-star generals are made during wartime than in peacetime”.

With banking seemingly having run its course for McCarthy, her thoughts turned once more to the field of scientific endeavour. But out of the blue, and guided by her belief that opportunities should be taken, the wonderful world of Disney presented the role of treasurer. “I said put my name in the ring for that one, not thinking anything would come of it. But I got a call from the then CFO, Tom Staggs, to come and talk.” After a lengthy interview process, she joined Disney at the start of 2000. Coming from a banking background she was often asked how the transition was going to work out. “For me it was easy – and those who know me would say my personality has a lot more natural fit inside a media and entertainment company than in the very structured and conservative banking environment,” says McCarthy. After all, she adds, “it gets my left and right brain firing”.

## Women in treasury

Treasury is a male-dominated environment, but for McCarthy there is no glass-ceiling barring her way to the top. If there was, it is highly likely that she would have smashed right through it anyway. For young ambitious women coming up through the ranks now, she feels the situation has improved. However, participating in a group whose 30 members consist of treasurers for some very large companies – it is known as the Mega-Cap Treasurers Alliance – she reports that only a few women are in its membership ranks. “Ten years from now I hope the group is split 50/50; but right now there are more women in senior roles in the large financial institutions than there are in corporates.” The difference between corporate and banking setups partially explains the imbalance. Whereas senior banking positions are more plentiful and the structure more fluid, senior treasury roles in a corporation are few and far between and incumbents tend to stay put longer.

The need to rebalance opportunities for women in business sees McCarthy playing a valuable role as a mentor for young women through the STEM (Science, Technology, Engineering and Mathematics) programme (which runs in both the US and the UK). “Giving something back” is very much on her personal agenda within her role at Disney too. She is happy for young women coming up through the ranks to get in touch to discuss their aspirations and she will gladly offer them encouragement. But she believes it to be more beneficial to put these young professionals in touch with some of her junior and mid-level female colleagues in the organisation. “They’re

living it now; they will be a better guiding force and I'm in a fortunate position to be able to connect them with some of the really talented women who work for me."

## Team talk

Although to date all treasury functions have been managed centrally out of Burbank, California, Disney has a number of US-based and overseas operational units and is currently building out some regional treasury centres (RTCs) to take on more of the operational work. With initial plans outlined for just a few RTCs, the intention is to locate them in geographies exhibiting large-scale international activity.

The RTCs make sense now because as the company grows the role of treasury takes on more responsibility. The scope of McCarthy's remit and the reach of the organisation is ever-broadening, thus it is that her involvement in all operational activities is not physically possible. However, she says sometimes it is the nature of a project that determines her direct involvement; a large undertaking with a lot of financial exposure – such as working out the capital structure for international theme parks, or working on capital allocation, longer-term liquidity planning, or large capital market transactions – will see her rolling up her sleeves and pitching in with the team.

When it comes to working with her staff McCarthy steers clear of micro-management. "I learnt a long time ago from one of my mentors in banking that when you find someone who has potential, you give them enough rope to hang themselves but hopefully they won't." As part of her remit to develop talent, she believes it is essential to keep high-potential people motivated and to do that you have got to give them the ability to make decisions and earn acknowledgment for the work they do. "I want them to be out in front getting the recognition they deserve; the downside risk is that they must perform and succeed. It can be a high-risk strategy on my part so I can't give everyone the same amount of rope; I have to discern who is ready for those challenges."

She may be taking some "highly calculated" risks but her nurturing process is well managed. "I don't just put them out to pasture, I keep my eye on them," she says. "The more they can do and the more they can achieve, the more they will grow as professionals." The level of personal responsibility carried by McCarthy herself is such that she needs to empower her staff to run their own groups. But she always keeps an open door for questions, direction and reinforcement. Any staff coming up against a brick wall are encouraged to elevate situations immediately because, as she says, "I don't want people spinning their wheels".

In her own dealings with industry colleagues – particularly bankers – her watchword is always fairness. But she is quick to add that few would consider her "a pushover". Known as being "tough but fair", her reputation over time has ensured that every bank that works with her has earned the business and her trust.

## Disney rides the storm

Few businesses if any were left untouched by the events following the global financial meltdown of 2008. When liquidity tightened, Disney was fortunate to have a strong credit rating and was a tier one commercial paper issuer. As a 'flight-to-quality' name it was able to get through the crisis

without any short-term liquidity issues. As the drama unfolded, although the company had already started down a pathway of large-scale initiatives, it was able to finance and maintain their development and construction of large scale projects, especially in the Parks and Resorts segment. This has been most beneficial as the economy has slowly moved back on track because now it has a number of new assets to stir the interest and excitement of people hungry for Disney branded entertainment.

The crisis also taught Disney some valuable lessons. "Liquidity has always been a focal point in treasury but now counterparty risk is something we never take our eyes off," comments McCarthy. Aided by some new technologies, Disney is now able to look at counterparty risk on a consolidated enterprise-wide basis across all banking relationships and products. "We don't use only credit ratings because they can be rather stale – you certainly can't rely on them because some of the institutions that failed during the crisis were very well rated." McCarthy has instead refined a process that incorporates, for example, dynamic credit default swap rates (CDS) and stock-price changes to assess counterparty risk. Everything is measured relative to a basket of financial institutions to rule out market movements rather than individual performance blips.

As a result of treasury's more extensive process, some banks – both large global and regional institutions – were removed from its list of partners. McCarthy feels that although the crisis has abated, the banking environment is still "dynamic" and vigilance must be maintained. "You just can't put it on remote control," she states. "We have to keep adjusting our exposures, and with some banks it is better that we just part ways." As a perfect example of the dynamism of Disney's bank line-up, where a few years ago there were none, today's banking partners include the four largest Chinese banks – the new Shanghai Disney Resort giving Disney strong presence and visibility in the country. More generally, the banking panel of Disney is constituted mainly of global institutions, the footprint of their home offices approximately mirroring the footprint of Disney itself. The advantage is obvious: "When we need something country-specific we definitely have well-established relationships to tap into," states McCarthy. "I think we've trained our key banking partners somewhat to bring us consistent value-added coverage."

## Character building

In the final analysis, no treasurer is an island. "In a job like this there is a lot of risk; there is no one person that can do it all," notes McCarthy of her own responsibilities. She has taken on some diverse functions but, with her cast of team-members, has shaped all into a cohesive whole. But the most public cast of Disney characters are what really draws everyone into something larger than life. McCarthy chooses to identify with a composite of these colourful creations. "Maid Marian is a bit of a tomboy and a little bit rebellious, but fiercely loyal and she has a huge amount of courage," she notes. Somewhat curiously she adds to the mix Lady Tremaine, the 'wicked stepmother' from Cinderella. "I appreciate that she is very shrewd, very intelligent and she is very ambitious not only for herself but for others too," she explains. "And because I work for an entertainment company I always have to think about the image, so if you wrap these two inside a Jessica Rabbit veneer I think you'd have a very powerful kick-ass female character." Just the kind of character in fact that is needed to ensure the financial future of one of the world's best-loved brands. ■

# Working capital management: reaching the next level

*The way that corporates approach their working capital management is evolving. Rather than simply addressing inefficiencies for short-term gain, forward-thinking treasurers are now striving to embed sustainable, long-term working capital strategies at the heart of their business. Four experts from ING's Working Capital Solutions group explain what is driving this shift and outline how companies can take their working capital management to the next level, while ensuring minimal disruption in their day-to-day operations.*

Over the last three years there has been a consistent improvement in working capital performance among Europe's largest publicly traded companies. In fact, statistics from REL's 2013 Europe Working Capital Survey show a significant six per cent increase in working capital performance year-on-year. This level of improvement suggests that companies not only understand, but actively recognise, the importance of working capital in an uncertain economic environment. Working capital is suddenly much more than just a product; it is a philosophy.

## Leveraging assets

"Lessons have been learned," says Robert O'Donoghue, Global Head of Working Capital Management, Transaction Services at ING, referring to the global financial crisis and the banking sector restructuring and regulation that resulted from it. "In the not too distant past, many companies took advantage of cheap bank funding sources, with little regard for their overall funding mix. Now there is much more focus on what constitutes near-term liquidity; what constitutes longer-term liquidity; and where companies can create cash and liquidity using their own resources."

With REL's research revealing that approximately €762 billion remains tied up in excess working capital across Europe, the opportunity for companies to leverage their existing resources in this context is obvious. The question is: how can these opportunities be realised in the most efficient manner?

"In early 2012, ING took the decision to package all of its working capital solutions into one department, with the aim of putting the client even more at the centre of our offering. The Working Capital Solutions team brings together the receivables side of the business and the payables side. It aims to help our client find the best way, and the optimal timing, to put the right solutions in place, with the least impact on their day-to-day business," notes O'Donoghue.

This requires not just a portfolio of leading-edge working capital solutions, but genuine insight into industry trends and best practice; a deep understanding of how individual businesses function – and how they compare with their peers; as well as a holistic approach to identifying and implementing sustainable working capital strategies. ING does not disappoint.



## Trend watch

While ING has a long track record in helping clients with their working capital needs, the bank does not rest on its laurels. As Leon Merkun, Managing Director Transaction Services Solutions Group at ING and former corporate treasurer puts it: “The working capital solutions that every international bank offers are usually comparable. What makes ING stand out from the crowd are the people who work here and their drive and flexibility to come up with tailored solutions, the background they have, and their understanding of what our clients’ priorities, objectives and constraints are.”

Maintaining this edge means keeping a finger on the pulse and picking up on trends that are influencing the way that corporates see working capital solutions. “For example,” says Amador Malnero, Global Head of Trade Receivable Purchase Programme at ING, “selling your receivables in a factoring solution was historically perceived quite negatively, because it was seen as the ‘lender of last resort’. Today, people look at their receivables very differently – they are as an asset class that can and should be monetised.”

Likewise, perceptions around supply chain finance solutions are changing. Oliver Petersen, Global Head of Supply Chain Finance, ING, explains: “The conversations we are having with suppliers are becoming easier as more supply chain programmes are rolled out – largely because a lot more suppliers now know about the benefits. Some suppliers still find it hard to believe that there is no catch to SCF, but that is the only major mind-set hurdle still to overcome. SCF is really gaining traction as a sustainable way to strengthen the overall value chain by allowing buyers to extend their payable terms while helping suppliers to deleverage the balance sheet.”

Another interesting trend is the movement among cutting-edge corporates to raise awareness of working capital outside of the finance function. This is fast becoming a best practice model for corporates across the globe.

## Best practice: taking the next step

“One of the greatest challenges is to make sure that working capital management is not just a one-off project, but to make sure that it is embedded in the business,” says Merkun. “To achieve this, finance and the business must work together. The business must be as responsible, or perhaps even more responsible, for the management of working capital than the finance function.”

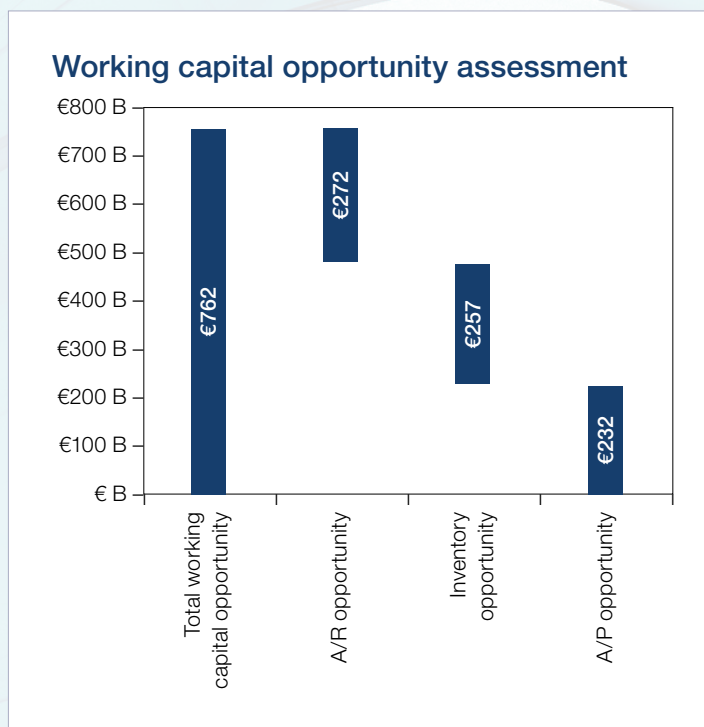
Best practice also demands an integrated approach, Merkun adds. “You can’t just look at accounts receivable, accounts payable or inventory in isolation. You need to consider the bigger picture. Looking at optimising your inventory for example, you need to make sure that you are still able to meet the level of demand from clients.” This requires regular input on how demand is developing. At the same time, the demand forecast should be transferred into the supply chain to make sure that there are sufficient resources available to cover the level of demand.

According to Merkun, “that’s often where the challenges lie: to maintain the discipline and ensure that everybody is involved. Weekly or monthly sales and operations meetings can help, together with regular follow-up actions.” Forging a stronger link between procurement and finance can also be useful here, generating opportunities to ask whether the company is extracting the best terms from its trade relationships (different business entities often buy with the same supplier at different terms); how those terms compare to competitors; and how key suppliers in the supply chain can be better supported.

As an additional means to ensure that different business functions and entities are on the same page when it comes to working capital, leading companies are also moving towards centralised control of working capital within group treasury. “It’s a question of scale and uniformity,” says O’Donoghue. “If you have subsidiaries without a common goal, there are likely to be inefficiencies. Centralisation can help you to vastly improve on efficiency, not only operationally but also through the consolidation of budget, which could potentially allow the company to invest in a more sophisticated IT infrastructure to better support the company’s working capital, for instance.”

## Looking ahead, thinking forward

Talking about best practice is all well and good when working capital management is very much front of mind still for corporates, but as the economic climate starts to pick up, will companies push working capital management onto the back burner again? O’Donoghue thinks not: “Solid working capital management is something that companies absolutely need to invest in for the future.



Source: REL Consultancy, Working Capital

## Solutions suite

### Supply chain finance (SCF)

A working capital optimisation tool, SCF unlocks cash, trapped both within a company and in the value chain with key suppliers. ING purchases the approved trade receivables that suppliers have on a given buyer, essentially stepping into the shoes of the supplier. Subsequently ING will receive payment from the buyer when the invoice becomes due.

Benefits for the buyer include a reduction of working capital and increase of free cash flow through extended payment terms as well as the potential to improve relationships with suppliers, creating opportunities to negotiate better terms and conditions. Meanwhile, suppliers benefit from instant liquidity through early payment of invoices and lower financing costs.

*“ING offers a fully automated web-based SCF solution, which complies with the highest possible security standards and is designed to have a limited impact on existing operations.”*

*Oliver Petersen, Global Head of Supply Chain Finance, ING*

### Trade receivables purchase programme

Providing an alternative funding solution, ING’s trade receivables purchase programme (TRRP) is based on securitisation techniques, by purchasing large and diversified portfolios of trade receivables. The transfer of receivables is typically executed via a true sale of the receivables to ING or to a special purpose vehicle (SPV).

The TRRP is an attractive source of committed funding, which offers competitive pricing up to an AA equivalent rating as well as anonymous access to financial markets. It is also a strong balance sheet management tool to improve financial ratios and overall pricing. ING has a successful track record with over 250 TRPP programmes completed. An experienced team of professionals is available to cover all aspects of a TRPP transaction, from feasibility assessment to documentation.

*“The fact that the receivables securitisation programme can sit comfortably next to other forms of financing is just one of the features that makes it attractive.”*

*Michel Jansen, CFO of Clondalkin – ING client*

### International corporate receivables financing

Facilitating clients in raising liquidity through the financing of trade receivables, inventory and purchase orders, ING is able to take over debtor risk. The solution can be tailored to the needs of clients as a one-off trade receivable purchase or as a facility for multiple receivables from the same debtor or group of debtors. Receivables financing can be done with recourse or on a non-recourse basis (the latter can potentially achieve off-balance sheet treatment).

*“The benefits include diversification of funding sources, scalability to help finance trading growth at attractive pricing; and the flexibility to capture everything from single debtor receivables to multi-jurisdiction pools in a single transaction structure.”*

*Amador Malnero, Global Head of Trade Receivable Purchase Programme, ING*

Diversification of funding sources through working capital solutions is an excellent way for companies to demonstrate to shareholders that they are running an efficient operation. It is also a useful way to demonstrate commitment and value to relationship banks.”

So how can companies ride the current momentum around working capital to put in place a structure that will serve them well over the longer term? “If it’s not seen as a priority, it’s not going to happen,” says Merkun. “In this case, it’s a question of helping senior management and other stakeholders to see the value in working capital management.” An extremely useful tool for doing this is peer analysis, he says, which is something that ING specialises in.

A peer comparison can alert you, and your management team, to potential areas of improvement in working capital performance. “It also allows ING, as working capital specialists, to challenge the client around their current working capital performance, and allows the client to challenge us in return,” notes O’Donoghue. A typical conversation might proceed along the lines of: ‘are your competitors more working capital efficient than you are? If so, why are they doing it? No doubt because there is a benefit in doing so.’

“At that point, we can start to look at the solutions which would work best for the client, bringing efficiencies with the least disruption to their day-to-day operations,” he explains. “Can we use securitisation techniques in order to monetise receivables portfolios? Or on the payables side, how can they use their credit rating to better support their suppliers while improving their own DPO?”

O’Donoghue makes it very clear however, that this is just the tip of the iceberg. There is very much a ‘no one size fits all’ mentality at ING. Client challenges are often unique in circumstance, therefore solutions are often tailor-made.



“We like to really know our clients, understand their working capital and get under the skin of their supply chain – both from a financial and physical perspective. If there is something in the business of concern, we will always strive to find a solution for the client. ING is an extremely loyal supporter of its clients, and we always aim to work as a constructive partner with our clients,” he comments.

This partnership approach means working alongside clients not just in the choice of solution, but in the implementation of it too. “We are integrated in the client’s project,” says Petersen. “What makes us so well positioned to do this are the diverse backgrounds and experience of our Working Capital Solutions team. We have experts from all walks of banking and corporate life. This means that we have a good understanding of working capital from the corporate’s point of view, and that we understand the need for balance between short- and the long-term liquidity. Leveraging this knowledge base, we can package and implement solutions that really fit the bill for our clients.”

The Working Capital Solutions team is also extremely well placed to pinpoint what makes a working capital strategy truly successful. O’Donoghue says: “overhauling your company’s working capital strategy will take some resourcing and it won’t happen overnight, but to give you the best shot at making it work, a commonality of thinking will be required. If, for example, your procurement department is driven by getting the cheapest price and the treasury department that is driven by cash preservation, you’ve got a conflict. You need common KPIs and goals to make the project run more smoothly.” In addition to alignment of KPIs, senior level support is also critical, says Malnero. “This means securing buy-in from upper level management, right the way through from the CEO to the CFO.”

Only once these fundamentals are in place will companies be able to cast off the notion that working capital is something to be taken for granted. Working capital will instead be seen as an area that deserves critical attention from all stakeholders, and a potential source of value to be monetised.



### **Robert O'Donoghue** **Global Head of Working Capital Solutions**

In January 2012, Robert O'Donoghue (1967) assumed the role of Global Head of Working Capital Solutions within Transaction Services of ING Bank. O'Donoghue began his career with Morgan Grenfell in 1990 as a Financial Institutions credit analyst. In 1992 he moved to ING Bank London in the Corporate Banking area and later joined the Debt Capital Markets Group of ING Capital UK. In 1998 Robert, together with his family, moved to Amsterdam where he assumed the role of Head of Syndications covering the Benelux Corporates and Structured Finance. In May 2009, he moved to Global Credit Restructuring and established a new team with responsibility for ING's restructurings in Asia, the UK and Structured Finance Amsterdam. O'Donoghue has a Masters Degree in Economics from University Collage Dublin.



### **Leon Merkun** **Managing Director Transaction Services Solutions Group**

Leon Merkun joined ING's Transaction Services Solutions team in 2013, focusing on working capital and liquidity improvement opportunities for multinationals. Before joining ING he worked as Finance Director EMEA at Harman's Consumer business from 2009 – 2011. Between 1997 and 2008 he worked at Royal KPN NV, responsible for Corporate Finance and was appointed Group Treasurer in 2003. Leon has an Executive Master of Finance and Control degree from Nyenrode University in the Netherlands and studied business economics at Rotterdam's Erasmus University.



### **Amador Malnero** **Managing Director, Global Head of TRPP – Head of Working Capital Solutions Belux**

Amador Malnero joined ING's Working Capital Solutions group in 2012 as Global Product head for TRPP and Regional Head for Belux. He has many years' experience in Receivables Financing transactions, on balance sheet and in ABCP conduits, across a vast number of jurisdictions. Previously, Malnero was Global Head of ING Securitisations Group since 2006, focusing on synthetic and cash securitisations on ING assets as well as for third-party customers. Before that, Malnero spent six years at ING Corporate Finance in Belgium. Malnero holds a Bachelors and a Masters degree in Economics from the University of Louvain (Belgium).



### **Oliver Petersen** **Global Head of Supply Chain Finance**

Oliver Petersen is the head of ING's Supply Chain Finance. The team seeks to optimise the working capital positions of both a buyer and its suppliers on a global basis. Established in 2010, the Supply Chain Finance team leverages ING's international footprint with operational teams based in The Netherlands, Romania and Russia. Before this, Petersen was a Director in ING's Structured Finance Telecom, Media and Technology department and worked for ING's Corporate Credit Risk Management department. He holds an international MBA from the University of Nyenrode.





# Make it a non-event

*Currency risk exists in one form or another for most overseas traders. Hedging may reduce or remove that risk. When and how should treasurers approach it?*

For businesses trading overseas, tackling currency volatility is par for the course. In recent times the Mexican peso crisis, the Asian currency crisis, the 1998 Russian financial crisis, the Argentine peso crisis, and the 2008 global financial crisis have all contributed to that volatility – and it's not about to go away any time soon.

## Currency risk types

If a financial transaction is denominated in a currency other than that of the base currency of the company there will be currency risk. That risk may exist in a number of forms. Transaction exposure exists around specific receivables and payables denominated in a foreign currency. Economic (or operating) exposure is more general and can, for example, affect demand or cost of goods or the movement in value of future cash flows from fixed assets which can subsequently affect the market value of a business. Translation exposure arises where changes in the exchange rate between the currencies in which a company

reports (its consolidated accounts) and those in which the company's assets and liabilities are denominated (usually its overseas operations), impact on a company's balance sheet. Contingent exposure arises where a firm is waiting for acceptance or rejection of an overseas contract bid, leaving it uncertain as to whether it has a currency exposure or not.

## Measuring currency risk

The level of currency risk a business may be exposed to can be measured using either the variance or standard deviation methods. Variance simply requires noting the points of fluctuation within a spot rate and the spread of those points; it is something a treasurer can do in a spreadsheet. Standard deviation is more involved and requires the observation of how far on average an exchange rate will deviate from the mean exchange rate over a given period when plotted on a 'probability distribution' (eg the minimum and maximum statistically possible values).

Analysing the possibility of an event happening at the extremes of possibility (tail risk) – and the potential losses that may be incurred – can be done by corporate or bank-based risk managers using Value at Risk (VaR) modelling. Measuring VaR typically deploys either historical, parametric (variance and covariance) or Monte Carlo simulation techniques (the latter being based on a computer algorithm for calculating the range of outcomes and the probabilities they will occur within a stated scenario). Since the 2008 global financial crisis VaR has taken some flak for being less reliable when identifying very rare but large and extreme swings in the market (so-called ‘tail risk’).

## To hedge or not

In a world of uncertainty, hedging is most commonly seen as a means of using the underlying asset of one financial product (a derivative) to offset potential losses of another. It is not the only option open: in their 2011 publication, ‘International Financial Management’, Professors Cheol Eun and Bruce Resnick said that mitigation of transaction exposure can be effected either through money markets, foreign exchange derivatives (such as forward contracts, futures contracts, options and swaps), or with operational techniques such as currency invoicing, leading and lagging of receipts and payments, and exposure netting.

Economic exposures tend to be handled through operational considerations (such as where to site production facilities). And because translation exposure is an accounting and reporting issue, although hedging with FX derivatives is possible, the generally accepted accounting principles (GAAP) of each jurisdiction (or International Financial Reporting Standards) will dictate how FX-based gains or losses in the parent company’s consolidated financial statements can be accounted for (mainly to avoid misleading stakeholders).

## Gambling away the profits

The increasing dependence by more and more businesses upon international trade has pushed the management of currency exposures to the fore, but for too many it is a risk left unmanaged. “Many businesses are engaging in currency risk management and have some form of policy in place, but there is also a shocking number that don’t,” notes Guido Schulz, Global Head of Strategic Management, AFEX. “These businesses are just playing it by ear; in some cases they get lucky and in some cases they are gambling away their revenue.” The reason for this incautious approach, he believes, is in part due to an ‘old-school’ mind-set, relying a little too much on intuition, but he feels that without the guidance of formal policy, some have adopted a “casino mentality”, watching the markets obsessively and thinking they can beat them.

Some may even see FX hedging as a potential for “lost opportunity”. With this viewpoint, a treasurer may lock in a set of staggered forward contracts for the year but if that currency suddenly strengthens they regret the decision, fretting over how much better they could have done.

Most treasurers tend to be conservative and enjoy security but Schulz says sometimes there is the temptation to reach for “higher hanging fruit that is even sweeter”. This can drive that casino mentality which, as many pro traders will acknowledge, could have dire consequences when the market turns against them (cf, Kerviel, Leeson et al). “There is a draw created by the dynamism of the markets but you have

to suppress the urge to play it by putting a policy in place,” he says. “We advise clients to make foreign exchange a non-event for themselves.” He admits that it takes discipline, “but once that risk management strategy is in place you have to stop worrying about the market.”

## Policy rules

Despite the obvious excitement pro-trading may create, the way in which a business tackles currency risk is not a decision to be taken by the treasurer, says Philippe Gelis, CEO of peer-to-peer trading platform provider, Kantox. “In my view, in any company, the decision regarding what is hedged and how should be based on a policy agreement made between the members of the senior management team; the treasurer will be the one to implement policy but top management should be involved in what they do and how they do it, from day one.”

According to UK-based Interim Treasurer, Jo Dealey, “many organisations don’t have a hedging policy in place, arguing that they have been alright until now. But how much is it okay to lose? The treasury and management teams need to be protected and the Board needs to know what they are letting themselves in for because getting it wrong can make or break a company.” It is, she adds, the responsibility of the treasurer, along with the FD or CFO, to have a clear understanding of the company’s currency exposures, what the implications are in the context of the balance sheet, banking covenants, share price and so on – and what measures can be taken to defend against volatility.

A hedging policy should firstly note all exposures and the risk this may present (possibly using one of the measurement tools such as VaR or the less demanding variance model). It should then lay down the agreed rules for what is being hedged, why this is being done, by whom, what actions are acceptable, under what conditions and how often all this should be reviewed. An additional operational element, prescribing specific actions to be taken and instruments to use, must have a certain degree of flexibility, Dealey advises. This enables the company to respond quickly to market changes and challenges. Where large, long-term hedges are deployed, she also advises companies to review them regularly, assessing if they still meet the needs of the exposure.

Regardless of content, there has to be hedging policy buy-in from all stakeholders, she continues. “If an organisation enters into a contract without really understanding what the implications are, it can cause heavy losses or even bankrupt a company. If it goes badly wrong, heads will roll.”

## What if?

All risk management contains a strong element of forecasting and for currency risk Gelis strongly advises businesses to base significant hedging decisions on a quantitative model that assumes a worst-case scenario for exchange-rate activity. Indeed, Dealey believes it is vital for anyone looking into hedging to be able to carry out their own ‘what if’ modelling, particularly on larger contracts that are likely to require something more complex than a simple forward. Analysis, she says, does not have to be based on complex algorithms and although there are proprietary systems to assist, spreadsheets are a perfectly functional tool in many cases. It is also reasonable for a treasurer to ask a relationship bank to help do some of the modelling.

## Proof of product

When it comes to product selection Dealey urges a degree of caution. “Banks will try to sell you a solution that might initially seem very attractive, but closer inspection might reveal it to be one that could potentially lock the company into something unfavourable.” For this reason, she says treasurers need to be absolutely sure of what they are looking at. Of course, a good relationship bank should not be encouraging clients to take unsuitable products, but it is always advisable to talk to a few banks to compare and contrast offerings, at the very least to get a feel for pricing.

However, even this comes with a caveat. “If it’s a very large trade, you don’t want every bank to know about it; once the market gets wind of a large deal they will all be on to you at once,” warns Dealey. “I suggest consulting two or three at the most.” Furthermore, if the small selection of banks believe they have each given their client good advice they will all be expecting the trade. This may create an awkward balancing act for the treasurer in terms of share of wallet. “The most important thing is to make sure you have the best cover, whilst also being fair to your relationship banks” says Dealey. This may mean carving up the deal so the banks each have an opportunity to participate and the company gets the best price on each deal.

For a company with a regular hedging programme – an ongoing trade where an estimated cash flow is hedged, for example – if the treasurer has the luxury of not having to lock in to a single point in time, it may be possible to spread that hedge by a certain percentage per month, so it is not taking on market price risk at the locked in date. The actual percentage of a proportional hedge will depend on the exposure, the company’s appetite for risk and the certainty of the cash flow behind it, Dealey notes. It is also possible to mix and match the hedging instruments used for a certain exposure; it does not have to be the same product covering the downside, as long as it is covered according to policy and preferably doesn’t expire or lock-in at the wrong phase of the market (arguably difficult to predict).

## Keep it simple

Whilst the currency markets are used by many traders to create significant wealth, it is not the role of treasurer, as discussed above, to tackle the complexities that inevitably arise when seeking fortune. “There is a possibility that a company can get itself tied up in the hedging itself without fully understanding what is going on behind it,” warns Brenda Kelly, Chief Market Strategist, IG. “For a company not au fait with the currency markets, or if it is in any way uncertain about it, a simple forward contract would be the better way to start because it takes the surprise out of the hedging scenario.” Forwards are an easy instrument to understand and easy to handle from an accounting perspective. This view is shared by Gelis. “Keep it simple and try to use only products you fully understand,” he comments. Echoing Dealey’s comment above he adds that “some complex products look attractive but may hide risk; we know that banks are very good at marketing and will often try to sell products that are more profitable for them”.

However, in some cases it may be possible, notes Kelly, to use “natural hedges”. A company side-steps the potentially expensive and time-consuming derivatives market by using revenue it obtains in a particular foreign currency to offset expenses it incurs in that currency; this would be standard

practice in most jurisdictions where currency controls are in place and cash is effectively ‘trapped’.

Where there is clearly a higher degree of uncertainty about the current price of the currency, the length of time until settlement and the volatility of the market, Kelly believes it might be better to consider trading an ‘option’, which offers the choice but not the obligation to buy or sell at a particular point in time. A euro-sterling cross, for example, would clearly not attract the same level of volatility as an emerging market currency cross, she notes, so here it might be better to use a simple forward contract, only adopting an option strategy when it comes to emerging market trade.

Hedging an emerging market currency cross will always be a lot more expensive but in all cases Kelly advises the need to assess the value of the hedge. “The idea of hedging FX risk is to ward off any volatility in the market and to provide a clearer view of any costs that may be incurred in regards to an investment or trade,” she explains. “But sometimes it is not worthwhile hedging either where the level of underlying volatility does not warrant it, or where the costs can be so much more in terms of using a derivative compared with the cost associated with any volatility in the FX market.” There is no predefined use-case, she notes “so it is worth crunching the numbers to ascertain whether the hedge itself is undoing the profitability of what you are trying to hedge”.

## Accounting for hedges

Hedging can create accounting complexities which must also be understood. Where a supplier is selling in a currency that its buyer’s treasury is not comfortable with (and therefore feels the need to hedge that cost), if the supplier subsequently changes to a more amenable currency, the contract is effectively denominated in a foreign currency (known as a host contract) which creates an underlying exposure for the supplier. In such a case, Dealey says it is “absolutely essential” for the treasurer to know how the supplier intends to price in the new currency.

If the price is fixed, will the supplier be able to afford to sell at the new currency rate or would it damage the supply chain if the exchange rate moves too far in the wrong direction? Alternatively, if the supplier’s price changes according to a pre-defined trigger in the currency market place, somewhere in the contract there must be an embedded foreign currency derivative which will also be triggered. Under International Financial Reporting Standards (IFRS), this has to be separated from the host contract and be accounted for separately. The rules of hedge accounting are complex (see Treasury Today, Back to Basics, March 2014)

## No excitement needed

As long as a company has a good idea of what its currency exposures are, Schulz argues that it makes sense to hedge. “Even if the market seems benign it just needs something extraordinary to happen to upset the market. Hedging is really a matter of insuring against the unforeseen rather than trying to figure out what that event might look like.” Clearly playing the markets or fretting over missed opportunities helps no one. But sometimes, as both Dealey and Kelly note, hedging can cost more than it saves. Either way, the need for treasurers to work to an agreed company policy is essential, and making their predictable currency exposures “non-events” should be at the heart of every currency risk management decision. ■





## Spreading out: overlay cash pooling

*The umbrella structure of an overlay cash pool can offer corporates with internationally-diverse operations another dimension to their liquidity management. But it can be time-consuming to implement, and regulatory restrictions on banks could limit their incentive to provide the service. What do treasuries need to know about the arrangement?*

Keeping control of liquidity can be a massive challenge at a multinational corporation (MNC) with diverse entities and numerous bank accounts across countries and currencies. Overlay cash pooling is one way such companies can keep close control of their cash, while also deriving cost benefits. Recent advances in technology and multi-bank capabilities have been key growth drivers.

An overlay cash pool is the top layer of a cash pooling structure in which liquidity is concentrated. Liquidity and interest can be offset through this top layer, which operates as an umbrella-type structure above a network of underlying regional and local accounts or account pools, which can be with the same bank as

the overlay pool or with different, local banks. “The aim is to have one top-layer per group, and then under this you have a network of other structures. This serves as the treasury ‘cockpit’, allowing you to connect to any other accounts you like in the structure below, more or less anywhere around the globe,” says Paula Da Silva, Head of Working Capital Management at SEB.

The exact structure used depends on a corporate’s overall strategy, its treasury structure, its tax and legal structure, the accounting rules and policies in the jurisdictions in which it operates, and its business objectives – for example, whether it intends to concentrate its cash for investment purposes, or to

pay down debt. Overlay cash pools, just like regional cash pools, can take the form of zero- or target-balancing (where funds are physically moved to or from operating accounts in order to achieve a single net cash position in a centralised account), or notional pooling (where there is no physical movement of funds). Multi-bank overlay structures must be pooled on a physical basis, whereas single bank structures can be operated on a physical or notional basis. Funds from local currency accounts in the pool can be transferred to the overlay bank, and subsequently converted into a single currency using the bank's automated FX rate engine – this can save treasuries time and money in eliminating the need to carry out FX transactions on its positions. Alternatively, with multicurrency pools, cash remains in the original currency and is not physically moved; instead, the overlay bank notionally calculates all the balances in the pool in to a single base currency for the purposes of interest calculation.

Hybrid multi-bank overlay structures are also possible, whereby funds move from one bank to another, before participating in a notional structure. This eliminates the FX stage of the process, thus saving time and reducing costs. With multi-bank structures, transfers of cash can be made in two different ways: via a 'push', wherein the local bank pushes remaining balances up to the overlay bank; or via a 'pull', wherein the overlay bank executes the transaction to sweep from, or credit to, the local bank. Both the 'push' and 'pull' methods are usually executed at a pre-defined time every day.

However, overlay pooling, at least on a physical basis, differs from local and regional cash pooling in that the sweeping or funding of balances between the various local banks and the overlay-providing bank can sometimes require manual transfers, as a result of currency controls or jurisdiction controls, as is the case in Brazil, Russia and South Africa, for example. Overlay structures also carry the risk that the final end-of-day balance after the clearing cut-off may be missed. Furthermore, the transfer of back- and future-value days is not possible with overlay structures. Later on we will see some of the other challenges of the practice.

Hybrid multi-bank overlay structures are also possible, whereby funds move from one bank to another, before participating in a notional structure. This eliminates the FX stage of the process, thus saving time and reducing costs.

Despite these limitations, for corporates of a certain size and geographical diversity there are several key benefits of the method

## Interest optimisation

The principal advantage of overlay cash pooling is the visibility and control it provides to enable interest optimisation. As the structure allows corporates to use a single bank to draw down funds into a central location, the more efficient use of cash helps offset a corporate's liquidity positions, enabling it to then either enhance the interest a corporate receives or alternatively to reduce the cost of its debt.

In addition to this optimisation of interest, overlaying also helps a corporate mitigate some of the risks that come with having entity accounts spread across countries and currencies. "Overlay cash pooling is a powerful risk management tool. Treasuries can better manage currency and geographical risk, as well as their internal risk, by only allowing a controlled, identified group of people to manage liquidity across all entity accounts," explains Etienne Bernard, Head of Global Transaction Services Western Europe at RBS. It also provides greater visibility of a company's overall cash position, allowing it to more efficiently manage its FX positions and facilitate improved reporting and reconciliation of these positions.

From a more strategic perspective, overlay structures enable corporates to retain their autonomy of funds, as cash is channelled through a single top-level entity, such as with an in-house bank-type model. Furthermore, overlay structures can provide tax benefits to corporates, if the cash is concentrated in a tax-efficient location.

The structure can also help with a company's operating liquidity. "Overlay cash pooling can drive real efficiencies in terms of corporates' working capital," says Suzanne Janse van Rensburg, Regional Head of Liquidity and Investments, GTS EMEA at Bank of America Merrill Lynch. "It allows companies to segment their working capital from the excess balances to gain an enhanced yield."

From a more strategic perspective, overlay structures enable corporates to retain their autonomy of funds, as cash is channelled through a single top-level entity, such as with an in-house bank-type model. Furthermore, overlay structures can provide tax benefits to corporates, if the cash is concentrated in a tax-efficient location. Beyond these key benefits, overlay cash pooling can also reduce the time treasury staff need to manually intervene in the administrative handling of accounts. However, the inherent scale and scope of overlay arrangements can also present significant challenges to the treasurer.

## Overlay challenges

Complexities can arise from the geographical scope of the overlay – for example, differences in cut-off times, taxation and regulation between jurisdictions covered by the structure need to be considered. The structure can also lead to cash being trapped in countries where there are restrictions on the repatriation of cash.

In terms of regulation, corporates may find that as a result of Basel III, some banks could start cutting back somewhat on their overlay cash pooling offer.

"Basel III will impact the operational business of a lot of banks. As this regulation comes into play next year, we may start to see that some banks will step away from offering a global overlay without the underlying working capital business," says BAML's Janse van Rensburg.

“In an overlay structure where several banks are used for regional cash pooling and another bank is providing the overlay, the bank doing the global overlay would not be getting any of the benefit of the underlying fees business – and this would have an additional cost in terms of high quality liquid assets (HQLAs) required to be held against that piece of business by that bank. If the overlay bank has at least some of the regional operating business, its HQLA requirement would be 25%. However, with just the global overlay, the HQLA requirement is actually 40% – so it could potentially be more costly for a bank to provide a global overlay structure going forward in the Basel III world. Some banks may look to price that in, which could negate some of the benefit to a client of using the structure,” she explains.

“Overlay cash pool structures with physical movements can upset the management of local entities, if they don’t want to lose control of their credit balances. It can be quite a political thing for the treasury to implement.”

Marcus Hughes, Director of Business Development, Bottomline Technologies.

Company law in certain jurisdictions can also impact the use of overlay structures. Inter-company loans are forbidden or extremely complex in some countries, such as China, rendering zero-balancing overlay cash pooling virtually impossible, while some central banks impose balance sheet reporting requirements that do not allow companies to report offset onto their balance sheets.

The implementation of overlay structures can sometimes also lead to internal conflict within a company. “Overlay cash pool structures with physical movements can upset the management of local entities, if they don’t want to lose control of their credit balances. It can be quite a political thing for the treasury to implement,” says Marcus Hughes, Director of Business Development at Bottomline Technologies.

## Overlay cash pooling tips

Setting up a structure of this nature can take time – six months is not unusual in some treasuries. “Preparing the documentation for an overlay cash pool is time-consuming,” says Bottomline’s Hughes. “If a treasury’s thinking of embarking on a project like this, they’ve really got to be prepared to free up a significant amount of time and human resources. They’re going to have to select the banks to include in the pool, and decide on the technology – be it bank or non-bank technology.”

RBS’s Bernard says there are a number of key factors corporates should consider before implementing an overlay structure. Firstly the corporate should ensure the bank providing the overlay structure has a broad enough geographical scope to cover the countries and currencies in which the company’s entities operate. Secondly, the corporate should enquire what level of reporting and support the bank can offer the treasury, as well as whether the reporting can be integrated into its existing ERP systems.

And finally the corporate must decide which entities it would like to include in the overlay structure: some entities may carry such small residual balances that they do not warrant including in an overlay structure. “With some accounts, it’s just not worth it, because if the amounts moved are really low, the transfer fees could be greater than the net benefit,” says Bottomline Technologies’ Hughes; other entities may operate in a regulatory environment where it is impossible, or at least prohibitively complicated and costly, to participate in an overlay cash pool.

## Overlays in the future

Overlay cash pooling looks set to remain a fixture in the liquidity management setups of many corporates for some time to come. However, the structure may well evolve as the credit environment and the needs of corporates themselves change.

Bottomline Technologies’ Hughes believes that as liquidity becomes tighter and payments become increasingly real-time, banks’ charging structures on overlay cash pools could change radically. “In the future, as money can be moved faster, and as intra-day liquidity becomes more sought after, systems will be required to deal with the complexity of moving money between the accounts in a structure more quickly and calculating interest, not just overnight, but also intra-day,” he says. “At certain times of the day, particularly towards the end of the day, using money is going to become more expensive and is likely to be charged – by the hour, or even by the minute.”

Anna Maria Nyström, Head of Liquidity Products at SEB feels the structure could also be rolled out more efficiently to new territories as regulation evolves. “Overlay cash pooling structures will continue to be a very important feature for treasuries going forward, and the world is opening up and regulation is evolving, presenting new opportunities,” she says. “Bank solutions will have to support corporates in dealing with the time zone challenges in overlay structures to make sure that more of the world is covered in an efficient way. The services should then develop – we will see a greater number of currencies and geographies included in more advanced services as time goes by.”

She also believes the visibility offered by overlay solutions will become increasingly important. “Access to information and reporting through these solutions will be crucial – not only visualising balances, but also having more in-depth information during intra-day periods,” she explains.

But beyond being adapted for use in countries where they are not currently widespread, such as China, SEB’s da Silva says overlay arrangements could also be deployed for new types of cash flows.

“In the past overlay cash pools have typically only been used to channel traditional cash flows, especially in OECD countries. But we can do much more to include a wider range of activity in these structures. For instance, trade finance-based cash flows tend to stay outside overlay cash pool solutions – this is an area where we can look to create benefits for corporates in the future,” she says.

It now remains to be seen which path overlay structures will take. Will they be successfully expanded to new territories, and to new kinds of cash flows, such as trade finance? Or will regulation, such as Basel III, restrict the attractiveness to banks of offering the umbrella arrangement? ■





# Going the extra mile: Additional Optional Services

*Additional Optional Services (AOS) could help drive SEPA efficiency for corporates, and a host of additional services are being developed. But what exactly are AOS? And how are they likely to evolve in the coming years following the SEPA migration deadline?*

As the end of the grace period for the migration to SEPA looms, corporates that missed the February deadline are likely to be hard at work to ensure they are compliant come August. But even those for whom migration is now no longer a major concern may be asking themselves some questions: how can we derive greater value from the way we process payments in the SEPA environment? And what can our bank do to help us with this?

One potential answer is through Additional Optional Services (AOS). But what exactly are AOS and how are they implemented?

## Definitions

In the SEPA Credit Transfer (SCT) Rulebook, the European Payments Council (EPC) defines AOS as 'complementary

services based on the Scheme [SEPA] so as to meet further specific customer expectations,' provided by individual participants and communities of participants.

The EPC goes on to identify two types of AOS. The first are those services provided by banks to their customers as value-added services based on core payment schemes.

The second type of AOS are those provided by voluntary groups of banks; these communities can be local, national or pan-European. The EPC cites the use of additional data elements in the ISO 20022 XML standards (the International Organisation for Standardisation's standards for financial services messaging) as an example of this kind of AOS. The Council adds that any community usage rules for the use of the SEPA core mandatory

subset of the ISO 20022 XML standards should be mentioned in the context of this type of service, even though ‘they are not per se AOS.’ It also says other AOS, such as community-provided delivery channels for customers, may be defined.

In order to fully understand AOS, it helps to know a little of their backstory.

“It’s been a very challenging task over the last ten years for all of us, not just as banks but as a community, to agree on a common set of standards for SCTs and SDDs,” says Anupam Sinha, EMEA Head of Corporate Payments at Citi, and one of the two representatives of the UK banking community in the Euro Banking Association’s (EBA) discussion on the build-up to SDDs.

## AOS innovations

While there is a wide range of AOS available (and the list is growing all the time), the selection below gives some idea of how they can help corporates derive greater value from operating in the SEPA environment.

### COR1

COR1 is an AOS offered by a number of banks for corporates operating in Austria, Germany and Spain. It was created as a response to calls from some corporates that had previously used legacy direct debit processes with a D+1 clearing cycle time. When these companies transitioned to the standard SDD Core process (which has a longer clearing cycle), they faced disruption to their business. With COR1, these companies now have the previous benefits of the shorter DD submission deadline, while still being within the SEPA framework.

This AOS is particularly beneficial to corporates who operate on a cash on collection-type model, enabling them to clear up their credit line faster and better manage their working capital.

### AOS2

AOS2 is an AOS launched in Finland (one of the first countries to migrate to SCTs) related to payment remittance information. It allows corporates making SCTs to provide additional and more structured remittance information as part of the payment which then flows through the banking and payment network to the beneficiary.

This service helps corporates to further automate their reconciliation process, and has helped deal with the issue of missing or unstructured payment remittance information, which was an issue for the Finnish community before this SEPA AOS was developed.

### CAI

Change Account Information (CAI) is an AOS offered in France through which ordering parties of SCTs and SDDs are notified of any changes to the counterparty’s account information. France’s legacy clearing infrastructure provided a reasonably efficient way of informing users when counterparties had, for example, moved to another bank; under SEPA this method was no longer possible.

Subscribers to the CAI AOS who order payments to obsolete accounts receive a CAI file with both the original account information as well as the new account details in both the BIC and IBAN format. The service can help drive efficiencies in a corporate’s AP/AR process, by reducing the time spent chasing changed account information.

### SEDA

SEPA Electronic Data Alignment (SEDA) is an AOS offered to corporates operating in Italy, whereby corporates can electronically collect mandates from customers, often through a web portal. Electronic mandates were the norm under Italy’s legacy system, and this service allows Italian companies to continue this, rather than having to revert to paper mandates under SEPA, which could cause delays to payments in the country.

This service is especially beneficial to corporates operating in Italy with millions of customers who make regular payments – such as a utility.

### SEPAmail

SEPAmail is a multi-faceted project developed by a community of French banks, which allows banking-related information (such as invoices, money orders, and notifications) to be formatted and sent using a secure protocol. Interbank payment service platform STET was asked by SepaMail to be a technical contributor to the project.

The AOS is a means of exchanging information, such as from customer to bank and from bank to bank. This messaging channel facilitates a number of services, such as high-speed account number checking; and giving corporates the ability to send an invoice held in a virtual safe along with payment information within a single formatted message.

“We believe that SEPAmail, as a community-shared AOS, is a good answer to the market needs. It allows banks to deliver different services through a unique portal. It simplifies connection for their customers while offering them a simple management of day-to-day administrative tasks,” says Jean-Pic Berry, CEO at STET.

“Everybody wanted to have the features specific to their own country included as a part of SDD and SCT, because they were used to it and it was embedded in their country’s payment infrastructure. The challenge was to create the most efficient scheme possible to be run across the community of countries that would be a part of SEPA,” explains Sinha. “As a group of individual communities with the EPC and the EBA, we decided to look at the common services being offered to our customers as the lowest common denominator to achieve a basis for the core SCT and SDD schemes. It was recognised, however, that individual markets were also used to certain local operating flavours which were highly embedded in both the banking infrastructure and the corporate and consumer processes in those markets.”

Despite the innovative and value-adding services already being developed, there is significant scope for further AOS to help corporates in different areas of their payments processing.

Sinha says market participants wanted to keep these ‘local flavours’, and this is where the concept of AOS came into being. Each country’s community had to determine whether the core SCT and SDD schemes met the needs of their market participants or if an AOS should be developed. Once implemented, the services would then be offered as a closed user group to all the participants who wanted to be part of that particular service.

## AOS rules

There are certain restrictions on the provision of AOS.

The EPC sets out three principles on the offering of services in the SCT Rulebook:

- *All AOS must not compromise interoperability of the Scheme nor create barriers to competition.*  
The EPC says any complaints regarding this will be handled by the SEPA Management Committee.
- *AOS are part of the market space and should be established and evolve based on market needs.*  
The EPC has the right to incorporate commonly used AOS features into SEPA based on these market needs.
- *There should be transparency in relation to community AOS.*  
The EPC states that details of AOS relating to the use of data elements present in the ISO 20022 XML payment standards should be published on the internet in the local language and in English.

However, beyond these principles, there are no further mentions of AOS in the EPC’s rulebook. The Council says this is because the services are generally considered competitive offerings and are therefore outside its scope.

## More options

Despite the innovative and value-adding services already being developed, there is significant scope for further AOS to help corporates in different areas of their payments processing.

“We are going to see a slew of new services,” says STET’s Jean-Pic Berry. “We need to change the way the banking leg of payments is done, and this has been delayed more than necessary. The way we pay for services over the net needs to be overhauled. And there’s a dire need both in terms of invoicing, particularly the reconciliation between invoicing and payments – here there is a need for basic services that are not provided today. Then there are services related to mobile phones - why can’t these be used for payments more generally?”

He adds that an AOS that provides a consolidated view of banking operations over time could also deliver significant value to some corporates.

Most of the largest banks support a number of AOS. Indeed, it seems it would be unwise to neglect the corporate interest in the area. “If you don’t offer these services, there is a significant risk of losing business,” says Citi’s Sinha.

STET’s Berry believes the question is not which banks will offer services, but will they offer them in a coherent way? “There is a trend towards monopoly in banking, and therefore a need for common answers. There is a natural tendency to have solutions which are easy to transfer from one bank to another,” he comments. This, he believes, will be the key factor in the development of the bank provision of AOS in the near future.

Along with the expanded payment possibilities of SEPA, and the associated AOS, financial risks are also growing very rapidly. A cloud on the SEPA horizon is that it is potentially opening up a new threat that never really existed before.

“There used to be a time when only cards had any significant risk of fraud, when fraud on CTs or DDs was virtually unheard of. Now you’re going to see a much wider area of fraud, which is one of the consequences, unforeseen or at least unwanted, of SEPA. Frauds on SDDs will probably rise significantly, given that you can now order a payment from anywhere in Europe,” says STET’s Berry. But he believes the growing cloud of fraud could have a silver lining, in that a whole range of new services could be developed to address this burgeoning risk.

## AOS into the mainstream

Going forward, Citi’s Sinha would like to see the AOS which have a common applicability achieve a more centralised role within SEPA, so their benefits can be felt more widely.

“For many MNCs, the biggest attraction of SEPA was that they would move to a very harmonised and standardised infrastructure, processes and set of rules. For example, if you’ve got a particular way of handling mandates in Italy, or a particular cycle time in Germany, or a particular way of passing information in Finland, then country-specific AOS are not really providing you with a harmonised process across all the countries,” he says.

“As the adoption of AOS increases, we, as the banking community, along with the regulators, should look at how we can make at least the key AOS, which are adding a lot of value, something that is more a core part of the SEPA service, rather than just being left as an AOS, in a particular community. Over the next two to five years, as the market evolves and we embed SEPA into our processes, we’d like to see these AOS become more mainstream.”

If some of these services do indeed evolve from peripheral, complementary products and gain wider usage among the corporate community, many more companies could then benefit from the innovative solutions now being developed. ■





INSIGHT AND ANALYSIS

The thorny issue of corporate tax

Dealing with corporate tax can be a challenge for treasurers, particularly when the company operates in a range of different jurisdictions with diverse tax legislation. This article addresses what treasurers need to know and the pitfalls they need to avoid.



TECHNOLOGY

Treasury management systems

The right TMS can bring myriad benefits to the treasury department, including freeing up treasury staff from mundane administrative duties to focus on more value-added activities. We look at what systems are available and the key questions treasurers should ask before opting for a TMS.



CASH MANAGEMENT

Bringing cash home

Repatriating cash can be a tricky business for corporates, especially from countries where there are stringent regulatory restrictions on the practice. How can corporates bring cash home in an efficient way? And from which jurisdictions can this be particularly hard to carry out?

We always speak to a number of industry figures for background research on our articles. Among them this month:

**Ed Baldry**, CEO in EMEA, ICD Portal; **Etienne Bernard**, Head of Global Transaction Services Western Europe, RBS; **Jean-Pic Berry**, CEO, STET; **Rando Bruns**, Head of Group Treasury, Merck; **Chris Coulston**, Director, Tax, Deloitte; **Mireille Cuny**, Global Head of Liquidity and Investment Solutions, Société Générale; **Paula Da Silva**, Head of Working Capital Management, SEB; **Jo Dealey**, Interim Treasurer; **Philippe Gelis**, CEO, Kantox; **Andy Hawes**, Pensions and Treasury Analyst, Renold; **Marcus Hughes**, Director of Business Development, Bottomline Technologies; **Suzanne Janse van Rensburg**, Regional Head of Liquidity and Investments, GTS EMEA, Bank of America Merrill Lynch; **Michel Jansen**, CFO, Clondalkin; **Michal Kowski**, Head of Treasury, Gazprom Marketing & Trading; **Brenda Kelly**, Chief Market Strategist, IG; **Jani Kivikari**, Group Treasurer, OneMed; **Amador Malnero**, Global Head of Trade Receivable Purchase Programme, ING; **Christine McCarthy**, Executive Vice President, Corporate Real Estate, Alliances and Treasurer, The Walt Disney Company; **Leon Merkun**, Managing Director Transaction Services Solutions Group, ING; **David Morton**, Asia Head of Corporate Banking, HSBC; **Urs Müller-Ortolf**, Head of Finance and Controlling, ERCO; **Anna Maria Nyström**, Head of Liquidity Products, SEB; **Robert O'Donoghue**, Global Head of Working Capital Management, Transaction Services, ING; **Sandip Patil**, Asia Head of Liquidity Management, Citi; **Oliver Petersen**, Global Head of Supply Chain Finance, ING; **Jennifer Ramsey-Armorer**, Treasurer, BlackBerry; **Bea Rodriguez**, Head of Portfolio Management for Cash Management, Blackrock; **Guido Schulz**, Global Head of Strategic Management, AFEX; **Anupam Sinha**, EMEA Head of Corporate Payments, Citi; **Ciar Timon**, Senior Regional Treasury Manager, Honeywell; **Sander van Tol**, Partner, Zanders; **Andrew Ward**, Principle, Mercer Financial Strategy Group.

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