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September 2014

Running a tight ship

Operational risks, from fraud to human error to natural disasters, can be costly to a business. But as the technology and solutions available to help mitigate them become more sophisticated, many corporates remain unprepared. How can treasurers tackle this crucial area of risk management?

The Corporate View

Matt Cooper

Director of Treasury and Corporate Finance

Affinity Sutton

Women in Treasury

Jessica McDarren

Treasurer

L'Oréal UK

Treasury Practice
Re-engineering cash flows

Corporate Finance
Making your fixed-income debut

Risk Management
FX relationships: the human element

Bigger Picture
The introduction of the euro

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Beginning of the end of CNAV funds

After much prevaricating and political posturing, and with new commissioners making the decisions, the Securities and Exchange Commission (SEC) in the US has adopted new rules for regulating money market funds (MMFs) in a 3-2 vote.

Institutional prime MMFs in the US (including institutional municipal MMFs) will be required to maintain a floating net asset value (FNAV, also often referred to as variable net asset value, or VNAV) for sales and redemptions based on the current market value of the securities in their portfolios rounded to the fourth decimal place.

The requirement would result in the daily share prices of these MMFs fluctuating with changes in the market-based value of the funds' investments. The point is that the funds will no longer be allowed to use the special pricing and valuation conventions that currently permit them to maintain a constant share price of $1.00. Effectively this moves the funds from penny, or 1%, rounding, which allows minor fluctuations to be hidden to basis point, 1/100th of 1%, rounding.

Fund managers had hoped they would be able to continue to provide constant net asset value (CNAV) funds, providing there was a provision for liquidity fees and the funds were able to impose redemption gates (in other words, the ability to temporarily halt withdrawals) at times of stress. But the SEC has chosen to adopt these requirements in addition to, not instead of, the new VNAV rules outlined above.

So, consultation and debate are over. The new SEC rules are here. The rules have been adopted and will take effect after a two-year transition period.

Legislation being considered in Europe has been pushed back by the recent elections to the European Parliament. But the odds are now heavily stacked in favour of similar legislation being adopted in Europe. Expect to hear lots of talk about level playing fields and congruent regulation.

Wait and see

When polled, corporate treasurers say they like CNAV funds and will not use VNAV funds, but alternatives will be limited. Before dismissing the VNAV option, the wiser treasurer will investigate and understand the impact of the new legislation.

Corporates investing in the European-based funds can wait and see what the new EU economic and monetary affairs committee decides whilst keeping an eye on the bigger picture. Particularly important is the effect that the new Basel III rules will have on banks' appetite for short-term deposits.

Any new money fund legislation must be accompanied by realistic rules on tax and accounting treatment of VNAV funds. This is already happening in the US, with the Internal Revenue Service putting in place simplified tax accounting arrangements as part of the SEC's reforms.

Providing this happens as new legislation is adopted in Europe, corporates will find VNAV funds are an attractive short-term investment. They will educate their treasury committees and amend their treasury policies accordingly.

Our bet is that the MMF industry we know today will survive and may well, over time, see higher volumes than today. This may the beginning of the end of CNAV funds but it is also the beginning of VNAV funds becoming an investment in which corporates should and will invest.

'Short-Term Investments and Money Market Funds Handbook'

Read our new 'Short-Term Investments and Money Market Funds Handbook' to learn all about the new regulations and what the alternative investments are.

Ten things you must know about money funds

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Treasurer

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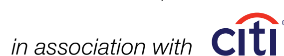

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Matt Cooper

Director of Treasury and Corporate Finance

Matt Cooper, Director of Treasury and Corporate Finance at Affinity Sutton, made the jump from accountancy to banking, before then working in the oil and gas sector. He is now calling upon his well-rounded financial skills to ensure one of the UK's oldest and largest non-profit distributing housing associations is fit for another 100 years of service to the community.

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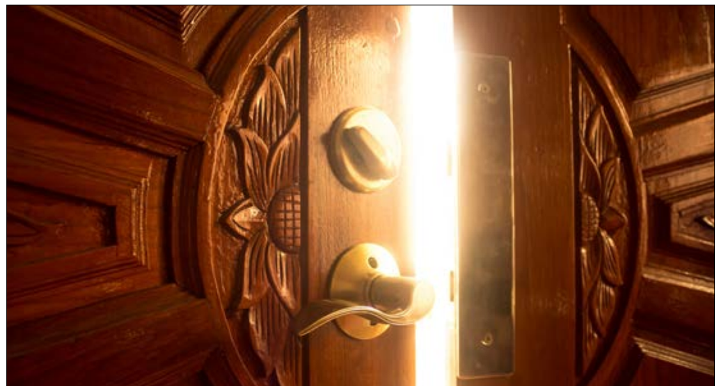
The introduction of the euro

When the euro was launched in 1999, it heralded a new currency for more than 300 million citizens in eurozone member states. Furthermore, it revolutionised the way businesses in the zone, not least their treasury departments, functioned. Beyond this, it paved the way for radical changes in payments processes, including the introduction of SEPA some 15 years later.



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 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

Man, know thy customer

Know your customer (KYC) processes have come increasingly under the spotlight in recent times.

As regulation designed to prevent money laundering and terrorist financing has put pressure on both banks (to collect and screen the information they get from clients) and corporates (to provide ever-more detailed documentation), both sides have been calling out for ways to reduce the burden on their businesses.

For example, under the Foreign Account Tax Compliance Act (FATCA) in the US, banks have a due diligence requirement to screen their clients.

For institutions who fall foul of regulation, the penalties (and the accompanying headlines) can be unpalatable. Earlier this year J.P. Morgan agreed to pay a record $2 billion settlement relating to its failure to act after suspicions were raised about Bernard Madoff's Ponzi scheme. And in 2012 HSBC was told to pay a fine of $1.9 billion to US authorities for money laundering-related offences in Mexico.

As a response to this burden, a number of providers have released KYC utilities to ease the strain on banks and corporates.

In August Thomson Reuters announced the activation of the secure web-based portal for its Accelus Org ID KYC service. The portal facilitates client on-boarding, and identity collection and verification in a secure environment. Thomson Reuters says it will increase efficiency for both financial institutions and their clients, in addition to reducing operating and remediation costs associated with KYC compliance.

"For many years the industry has envisioned a central registry where participants could source client information, to help them understand the identity of a particular firm," Anna Mazzone, Head of KYC at Thomson Reuters tells Treasury Today.

Where's my data?

Thomson Reuters' solution is intended to act as a neutral central clearing house, building identity records which can be used as a global-standard 'KYC passport'. The utility allows users to screen for money laundering risk characteristics, negative news and sanctions issues. Despite the utility's functionalities, Mazzone says the duty of knowing their clients remains firmly with the banks. "We are not taking the responsibility of KYC from banks. What we are doing is creating a service that gives them more in-depth information, allowing them to do more analysis around who the legal entity is," she says.

Real-time refresh

Mazzone says the utility is a direct response to what regulators are calling on banks to do. "Regulators want to see banks doing more real-time refresh. Corporates opening an account are not the problem – it's understanding the life of the client after opening the account that regulators want banks to be aware of," she says. She adds that using a shared solution is the best way to do this. "Banks realise that carrying out this process as individual institutions does not give them a competitive advantage. Institutions are therefore happy to come together and use a shared service where data is collected on their behalf, from their end-clients and then shared with the community of financial institutions the end client does business with."

The Accelus Org ID service is one of several KYC platforms that are either active or in development. SWIFT is currently developing a centralised KYC utility, while KYC Exchange has launched a KYC communications platform.

The fact that a number of providers consider it necessary to provide such services only goes to show that KYC is proving a headache for corporates and for banks. If the squeeze of regulation continues to impose costly and time-consuming requirements on participants at both ends, the use of these utilities could well increase in the future.

SEPA: already behind the times?

This time, thankfully, there was no extension. The final migration deadline for SEPA Direct Debits (SDD) and SEPA Credit Transfers (SCTs) came on 1st August and, as it passed, a political project that began way back at the turn of the millennium was finally put to bed.

Completing SEPA migration is undoubtedly a very real success for the European payments industry. Already corporates across the continent are looking at ways to leverage the pan-European payments area to their advantage through further standardisation of their transaction and operational processes, account rationalisation, considerations of 'on-behalf-of' account rationalisation,

on-behalf-of structures and in-house banking. But despite the obvious benefits SEPA has brought for businesses and consumers, there is a strong case to be made that technology has moved on in the decade it has taken for SEPA to become fully implemented.

Since then we have seen the arrival of the Faster Payments Service (FPS) in the UK, equivalents in Sweden and Switzerland, and more recently in Singapore, called FAST. The FAST initiative offers 24*7*365 near real-time payment and notification availability and this consumer-initiated requirement is steadily expanding globally with countries like Australia and Denmark in process of establishing real-time payments infrastructure in late 2014 and 2015. Add that to the new instruments – such as mobile and contactless payments – that are also beginning to establish themselves and SEPA already seems a little bit behind the times.

Vanessa Manning, Head of EMEA Payments and Cash Management at RBS is quick to acknowledge the significance of developments such as FPS. She believes that the time and technical investment by corporates in implementing SEPA has helped them to become "fluent" in the use of the global ISO20022 XML standard. Manning notes that this global standard will be key to future-proofing their treasury centre operations, given that it will be THE format in the next wave of European and global industry initiatives including e-invoicing, e-mandates and eBAM, to name but a few. What's more, bringing together faster payments capability with SEPA standardisation could yield results in the years ahead.

"The UK has certainly paved the way for immediate payments with its faster payments structure," says Manning. "And I think we could see an equal development across Europe in the next two to five years with a 'faster' SEPA". Making the most of the opportunities afforded by SEPA, Manning says, will be the next challenge for payments infrastructure in Europe and globally in the years ahead. "If we can capitalise on all the work that's already been done, it will certainly be to the benefit of both corporates and consumers," she adds. Indeed, it certainly would. Let's just hope it doesn't take another decade to get there.

New US MMF rules: good, bad, or just ugly?

The US Securities and Exchange Commission (SEC) has unveiled its latest amendments to the rules governing MMFs in the US. The aim of the reforms, which are widely seen as the most dramatic shake-up to MMF products since the 1970s, is to strike the difficult balance between reducing risk while keeping the instruments an attractive proposition for investors.

The big question corporate treasurers are likely to ask is how these changes will impact them as investors. And for the MMF industry in Europe, many are asking what effect the SEC's move will have on European regulators further down the line – after all, the European Commission is likely to unveil its own MMF regulation during the term of the new European Parliament in the next few months.

The reforms announced last week build on those adopted by the SEC in 2010 – these previous reforms looked to address the interest rate, credit, and liquidity risk of MMFs.

Some of the key features of the new reforms include the requirement of a floating (or variable) net asset value (VNAV) for institutional prime money market funds (although government MMFs and retail MMFs are exempt from the shift to VNAV structure), and the introduction of liquidity fees and redemption gates.

"What the SEC ultimately brought out isn't a huge surprise," says Jonathan Curry, Global CIO, Liquidity at HSBC Global Asset Management. "From the perspective of government and retail funds there are limited changes, but the changes for institutional prime funds are more fundamental and it will take time for those changes to be digested."

Impact on European regulation

The question investors and fund managers in Europe are asking is whether European regulators will follow the SEC's lead with its own reforms later this year.

"The new SEC ruling will of course be factored into the decision-making process in Europe when MEPs start to look at this issue again in September and as the European Council continues its deliberations," says HSBC Global Asset Management's Curry. "There are certain similarities between the SEC reforms and what the European Commission (EC) has proposed, such as the SEC's decision to require institutional prime funds to convert to a VNAV."

However, there are also some notable differences, adds Curry. "The EC doesn't make any distinction between Prime and Government funds, nor based on the type of investor. The SEC will also continue to allow the use of amortised cost accounting for assets with a 60-day or shorter maturity, whereas the European Commission has proposed that all assets within a floating NAV fund will be required to be marked-to-market."

Wait and see

In its research note on the SEC amendments, Moody's said that "it remains to be seen whether the European Commission will align itself with the changes to be implemented in the US, or whether the two regulatory regimes ultimately will differ substantially."

So it appears it could be a case of 'wait and see' as to how Europe will follow up with its own regulations. But having the SEC's reforms already in place will surely be of help to EC lawmakers when the time comes, allowing them to take guidance from their US counterparts and select the elements from their rules which best suit implementation in Europe.

Longer versions of these articles are available at treasurytoday.com/treasury-insights

This much I know

Jessica McDarren

Treasurer

L'ORÉAL
UK AND IRELAND

Do you feel that women respond differently to the needs of treasury?

I don't feel that there is a huge difference in the way that women and men respond to treasury issues. Different personalities do bring different skills and ideas to the role, though. That's why I think it is really important in business to have diversity within a team. In my experience having a good mix of backgrounds, experience and gender can often be the difference between a team being successful or not.

What is the biggest challenge you are facing right now as a corporate treasurer?

One of the biggest challenges for me in my role now is time. I naturally get very excited about new projects and initiatives and ideas. But there's only the same number of hours in every day, so I have to be realistic. Juggling multiple projects and responsibilities can be challenging, but it just comes down to knowing your priorities and good time management.

Is the business work progressing in the right direction in addressing the balance between professional and family life?

I think it is moving in the right direction. More than ever companies are thinking seriously about how they can support their employees achieve a good work-life balance. L'Oréal, for example, introduced a Work Smart initiative which gives employees great flexibility to manage their working hours. And that is to the benefit of companies as well, not just employees.

Often what companies find is that by offering employees greater flexibility around how they manage their working patterns with their personal life, they are helping them to be more effective.

It's also quite important to remember that, for women, the work-life balance is not always about commitments to their immediate family, but can also involve the wider family too, such as looking after elderly parents and other such responsibilities.

If there was one tool that could make you an even better treasurer, what would it be?

I wouldn't say that there is one specific tool out there that would change everything for us. But as a team we are constantly looking to improve the tools we are already using. That is one of the great things about L'Oréal: being in an environment where you actually have the opportunity to say how you want to see things develop and work on improving the processes and tools that you are using in the company.

"In my experience having a good mix of backgrounds, experience and gender can often be the difference between a team being successful or not."

ON THE WEB

To read all the interviews in this series go to treasurytoday.com/women-in-treasury

L'ORÉAL

It was complexity that first attracted Jessica to treasury. Having begun her career as an accountant for a small medium-sized enterprise (SME), Jessica landed her first corporate role in 2010 when she joined L'Oréal UK and Ireland to work as a commercial controller for its L'Oréal Paris brand. Her first venture into a corporate environment proved to be a very enjoyable experience, but after two years she began to yearn for a new challenge.

Treasury, with all its complexities, seemed ideal in that respect. "I wanted to improve my knowledge of the wider company and acquire a different perspective," she says. "So I decided that it was the perfect time to move into corporate finance – to get that exposure to the whole company and across all the different brands."

L'Oréal offered Jessica a new role in the company and soon she found herself leaving London and relocating to South Wales with her husband and two children to work at the group's finance shared service centre (SSC). With the responsibilities and reach of her new position in treasury Jessica now found herself exactly where she wanted to be – right at the heart of the business. But was she daunted by the relentless pace and complexity of the work? Not in the slightest. In fact, they are both elements of the job that she has strongly embraced. "What I love about working in treasury is that it's so fast paced and, even more, that I have the opportunity to work across all of our 29 brands," she says. "They all have different personalities and I like the variety that brings to what I do on a daily basis. That is what I really thrive on and enjoy."

Managing such a broad scope of responsibilities requires a great deal of self-belief, of course. The advice Jessica received when she began her treasury role served her well though. "I was told that the key to success in treasury is to listen to your instincts and, more importantly, having the confidence to act upon them," she says. "If you see a process that you feel could be improved don't hesitate, but work to improve it. Likewise, if you have a great idea, then suggest it." The culture at L'Oréal is, she says, very encouraging in that respect. "I think that is where I am fortunate to be working in the environment that I am. Our ethos here is that nothing is impossible and that means we do have an opportunity to try new things and move the department forward."

> "What I love about working in treasury is that it's so fast paced and, even more, that I have the opportunity to work across all of our 29 brands. They all have different personalities and I like the variety that brings to what I do on a daily basis. That is what I really thrive on and enjoy."

But what about the wider business? Does Jessica feel that treasury's voice is heard throughout the organisation? That is a vital part of her work, she explains. At a fundamental level if the treasurer is not communicating with other divisions within the organisation then everything from straight-through processing rates to the timing of cash flows can suffer. But she also believes that taking a pro-active approach and engaging with other areas of the business is about much more than that. It can also give treasurers a chance to really make a difference in the company. "I think that is where we can really add value," she says. "When you're connected with the business and you are working with the brands or divisions then you really have an opportunity to shape new processes and come up with ideas on how to improve things going forward."

That, perhaps, underscores Jessica's approach to the treasury role. "For me the one thing that is never going to change is change," she says. "In the business world you can either be a driver of change or you can be a passenger." Jessica, quite evidently, falls into the former category. ■

Jessica McDarren started her accounting career straight from secondary school when she joined a small Chartered Accounting firm in Ayrshire, Scotland as Trainee Accountant. She immediately realised that accountancy was to be her future. She moved on to larger organisations while continuing with her accountancy studies. In 2005 Jessica joined a rapidly growing digital media agency as Financial Controller. This was a part-time role as she now had a young toddler to care for as well as her CIMA studies to progress.

In March 2009 Jessica became a fully qualified CIMA member following four years of weekend and evening study and was promoted to the full-time role of Head of Finance. It was at this time that Jessica was awarded Young Accountant of the Year by Accountancy Age. The judges said "[she] made the role her own while showing great tenacity and determination to achieve many things at once".

In 2010 Jessica joined L'Oréal as Commercial Controller. After two and half successful years in this role Jessica decided to broaden her knowledge of the business and joined Corporate Finance as Treasurer for L'Oréal UK and Ireland. In August 2012 she re-located with her husband and two sons to South Wales.

Repurchase agreements

How popular have repurchase (repo) agreements been over the last 12 months amongst corporates? Also, are there any legal challenges that corporates looking to trade repurchase agreements should know about?

Olivier de Schaetzen, Director, Euroclear:

During the financial crisis corporates were exposed to high levels of risk from the banking sector which they perhaps were not fully aware of. Since then, corporates have been actively looking to reduce their exposures to banking/deposit risks, using novel methods to invest their cash balances. One such method which corporates have adopted that has become increasingly popular, especially with multinationals with large cash pools, is repo agreements. A repo agreement allows a corporate to move from the unsecured to the secured world when depositing cash with counterparties; through receiving securities collateral which mitigates the credit risk of the counterparty. This collateral can be liquidated by the cash giver in the event that the counterparty is unable to repay the loan.

For a corporate, the beauty of a repo agreement is that the 'risk-and-return' equation on their investment can be adjusted and set to match their internal investment policy. This is due to the corporates' ability to decide on the spectrum of assets, their quality and also what percentage of a haircut is required on lesser-quality collateral. For example, if a corporate wants to take minimum risk then they can request high-quality collateral, such as German Bunds. Conversely, if the corporate is looking to generate greater yield, it can broaden its universe of eligible collateral to include corporate bonds or equities.

Repos can also offer corporates operational benefits, particularly if they engage in triparty repos where a dedicated triparty agent like Euroclear Bank manages all of the operational burdens throughout the lifecycle of the repo agreement including margin management and collateral substitutions. Currently many corporates spread their deposits across many different banking partners as a way to mitigate the risk they pose. However, if a corporate enters the repo market and begins to deposit their cash on a secured basis, it can dramatically reduce the number of counterparties it has, reducing the number of relationship and the respective transactions. This can reduce operational work and also offer improved account management and oversight.

In addition to day-to-day cash pool deposits, the repo market is also used to support strategic corporate actions. For example, corporates who have acquired a large amount of cash to fund an investment or from the selling of business units are able to use the repo market as a way to deposit this cash on a secured basis. In doing so the corporate has the peace of mind that their money is secure while they wait to make the investment or decide how to reinvest the money in the event of a disposal.

Another benefit of the repo market, which has seen its popularity increase, is that corporates can use the collateral they receive from their reverse repo activity to create a pool of quality assets that can be tapped in order to cover their obligations for derivatives.

While the repo market can offer corporates many benefits, there are still a number of barriers which prevent wider entry. One such barrier is the challenge presented by the Global Master Repurchase Agreement (GMRA). While this agreement is referred to as an industry standard, lengthy negotiation with each individual counterparty can be needed in order to iron out the specifics within the agreement. Corporates with little knowledge of the secured financing world, legal capacity or expertise in the repo market can often find the process time consuming and off-putting. We are currently looking at the different ways in which the initiation process can be made simpler for corporates through a 'true' and simple industry standard derived from the GMRA in order to facilitate the entry of corporates into the repo market.

Another challenge for corporates entering the repo market is the levels of cash needed to participate. Because the banks are dealing with large amounts of cash on their side of the equation, corporates need to match these levels in order to become active trading counterparties. This is the primary reason why large multinationals are the most active corporates in the market and why it is often perceived as being closed off to smaller companies.

Stephen Beill, Director – Securities Finance, Citi:

Since the financial crisis we have seen a large growth in the use of repurchase agreements by corporates. Before the crisis many corporates were placing money with banks on an unsecured basis. However, the rating downgrades which many banks suffered during the crisis saw a reduction in the amount which corporates could place on an unsecured basis, due to their investment policies. Corporates therefore began looking towards alternative investments, including repo agreements; more precisely reverse repo agreements, as a method through which they could place cash with a bank on a secured basis.

A reverse repo is a secured investment, where the corporate places cash with a counterparty who in return puts up collateral to at least the value of the cash, thereby providing two layers of protection: first and

foremost to the counterpart; however should the counterpart default, the corporate takes ownership of the collateral which they can liquidate to retrieve cash back. The whole process is usually managed by a tri-party who ensures the collateral meets the criteria agreed at the outset of the trade and will margin daily to ensure the value of the collateral always meets the value of the cash plus any haircut agreed.

The return which corporates can achieve from a reverse-repo trade also adds to their popularity. This is driven by the type of collateral a corporate is prepared to take and the term of the trade. Surprisingly, returns to the corporate in investing their cash in a secured reverse repo trade can often exceed the return of an unsecured trade. This is because a reverse repo is essentially funding a bank's assets and for the bank this can be cheaper than seeking internal funding. Banks therefore may be willing to pay a premium for this cash, particularly if the corporate is prepared to enter into a termed trade. This often leaves corporates thinking that a reverse repo is "too good to be true", when really this is just another beauty of the product.

Despite all the positives which a reverse repo can offer to a corporate there can be significant barriers to entry which historically have proved off-putting. The most prominent of these is GMRA. Due to GMRA the corporate and the counterparty are faced with a lot of work and therefore the counterparty often is only prepared to enter into an agreement with a corporate if the terms of the likely trade meet certain criteria, such as adequate size and term. Repos have therefore historically been an investment tool only used by larger corporates with a significant amount of surplus cash.

Ultimately, I see corporate participation in the repo market continuing on its upward trajectory. The current uncertainty surrounding the Money Market Fund (MMF) industry reforms will be a driver, as will products which provide the corporate with quick and easy access to a very attractive investment alternative.

Richard Comotto, Senior Visiting Fellow, ICMA Centre at the University of Reading:

There is little or no quantitative data about corporate involvement in the repo market but there is talk about more corporates turning to repo in order to reduce their unsecured exposure to banks and other financial institutions. Such non-financial institutions would be most likely to access the repo market using tri-party services to relieve them of the necessity for setting up bespoke clearing, settlement and collateral management infrastructures.

There are also an increasing number of electronic repo B2C dealing systems being rolled out to attract both non-bank financial and non-financial investors. A number of banks have offered proprietary bilateral systems for several years to their customers, who can see or request price quotes from the dealer. But there are also more commercial multilateral systems connecting individual customers to panels of competing banks who are signed up to support the system by providing competing price quotes. Typically, a customer makes a request for quotes (RFQ) and banks on the panel respond (without seeing the quotes entered by competitors). The customer accepts the best quote or can negotiate. Traditionally, the main customers were non-bank financials. However, the newest systems incorporate a tri-party back end, which makes them more suited to non-financials.

There is little doubt that the provision of liquidity by traditional financial intermediaries is being made more expensive by a wave of new regulation being imposed on banks, particularly the Basel Leverage Ratio and Net Standing Funding Ratio (NSFR). Leverage ratio exposure must be measured without being offset by collateral. Also exposures cannot be reduced by netting against opposite trades possibly except where this happens through a central clearing counterparty (CCP). The NSFR penalises maturity mismatches between borrowing by banks and on-lending to non-banks, including corporates, by imposing quotas on term funding. Banks have already started to reduce the size of their repo books and there can be little doubt that this will make the repo market more expensive and less liquid as a source of both investing and funding (albeit less disadvantageous than the alternatives). There is much talk of new non-bank intermediaries entering the market to take up the slack but no sign as yet. It is more likely that the disintermediation of banks will have to await new technology which can match non-banks.

The principal legal challenges for corporates are threefold. Firstly, they need to ensure that they have the general capacity and authority to transact repo with their intended counterparties but also the particular type of repos that they plan to employ (eg tri-party repo). Secondly, prospective corporate users need to conduct the legal due diligence required to ensure that the master agreements they sign with their counterparties are legally robust. It needs to be remembered that the providers of tri-party repo services are only agents, so there is a direct legal relationship that needs to be documented between the non-financial user and its bank counterparty. Fortunately, the most widely used model contract, the ICMA's GMRA, provides a sound and well-tested foundation. Finally, corporate investors should check that, if the worst came to the worst and their counterparty defaulted, they would be allowed to accept the collateral onto their balance sheets before liquidating it (there are operational requirements here as well). ■

The next question:

"Now that the 1st August 2014 SEPA migration date has passed, does this signify the end of the migration process? What SEPA-related improvements should corporates now be working towards and what do non-EU companies need to think about?"

Please send your comments and responses to **qa@treasurytoday.com**

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Dark political clouds are gathering

Geopolitical risks hang over the markets. Thunder threatens and events could force the markets to protect themselves and take cover against the geopolitical downpour, as investors and businesses become aware of the implications of various risks.

Banks and other research houses increasingly agree with our assessment that geopolitics is becoming important. They caution that the markets do not pay enough attention to geopolitical risks. Deutsche Bank warned that the "markets are in general taking far too benign an approach to geopolitical risk." Other banks – for example, Nomura and BNP Paribas – are also focusing on the abyss between the geopolitical reality and the risks that the markets are pricing in (which are often mispriced to boot). The French bank wrote that it is "concerned that geopolitical risks are slowly but surely on the rise, and that markets have grown complacent about this over the years."

Hotbeds and minefields are concentrated in three regions: the Middle East and North Africa (MENA), Ukraine and Russia, and Asia. With reference to MENA, several experts have drawn parallels with the Thirty Years' War in Europe (1618-1648). Many states are weak and unable to control or secure their own territories. Meanwhile, a handful of relatively powerful nations with a clearly defined identity – including Iran, Saudi Arabia, and Turkey – are competing for primacy. At the same time, militias and terrorist organisations are multiplying and gaining ground, as borders crumble.

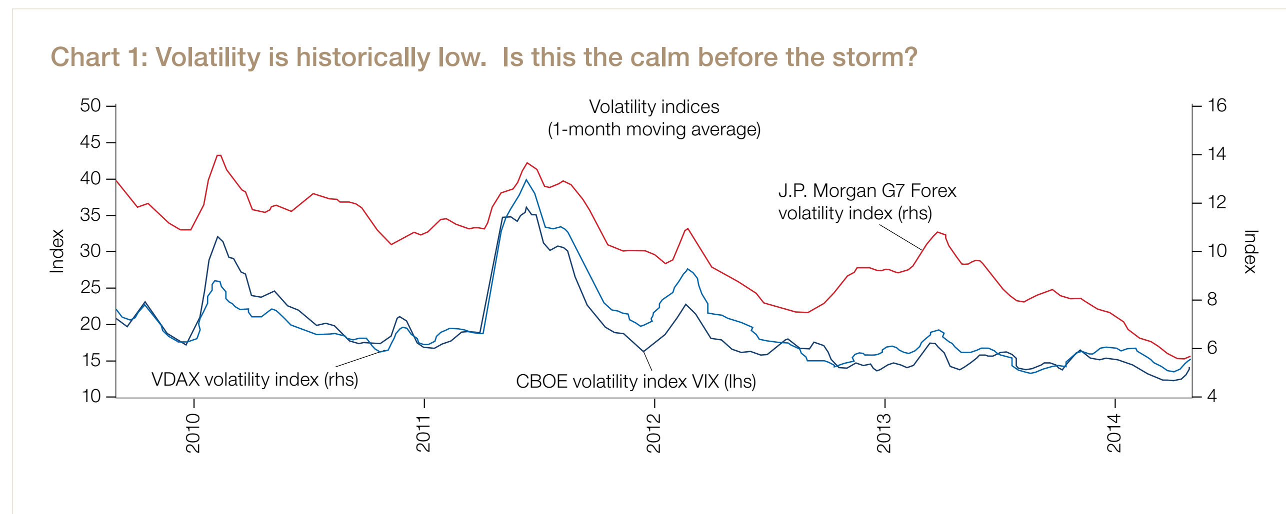
Age of Grievance

At first glance, there is no direct link between the Middle East and the Ukraine. Professor of National Security Strategy Michael J. Mazarr takes a different view. He refers to "the Age of Grievance". Many groups and communities that pose major security risks, feel displaced and alienated from the liberal international economic world order. Dissatisfaction, pain and fear can translate into violent action – partly to overcome burning humiliation and regain some pride. This motivates many jihadists but also the rebels in Ukraine. Of course, puppet masters like Putin are good at exploiting such emotions. At the same time, geopolitics is here to stay, as evident from the games that Putin plays.

This creates a dangerous brew of power politics, national interests, and feelings of disenfranchisement and resentment among large sections of the population. Especially relevant is that state borders are not always identical with the boundaries between nations.

The existing disaffection and insecurity are exacerbated by the excrescences of globalisation. The process has pulled the rug from under large groups of people who feel they have no legitimate channels to improve their situation. The sociologist Saskia Sassen speaks of global marginalisation. The root cause is that the interests of political elites and the business sector are increasingly entwined. Politicians see economic growth as the ultimate goal which can be achieved if they get into bed with the global business sector. They are often convinced that what is good for business is good for

Chart 1: Volatility is historically low. Is this the calm before the storm?



Source: Thomson Reuters Datastream/ECR

growth and thereby, implicitly, for the population at large. To some degree this may be true but, increasingly, the situation tends to be one-sided. One could speak of the denationalisation of nation-states.

Someone like Putin is a product of (and uses) the opportunities and changes brought by globalisation, the marginalisation of large groups, and the "Age of Grievance". He exalts Russia's past as a major (or even super) power and highlights the evil intentions of the West as he plays them off against Russia's traditions, patriotic and nationalistic tendencies, and search for a national identity. In addition, he is claiming the right to protect Russian speakers abroad. It is blatantly obvious that he interprets this "right" as he sees fit and is not afraid to stoke geopolitical tensions.

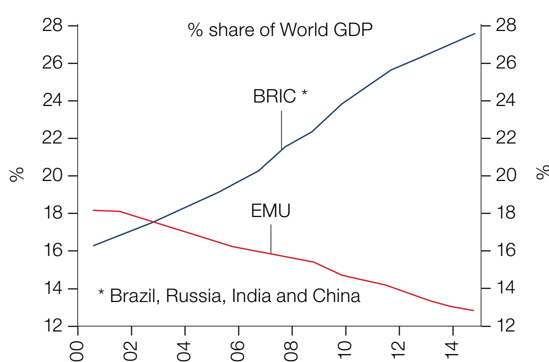
The geopolitical risks in Asia are less pressing but could have unsettling implications (the region contains four nuclear powers: China, India, Pakistan, and North Korea). The main risks are connected to old-fashioned power politics. The skirmishes between India and Pakistan are of an ongoing nature and there is always the possibility that the North Korean regime will implode or that it will lash out in petulant anger. However, these risks have existed for decades and the markets have learned to live with them. In the past years, the focus has shifted to Asia's territorial disputes, which involve countries such as Japan, South Korea, China, Malaysia, the Philippines, and Vietnam.

Geopolitical hydra

Geopolitical tension (and its effect on the financial markets) will likely increase rather than subside. To a large degree, the developments in MENA, Ukraine and Russia, and Asia are symptomatic of deep-seated and wide-ranging trends that cannot easily be reversed – global marginalisation, the "Age of Grievance", weakening nation states, and so on. In 1975, three renowned academics and advisers (operating under the moniker The Trilateral Commission) reported in "Crisis of Democracy" that citizens had ever-higher expectations of governments whereas the states themselves were less and less equipped to meet these expectations. Western governments, in particular, ignored the existing dangers. Security was no longer a priority and complacency was a real risk. They predicted that it would become harder to tackle social or economic problems and that people would lose confidence in the state.

It seems that the Trilateral Commission got it right all those years ago. Today, the West is weakening and the emerging powers are flexing their muscles. The BRICS are setting up a New Development Bank (NDB) as well as a fund to help countries in emergency situations. This Contingency Reserve Arrangement and the NDB are supposed to challenge the dominance of the World Bank and the IMF. However, the financial scope of the plans is relatively limited, while the BRICS have far more reasons to disagree than to concur. We

Chart 2: The balance of power between the West and the emerging economies is shifting; so much is clear



Source: Thomson Reuters Datastream/ECR

think the BRICS bank has yet to prove itself and that the impact is unlikely to live up to the hype. On the other hand, the balance of power between the West and the emerging economies is shifting; so much is clear. We seem to have arrived at some sort of "twilight zone". The West lacks the conviction, capabilities, and desire to bring the world "to heel". At the same time, it is unwilling to share power and influence with the emerging powers. In turn, the latter still lack the clout to overrule the rest should they so want. Theoretically, in a world without a broadly accepted police force or fire brigade, minor quarrels and smouldering fires can quickly grow into earth-shaking crises.

There does not seem to be an efficient method to fight the flames (instead of fanning them). Real solutions are few and far between. At best, it may be possible to manage the potential emergencies but effective geopolitical crisis managers are rare. In other words, this will be a hell of a job. Therefore we strongly recommend that the markets focus on geopolitical developments. Recently, a French magazine referred to the Somalisation of the world. This may be an exaggeration but we could do worse than heed the warning words of former US National Security Adviser Zbigniew Brezinski: "We are losing control of our ability at the highest levels of dealing with challenges that many of us recognise are fundamental to our well-being. And yet we cannot muster the forces or generate the leadership to deal with them….there is enormous turmoil and fragmentation and uncertainty – not a single central threat to everybody, but a lot of diversified threats to almost everybody."

It is high time that investors and businesses become aware of the implications of various geopolitical risks. Many fund managers have been saying that asset prices were priced for perfection. Therefore mounting geopolitical risks could be part of the multilayered trigger causing a new bear market. ■

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Running a tight ship

From fraud to human error and natural disasters, operational risks can hit corporates in a number of ways – and can prove very costly. As awareness of these risks increases, and the technology and solutions available to help mitigate them become more sophisticated, treasurers are increasingly well-equipped to tackle this crucial area of risk management.

Managing operational risk, or rather failing to manage it correctly, can be a costly business. Look no further than recent newspaper headlines for proof of that.

In January 2014, J.P. Morgan agreed to pay $2 billion in penalties to settle charges relating to its involvement in the Bernard Madoff Ponzi scheme. Some of the oversights in operational risk management highlighted by the US federal prosecutors' action against the bank were startling. In 2007, for example, the chief risk officer of J.P. Morgan's investment bank agreed to increase its exposure to the Madoff entity to $250m, despite the fact that Madoff refused any further due diligence of Madoff securities.

Last year Chinese securities brokerage Everbright Securities triggered an investigation of stock trading systems at all brokerages in the country after a glitch in its trading system caused it to mistakenly make RMB23.4 billion ($3.9 billion) of buy orders. This systems slip was the largest trading error in Chinese stock market history.

But it is not just financial services firms that are subject to operational risk – it is a huge concern for corporates, too. So what should treasurers be looking out for and how can they help the company to stay on top of its operational risk?

Disruption to business

To answer these questions, it is important to first define and classify operational risk. In broad terms, it is the risk of loss resulting from inadequate or failed internal processes, human behaviour, systems or from external events. Examples can include fraud, by employees or outsiders, human error, and audit risk – where auditors may not understand the specificities of a company as well as an insider. External events that pose risks to corporates include movements like the Arab Spring that started in 2010, banking crises, such as the one that took place in Cyprus in 2013, and environmental risks, such as extreme weather.

What all these causes of operational risk have in common is their outcome: disruption to the company's operations – which obviously carries the risk of financial loss. It can also create the less tangible risk of reputational damage. In some cases this may result in litigation from customers, suppliers or other stakeholders. Between 2009-2011, multiple recalls of Toyota cars over possible manufacturing faults were not only costly – forcing the Japanese carmaker to cut 750 jobs at its main UK factory – but also made a significant dent in the company's previously decent reputation for safety.

With the economic shocks of the last few years making commercial life tough enough, it's little surprise that corporates are intensifying their focus on operational risk and looking to plug any gaps. "Since the financial crisis, the majority of CFOs and treasurers have had greater responsibility for operational risk, which has led to more time and resources being devoted to its management. This is driving a need for greater automation through business-as-usual treasury processes, in order to give the treasurer the capacity to focus on these additional tasks. Operational risk needs to be dealt with in a long-term, strategic way – the best operational risk solutions balance efficiency with resiliency and sustainability," says Mike Edwards, Head of Client Solution Design, Global Transaction Services, Latin America at Bank of America Merrill Lynch.

One way for corporates to assess their ability to manage certain operational risks is through stress testing. This is where companies explore what-if scenarios and try to predict their impact on the business using computer-generated simulation models.

Other technology can also help. Straight through processing (STP), whereby capital market and payment transactions are carried out electronically using a one-touch system, is one option. "From a technology perspective, straight through processing really does help reduce operational risk, as it eliminates the need to constantly re-key information into lots of different systems," says Shen Lee, Senior Manager, Commodities specialist in Corporate Treasury Services at Deloitte.

STP reduces settlement risk, as well as allowing settlement and confirmation information to be drawn from the same source. It also reduces the risk of fraud. "There are various levels of authorisation on these systems that do not exist with traditional paper-based systems, with records of log in times and details of who is doing what. This obviously reduces the risk of fraud. If the systems are built in the right way, it creates the right segregation of duties that makes the whole process much more efficient – and it mitigates risk," adds Dino Nicolaides, Director, Head of Treasury Advisory Services in Banking and Capital Markets at Deloitte.

Despite the technology now available to help treasurers manage operational risk, oversights do still take place. "No specific infrastructure or system can be perfect, and there's always the risk of human error or something falling between the gaps," says Nicolaides. "But now a lot of big corporates are taking this very seriously. Operational risk management systems and infrastructure need to be revisited at regular intervals to make sure you identify, as the business changes and moves, how the infrastructure and the mitigating factors you have in place are adapted accordingly," he adds.

Regulation impacting operational risk management

- **SOX** – corporate governance failures at several large US multinationals in the late 1990s and early 2000s, notably Enron and WorldCom, drove the passing of the Sarbanes-Oxley (SOX) Act, which regulates internal controls and the transparency of financial reporting.
- **EU** framework – in the EU, listed companies are subject to a governance framework that is a combination of statute and 'soft law', a term that covers recommendations and corporate governance codes in member states.
- **Asia** – regulation around corporate governance and operational risk management varies from jurisdiction to jurisdiction. In China, for example, China SOX, or C-SOX, is the basic standard for enterprise internal control and has been adapted from US SOX.

A risky environment

Environmental risk is an area of operational risk that is becoming a much higher priority for corporate treasurers, particularly for those active in some Asian markets. We will therefore focus on environmental risk throughout the remainder of this article.

In a 2013 survey of weather-related risks in Japan, South Korea, China, Taiwan, Vietnam, Thailand, Indonesia and the Philippines, Munich Re said 45% of the major events in the 30-year period under consideration were floods. This was followed by storms (39%) and forest fires, heatwaves and droughts (16%). "There is no region of Eastern Asia that is immune to the threat of flooding," commented Peter Höppe, Head of Munich Re's Geo Risks Research unit, on the findings. The insurer said weather-related losses in the past three decades have caused losses of around $700 billion in Eastern Asia.

Eastern Asia weather events

- Japan – in 1991 Typhoon Mireille caused a loss of $10 billion. Thirteen years later, in 2004, Typhoon Songda led to a loss of $9 billion.
- South Korea – super Typhoon Maemi, which hit the country in 2003, caused a loss of $4.8 billion.
- China – flooding of the Yangtze and Songhua rivers in 1998 caused a loss of more than $30 billion.
- Taiwan – Typhoon Morakot in 2009 caused a loss of $3.4 billion.
- Thailand – the 2011 flood led to a loss of $43 billion.

Source: Munich Re

Environmental risk covers more than just weather-related events, although this is one of the biggest risks. There are two broad ways of looking at environmental risks. The first is the impact a company can have on the environment. This can potentially damage a company's reputation and may lead to fines or penalties being imposed on the company. In extreme cases it may even result in a corporate losing its social licence to operate in a certain territory. For example, oil and gas multinational BP is on course to pay over $7.8 billion in compensation payments as a result of the 2010 Deepwater Horizon disaster in the Gulf of Mexico.

There are also risks from the environment on a company. These risks include anything in the natural world – for example a loss of access to water, earthquakes or flooding – that could potentially affect corporate performance.

On the up

Awareness of environmental risks is coming to the fore for a number reasons. One is that companies are being forced to internalise more and more of the costs of their operations.

"Previously companies were allowed to pollute many parts of the world in which they operated relatively freely. However with rising concerns over the health impact, the social impact, and the environmental impact of pollution, we're seeing increasing regulatory stringency on the ability of companies to externalise those costs," says Dr James Allan, Head of Environment and Climate Change at risk analytics, research and strategic forecasting group Maplecroft. The externalisation of these costs can take the form of carbon policies or technical requirements for energy efficient equipment.

The international expansion of many companies into territories where they have no experience is also making the management of environmental risk more of a priority. "More and more businesses are now operating in parts of the world where there's a greater exposure to environmental risks that are relatively unrecognised. There's a real lack of understanding of the level of risk in certain locations – for example, of flood risks in some of the developing parts of China, South-East Asia or some of the other growth markets," adds Allan. In addition to this uncertainty, a large number of corporates also lack understanding of resource scarcity and its implications, which can impact their ability to function without business disruption in the long term.

Environmental risk is becoming more of a Board-level issue. Previously seen as a technical or engineering challenge, it is now increasingly considered a strategic one, which can pose a problem for directors who are not familiar with this kind of risk. "It's sometimes difficult for Boards to identify the environmental risks that they might be exposed to across their entire corporation, and to know what sort of information they might need, how they're going to process it, and how they can then make decisions based on the information they have been able to collect," comments Allan.

A strategic issue

The making of environmental risk a Boardroom issue has been driven in part by pressure from stakeholders, including regulators and shareholders, who want a clearer understanding of how corporates are assessing and responding to these risks. As a result there has been a trend towards greater disclosure of companies' environmental liabilities.

The management of environmental risk can be carried out using a three-step approach.

1. **Check vulnerability**. A company's vulnerability to environmental risks may be linked to its direct operations or embedded in its supply chain. The company can collect historical information on this vulnerability or information on the current risk exposure.

2. **Assess the risk**. Identifying the high-risk areas is the next step. This allows companies to develop approaches to mitigate the ones that pose the greatest danger to the business.
3. **Implement a strategy**. Once the responsibility for environmental risk has been assigned and awareness has been increased in the organisation, the company can start to manage the risk on an ongoing basis.

Financial risk transfer methods, such as weather derivatives, can prove an effective way of hedging against some environmental risks, particularly in emerging countries. The Chicago Mercantile Exchange (CME) lists more than 60 options and futures contracts on precipitation and temperature. The pricing of these derivatives is complicated by the fact that the asset underlying the contracts is not a saleable commodity itself. High yield catastrophe bonds, which pay out in the event of certain extreme weather events, such as hurricanes, are also available, though little used by corporates.

Technological advances have contributed to the monitoring of environmental risk. The Gravity Recovery and Climate Experiment (GRACE), carried out jointly by NASA and Deutsches Zentrum für Luft- und Raumfahrt (DLR, the German Aerospace Centre) is a case in point. GRACE satellites collect climate change data across the world, monitoring minute changes in groundwater levels. Information from GRACE is publicly available.

"Technologically there's been a real advancement in the information available and in the science underpinning it. In particular the information available on climate change is developing all the time," says Allan.

Climate change

Indeed, climate change looks set to become one of the biggest environmental risks to corporates in the near future. Statistics from Maplecroft suggest that by 2025, 31% of world economic output will come from countries that are considered a high or extreme climate change risk – that is 50% greater than the current output of such countries. Maplecroft publishes a climate change vulnerability index every year, ranking countries and cities according to their resilience to climate change risk. Companies operating in Asian growth economies in particular are set to face rising environmental risks over the coming decades, with Dhaka in Bangladesh, Mumbai and Kolkata in India, Manila in the Philippines, and Bangkok in Thailand ranked as the most at-risk cities in the 2014 ratings. Bangladesh was ranked as the most at-risk country.

The index is based not just on physical exposure to climate change, such as changes in temperature and precipitation, but also on vulnerability, including population sensitivity and the ability of countries to adapt to the impacts of climate change. "A lot of the growth markets are highly vulnerable to climate change, because they're more prone to extreme weather events than some western European and north American markets, but also because they sometimes lack the same level of socio-economic resiliency to manage those impacts," says Allan.

Though not in the top ten, Pakistan and Vietnam are considered at extreme risk to climate change, and Indonesia, Thailand, Kenya and China are considered at high risk. India was also highlighted in the 2014 study as vulnerable to climate change events. Maplecroft drew particular attention to Cyclone Phailin, which caused $4.15 billion of damage and wiped out key infrastructure in the country's key mining region.

Climate change vulnerability indexes

Countries

1. Bangladesh
2. Guinea-Bissau
3. Sierra Leone
4. Haiti
5. South Sudan
6. Nigeria
7. Democratic Republic of the Congo
8. Cambodia
9. The Philippines
10. Ethiopia

Cities

1. Dhaka (Bangladesh)
2. Mumbai (India)
3. Kolkata (India)
4. Manila (The Philippines)
5. Bangkok (Thailand)

Source: Maplecroft

The United States on the other hand, though still subject to natural risks, is considered less vulnerable. In the 2013 rankings, New York was ranked 41 out of 50 cities in terms of its vulnerability to environmental risk and was considered medium risk – Maplecroft cited the city's ability to cope with Superstorm Sandy in October 2012 as proof of this.

The Chinese cities of Shenzhen, Guangzhou, Dongguan and Foshan, the last three of which are located in the Pearl River Delta – the core of China's manufacturing heartland – are said to be among the most exposed to physical risks from extreme climate-related events in the 2014 rankings. The inclusion of these cities may well be of concern to companies that use China as a manufacturing base. London and Paris were the only cities considered as low risk in the 2014 rankings.

Environmental risk checklist

As environmental risk becomes more of a strategic issue, corporates need to size up the threats they face. Even those operating in territories considered relatively low risk could be up against what are sometimes called 'unknown unknowns'. To assess the risks, there are several steps corporates can take:

- Know the risk – what are the biggest threats? Which natural hazards and environmental risks could hit your region? These risks include floods, mudflows, droughts, mass movements, avalanches, forest fires, earthquakes and tsunamis, volcanoes, air pollution and water pollution.
- Know the solutions – this is often in the form of insurance. Derivatives can also be useful in hedging against certain weather risks, and in some extreme cases catastrophe bonds may be an option. Corporates can also speak to the national meteorological agency in their country and familiarise themselves with the latest data collection technology.
- Know the legislation – corporates also have obligations in terms of their impact on the environment. In China, for example, the Ministry of Environmental Protection (MEP) and the China Insurance Regulatory Commission (CIRC) require compulsory purchase of pollution liability insurance by companies with high environmental risks. ■

Making your bond debut

More and more companies are looking to the capital markets in order to fill the big bank-shaped hole in their funding plans. Tapping the capital markets for the first time is not without its challenges, but as the recent experience of one debut issuer shows us, make all the right calls, and you too might come away with record low-cost funding.

The face of corporate funding is changing. Companies have been keen to lock in long-term funding while borrowing rates remain low, and with bank finance retreating under mounting regulatory pressure, the bond markets have become an increasingly popular destination for corporates.

As a consequence, debut bond finance has been surging across all the markets. As of June this year, a total of 402 newly rated companies have made their first issue globally, close to a 10% increase on the 364 companies who debuted during the same period in 2013, according to figures supplied by Moody's (see Chart 1).

"Since the crisis the credit quality of corporates has improved massively," says Pascal Ba, Head of EMEA Corporate Debt Capital Markets at Bank of America Merrill Lynch (BofA Merrill). "Because of that, investors are more comfortable with this asset class at the moment and they are prepared to take the time to understand and invest in new names." What this means is that capital market skills are becoming increasingly important to treasurers, wherever they are in the world.

Irish airline Ryanair is one company to have recently taken advantage of the growing penchant for 'new names' amongst fixed-income investors. "We have a large capital expenditure programme coming over the next five years," explains Neil Sorahan, Finance Director at Ryanair. With commitments to buy 180 Boeing 737 aircraft in the years ahead the company sought access to financing that had 'deep pockets' and long tenor. They also wished to diversify their funding, having relied heavily in the past on secured financing. And, of course, they wanted to borrow cheaply.

"The debt capital markets, particularly in the current environment, gave us access to that," says Sorahan. In June, the budget airline made a debut €850m BBB+ rated bond

offering. The pricing the company secured, even in the context of ultra-low base rates, was excellent. In a sale that saw over €7 billion of orders, the coupon was fixed at just 1.875%, the cheapest BBB+ issuance in the market to date. Even still the bond was nearly eight times oversubscribed.

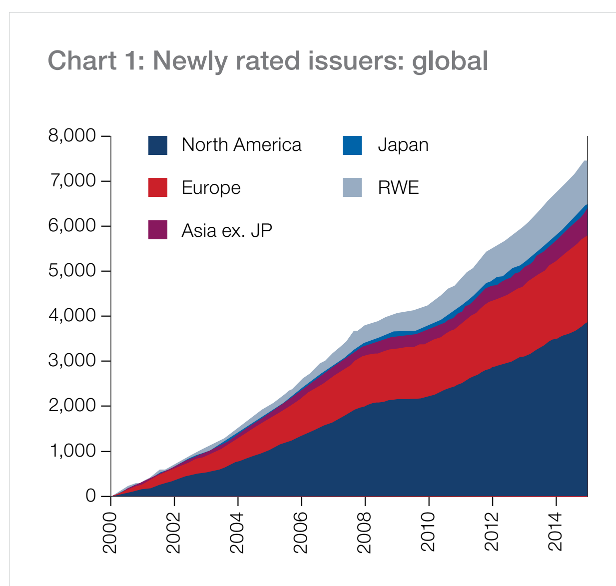
Tapping the capital markets is, of course, very different to raising equity finance or applying for a loan through a banking partner. For companies going through the process for the first time, understanding the particular nuances of the bond market quickly will be essential to get the best possible pricing on their credit. What then, have Ryanair's finance team learnt from their debut issue? And what tips do they and the banks that facilitate such deals have for others considering the capital markets for the first time?

Picking the right advisors

The first point is that it would be a mistake to underestimate the workload involved in tapping the capital markets. Corporate treasuries are rarely overstaffed, after all. It is perhaps just as well then that this is a very well-trodden path where treasurers should be able to quickly find the assistance they need to lighten the load.

"If you are giving advice to a corporate that is planning to go into the market for the first time, my first piece of advice would be to pick experienced bookrunners and appoint an independent adviser if needed," says Russell Maybury, Vice Chairman, UK Debt Capital Markets, RBS. The right advisory team will take a lot of the burden off the shoulders of the treasury, he notes. "They can assist you in every step of the issue, including the documentation, the investor memorandums, ratings advice and the roadshow."

Ryanair agree that picking the right advisors is important. In their case, Citi were appointed to help them through the ratings process and were joined later by BNP Paribas (BNP) and Deutsche Bank to be book runners for the issue. Although tasks such as preparing the legal documentation ultimately proved to be relatively straightforward, Sorahan says the advice the business received at each stage of the issue was valuable to them as a capital markets debutant.



Source: Moody's Ratings Service

"We had numerous calls on strategy with them (Citi, BNP and Deutsche Bank) throughout the process, discussing at each stage the best way to proceed, early pricing indications, and so on," says Sorahan.

Getting rated

There is near universal agreement on the fact that a credit rating is needed for companies to secure the best pricing and volumes on the capital markets. For Ryanair, who were unrated when they began considering a bond issue, this was evidently a top priority. The important thing for those in charge of the issue was not to get the highest rating; rather they wanted a stable one which they felt could be comfortably maintained. The investment-grade BBB+ rating they were ultimately awarded by S&P and Fitch Ratings – the highest of any airline in the world – seemed suitable in that respect.

"S&P awarded us an A- anchor," says John O'Flynn, Treasurer at Ryanair. That effectively means, he explains, that when you put the Ryanair model through S&P's grading system, they come out in the A category. In the end, they ended up one notch down O'Flynn believes that resisting the temptation to overstretch in search of the highest possible rating was the right move though, and would advise other debuting companies to follow the same practice.

Positioning your credit

Once the credit rating has been obtained the next job is deciding what form the issue will take. There are, of course, a multitude of different options for corporates across the global capital markets, and different maturities that can be targeted. Ryanair, for instance, had to choose between a euro medium-term note programme (MTN) or US-dollar or euro private placements. There is no universal answer to these questions: what makes sense for one business is typically a reflection of its particular circumstances and priorities. But these early considerations are, says Ba, going to be critical to the success of the issue. "The key is to be really well prepared in terms of ambitions," he says.

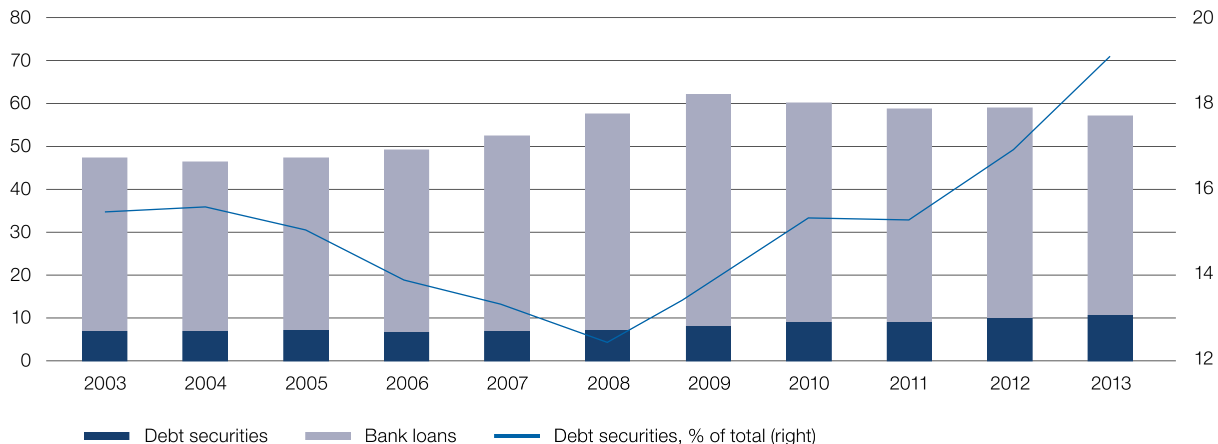
Companies that want to issue bonds need to have a clear view of what can and cannot be achieved. Having that awareness, it becomes much easier to position the marketing of the bonds. "I think one of the risks for a debut issuer is to be too focused on the pricing element and not enough on the credit position. When an investor buys credit, it's because the credit has been correctly positioned."

A lot of the new companies coming to the market are small, relative to other issuers, and it is going to be a challenge for them to issue on ten-year maturities. So they may find that a medium-term note (MTN) on the five-seven year part of the yield curve is the best option. "That is often the sweet spot for investors in that situation, unless they benefit from a solid investment grade rating," he notes. Which market to issue in, meanwhile, will often be determined by the geographical footprint of the business and which currencies it has revenues in.

In the case of Ryanair, whose revenues are all in euros and do not intend their financing to be a one-off, the decision to issue a euro denominated EMTN programme was an easy one." Now we have all the ratings work and documentation in place, it should be a relatively straightforward and quick process to reissue. That will allow us to take swift advantage of movements in the market when opportunities present themselves."

Chart 2: Funding mix shifts towards capital market instruments

Outstanding amounts with non-financial corporations in the euro area. Percentage GDP (left)



Source: ECB, Deutsce Bank Research

However, that is not to say the company will take the same approach when they return to the market in future. On the contrary, Sorahan says they are open to trying new things in the future. "We will look at all forms of suitable financing as we move forward," he says. "We will continue to look at the likes of the global bond in the United States and the private placements market. But for the size of the transaction we're looking for, the EMTN seemed like the ideal place to start."

On the road

"Don't fall into the trap of expecting that a fixed-income roadshow will be more or less the same as an equity roadshow," warns BofA Merrill's Ba. "They are very different."

The first thing those familiar with equity roadshows will notice is the obvious difference in priorities. To fixed-income investors, the growth trajectory of the business is but a secondary consideration. What these investors are really after, and what new issuers need to focus on, is to be convinced that the company will be able to meet its repayment commitments whatever happens.

It will be hard work. Ryanair's own campaign, for example, comprised more than 30 one-on-one meetings and group presentations in eight different European cities in just four days. But the roadshow should not be taken lightly by anybody, especially new issuers. Investors will, of course, be able to obtain public information indicating the financial health of a rated company, but they will not yet know the business on a deeper, personal level.

So the roadshow is the company's big chance to impress, and the presenting team would be well advised to go as prepared as possible. "We always encourage debut borrowers to practise their roadshow thoroughly before they go on the road," says RBS's Maybury. "It won't necessarily go wrong if you don't, but we do feel it gives you a better chance of success."

In the current environment there is little doubt around whether you will get your money or not. What is at stake, however, is the pricing. Sometimes a good performance on the road can make all the difference when it comes to grabbing the intention of prospective investors. "On some road shows you see that the issuer is doing a great job of winning over investors," says Maybury. "On the other hand, sometimes you feel that they aren't generating the same level of enthusiasm."

No time to lose

The last, but certainly not the least, thing for treasurers to note is to keep a watchful eye on market conditions. With experts agreeing that the favourable market conditions for corporate debt issuers are likely to continue through 2014, should a corporate considering a debt issue move now or wait for the market to move even further in their favour?

Most experts believe it would be unwise to delay. We saw last year how even a hint from the Federal Reserve of a reversal of accommodative monetary policy measures panicked markets and drove up yields on government, and by extension, corporate debt. With recent tensions in Crimea and ongoing conflicts in the Middle East, the geopolitical backdrop in 2014 is far from settled either. The longer a corporate waits, the more chance there is of an event producing a massive swing in government yields.

Until then though, conditions remain favourable, and corporates with the ability to tap the capital markets would be advised to continue taking advantage, even if the cash is not needed right now but somewhere further down the line. "I think we will continue to see more borrowers coming to the market. Investor appetite is very strong, and they are looking at opportunities they wouldn't have considered just a few years ago. Issuers can certainly feel very confident and, even if they have only a very small requirement, the bond market will be very keen to see them." ■

Money Market Fund reform: keeping your eye on the ball

As the regulatory authorities in the US announce potentially far-reaching reforms of the money market fund sector, their European counterparts are yet to unveil their intentions. Asset managers may be the key to optimising investments in a two-tier MMF industry.

It has been a long time coming for the US and it will be a while yet for Europe, but the full extent of money market fund (MMF) reform is slowly being realised. However, with the US having shown its hand and Europe still debating the issue, it may seem like a two-part play; either way reform is coming and investors need to understand what the changes mean to be able to make the most of them.

US MMF reform

On 23rd July 2014 reform of the US MMF market was announced. With three of the five appointed commissioners having voted for the proposed amendments to market regulation, the US Securities and Exchange Commission (SEC) requires the changes to be implemented within two years.

The most significant change is the way certain funds are valued; the model is now to be based on Variable Net Asset Value (VNAV) for prime and municipal MMFs held by institutional investors. This will require funds to be valued daily to the four decimal places. This creates a variable share price whereas before, in the Constant Net Asset Value (CNAV) model, funds targeted a stable price of $1 (or £1/€1). Retail funds will be able to continue using CNAV but will be subject to more stringent reporting of market movements. For all funds, the SEC is expecting greater diversification and is imposing enhanced stress-testing.

The other major change, as expected, is the requirement for institutional prime and municipal funds to have the ability to apply discretionary redemption gates and liquidity fees. Designed to protect investors in these funds and to help avert a market panic, these abilities can be levied by non-government MMFs. Although government funds are not mandatorily required to have this ability they can opt in.

In practice, a liquidity fee up to a maximum of 2% may be applied after consideration by the fund's Board only if weekly liquidity assets drop below 30% of that fund's total asset value. The fee effectively pays for the cost of liquidity during the period of stress. Additionally, if a fund's liquidity falls below 10% it can levy a 1% fee on all redemptions. Institutional funds also have the option at the 30% trigger-point to suspend redemptions altogether for up to ten days (the so-called redemption gate). "These mechanisms, in our view, are there to protect investors if the fund is subject to a period of stress," explains Jonathan Curry, Global Chief Investment Officer – Liquidity at HSBC Global Asset Management.

The reforms are the result of considerable industry-wide dialogue concerning the most appropriate way forward. Over the six months preceding the SEC's announcement, the volume of that dialogue naturally reduced as the five commissioners convened. Asset managers such as HSBC Global Asset Management kept the channels of communication open throughout this period, but now that the industry knows where it stands, Curry believes the time is right for professional asset managers to further engage with their clients "ensuring they have the understanding and the strategies to optimise investments under the new rules".

European activity

Meanwhile, Europe waits. The key constituents of the regulatory process here are the European Commission (which proposed the changes), the European Council, and the European Parliament. Each player is obliged to formalise its own view of the proposal. To date the only published view is that of the European Commission who drafted the proposed regulation.

In terms of progress, something of a hiatus was witnessed between early April and the end of June as the outgoing European Parliament had been unable to reach a conclusion regarding its position on MMF reform. Sensibly, rather than try to rush through a decision it decided to pass the mantle on to its successor parliament, as voted in by the populace on 22nd May 2014.

The new parliament is yet to commence its deliberations on MMF reform but progress is nonetheless being made, notes Curry. Membership of the Committee on Economic and Monetary Affairs (ECON) has already been agreed. This is an important step as ECON bears responsibility for MMF reform from a European Parliament perspective. This committee had previously seen a fairly balanced set of views with support for both the European Commission's key proposals and for an alternative approach to these key

proposals focused on the use of liquidity fees and redemption gates. The loss of certain key figures, including the Chair of the ECON, the rapporteur (the person appointed as the lead Member of the European Parliament [MEP] on the 'file' and the official report author) and three out of the four shadow rapporteurs (the persons appointed to assist the rapporteur) has led to a significant loss of knowledge of this file in the Parliament. The new cohort will need to get up to speed with the issues before making any pronouncements. The expectation, says Curry, is that the work will commence in earnest sometime in September 2014.

Discussion has recently got underway within the European Council which brings together the heads of state or government of every EU country. It requires input from representatives of all 28 member states; coming up with a united position on the proposal will take time as all stakeholders will seek to air their voice in the light of analysis by bodies such as the European Systemic Risk Board (ESRB) and the International Organisation of Securities Commissions (IOSCO).

The seemingly glacial movement of the overall debate means there is still a lot of work to be done by interested parties in this debate, notes Curry. With a new European Parliament now in situ there will need to be considerable engagement on behalf of the industry with the yet-to-be announced rapporteur and his or her shadows. "I can see the second half of this year being very busy for all those wishing to have their opinions heard," he comments.

The industry, through the Institutional Money Market Funds Association (IMMFA), has played its part, not just through its own representations but also by arranging events in Brussels, bringing investors, MEPs and attachés together so that interested parties on the regulatory side can hear directly the views and concerns of investors.

Once the proposals have been accepted there will be a transition period for all concerned. Whereas the US is allowing two years, the European Commission's proposal is for six months. "Our view is that this is significantly shorter than it needs to be for all parties," states Curry, suggesting that a minimum of 18 to 24 months may be required for migration. "It is unlikely we will see a conclusion before the first half of next year."

Getting ready

There are a number of similarities between the changes now set for the US market and those proposed for the European industry. The switch to VNAV for part of the US industry and rules around diversification and transparency are, for example, broadly in line with European Commission thinking. But major differences also exist. The SEC makes no provision for the use of capital buffers for funds whereas the EC is proposing a 3% buffer for funds not switching to VNAV. To date there are no plans in Europe for liquidity fees and redemption gates. And where amortised cost accounting for assets with maturities shorter than 60 days is permissible for US MMF investors, there will be no such cost accounting at all in Europe.

Regardless of similarities or differences, there does not appear to be any statement of intent by the regulatory bodies on either side of the Atlantic to align their respective approaches to MMF reform. However, Curry suggests that as the US has been the first to break cover, it will now give one side or other of the debate in Europe "some ammunition". Although convergence is unlikely, he believes that it would be "unhelpful" for the industry if the two sets of reform diverge substantially. "Obviously we need a situation where both regulatory bodies implement reforms that are necessary; we would not support consistency for consistency's sake. But we want the right reforms to be in place and if that only happens in one jurisdiction then that is preferable to consistency that is consistently wrong."

Corporate treasurers may currently feel under siege by regulatory reform; the asset management industry is sympathetic. "We know that there is only a certain amount of time that can be devoted to MMF reform, but we do encourage all investors to engage in the debate and to ensure their voice is heard," says Curry. "There are various forums that facilitate response but for these to have the most impact our investors, particularly Europe, need to raise their voice at the most opportune moments."

Asset managers will continue to play a vital role in delivering information and offering informed views on actual and proposed market changes. In this respect, HSBC Global Asset Management has a number of educational approaches including one-to-one sessions, group meetings, 'treasury breakfasts' and articles in the industry press. "We have a clear view on these reforms and we are sharing that with our investors," states Curry.

By encouraging investors to understand the impact of MMF reform, and by individually helping them to formulate the most appropriate response, key players such as HSBC Global Asset Management are offering a solid foundation upon which investment strategies can be built. Ultimately, with the protection that these reforms are designed to offer investors, they are also helping to deliver the industry safely into the next phase of its development.

Jonathan Curry is Global CIO for the Liquidity business and has been working in the industry since 1989. Prior to joining HSBC in 2010, Curry worked as Head of European Cash Management at Barclays Global Investors. He is Chairman of the Institutional Money Market Fund Association and a Board member since 2006, the industry association for AAA rated money market funds. He is also a member of the Bank of England's Money Market Liaison Group and a member of the European Banking Federation's STEP Committee.

The introduction of the euro

The launch of the euro in 1999 not only heralded a new currency for more than 300 million citizens in member states; it also transformed the way businesses in the zone operated. Furthermore, it paved the way for radical changes in payments, including the introduction of SEPA some 15 years later.

An important date for the world's financial markets and for tens of thousands of corporations, 1st January 1999 marked the launch of the euro, which became the currency of 300 million people in Europe. The single European currency had originally been set out in the provisions of the 1992 Maastricht Treaty, with European Union (EU) member states (or at least those who had not opted out of the single currency – namely Denmark, Sweden and the UK), both initial and subsequent, required to meet stringent membership criteria.

Eleven EU countries (Austria, Belgium, France, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain) had their currencies irrevocably fixed against each other in January 1999, with Greece, whose economy did not meet the initial convergence criteria, joining later in 2001. Since then, six further countries (Estonia, Cyprus, Latvia, Malta, Slovenia and Slovakia) have joined the euro, with 18 of the 28 EU member states now using the currency. Lithuania has been approved by the EU to join this list in January 2015.

Chart 1 opposite shows the current Eurozone member states with their fixed euro conversion rates.

Overseas departments, territories and islands which are part of euro area countries also use the currency as legal tender, while the micro-states of Andorra, Monaco, San Marino and Vatican City use the euro on the basis of a formal arrangement with the European Community. Montenegro and Kosovo also use the euro, although this is not based on a formal arrangement with the Community.

For the three years following its launch, the euro was an invisible currency – there was no physical cash, and the currency was used only for accounting purposes and electronic payments. Individuals and companies were able to convert their bank accounts to euro, or to open new euro accounts, during the three-year period following the launch of the currency. Then, in January 2002, banknotes and coins of the national currencies (these currencies ceased to be legal

tender in March of the same year), such as the Deutsche mark, French franc, and Italian lire, were switched for euro cash at the previously set fixed conversion rates.

Chart 1 – Fixed euro conversion rates

€	Currency
1	BEF 40.3399 (Belgian francs)
1	DEM 1.95583 (Deutsche mark)
1	EEK 15.6466 (Estonian kroon)
1	IEP 0.787564 (Irish pound)
1	GRD 340.750 (Greek drachmas)
1	ESP 166.386 (Spanish pesetas)
1	CYP 0.585274 (Cyprus pound)
1	FRF 6.55957 (French francs)
1	ITL 1936.27 (Italian lire)
1	LVL 0.702804 (Latvian lats)
1	LUF 40.3399 (Luxembourg francs)
1	MTL 0.429300 (Maltese lira)
1	NLG 2.20371 (Dutch guilders)
1	ATS 13.7603 (Austrian schillings)
1	PTE 200.482 (Portuguese escudos)
1	SIT 239.640 (Slovenian tolars)
1	SKK 30.1260 (Slovak koruna)
1	FIM 5.94573 (Finnish markkas)

Source: ECB

The first years of the major new system across Europe were challenging, not least because the changes were political in nature (as well as economic and treasury-related). The introduction of the euro touched the nationalist sentiments of populations – some of which were more willing to embrace the changes than others. In France, for example, there was only a slim majority in favour of joining the euro in a referendum. Despite this resistance, the apparatus was ultimately established, progressing to unity across the Eurozone. It is also important to bear in mind that once entered, there is no official mechanism to exit the system.

European Central Bank

Administration and management of the euro is handled by the European Central Bank (ECB), whose headquarters are in Frankfurt, Germany. The ECB is an independent central bank and it alone has the authority to set monetary policy (which includes the setting of interest rates) across the Eurozone; the ECB's stated aim of its monetary policy is to achieve currency price stability over the medium term. Before the introduction of the euro, this was handled by countries' own central banks.

The difficulty for the ECB is that the existence of a single monetary policy and a single market implies that almost all fields of economic policy are affected by European economic and monetary integration, notably budgetary and structural policy. In a speech made just after the launch of euro notes and coins in March 2002, the then-president of the ECB, Dr Willem F Duisenberg, said the ECB's challenges "are to maintain sound fiscal policies, foster efficiency in public expenditure and tax systems and improve the functioning of labour and product markets in order to enhance the euro area's growth potential."

The ECB is also responsible for the production and distribution of euro notes and coins to member states, operation of payment systems in the zone, and bulk transfers between members to ensure adequate supplies of the currency are available in each member state. However, the ECB has allocated each national central bank of the euro area a share of the total annual production of euro banknotes. In September 2002, the Bank established a cash stock for use in exceptional circumstances, called the Eurosystem Strategic Stock (ESS). This stock is intended to be used when logistical stocks in the Eurosystem are insufficient to cover an unexpected increase in the demand for banknotes or in the event of a sudden interruption in supply.

From a legal perspective, both the ECB and euro area countries' national central banks have the right to issue euro banknotes. In reality, only countries' national banks physically issue and withdraw euro banknotes and coins. Indeed, the ECB does not have a cash office and is not officially involved in cash operations. The legal issuers of euro coins are the euro area countries, with the European Commission coordinating all coin matters.

The ECB has overall responsibility for overseeing the activities of individual Eurozone member countries' national central banks and for initiating further harmonisation of cash services within the euro area, while the national banks have remained responsible for the functioning of their national cash-distribution systems. The national banks put euro banknotes and coins into circulation via the banking system as well as via retail trade. The ECB is unable to perform these operations on behalf of Eurozone countries as it does not have its own technical departments (such as distribution units, banknote processing units, or vaults).

Logistical challenges

The changeover to euro notes and coins was a significant logistical problem for the ECB, which carried out an advertising campaign throughout 2001 to improve knowledge and understanding of the process. The campaign focused on the features of the notes and coins, security issues, size denominations and overall changeover modalities.

Beyond raising awareness of the changeover, the introduction of the single European currency also led to a number of other problems:

- **Lack of legacy currency in lead-up to changeover.** With no more notes being printed nor coins minted, there was some concern over whether there would be enough notes and coins in the legacy currencies to last to the end of 2001. The Irish Republic, for example, reported shortages of the smallest denomination coins in 2001.
- **Lack of access to new currency.** This was a challenge at the beginning of 2001, and was a particular issue for retail outlets, which saw significant demand for small denomination notes and also coins.
- **Queuing in retail outlets.** A lack of familiarity with the new notes and coins led in a small number of cases to

significant queuing at certain retail outlets, with rail and other travellers being especially impacted.

- **Vending machines** had to be adapted or replaced to handle the new currency.

Impact on business

Many corporates also found euro implementation challenging. The initial hurdle for corporate treasury departments was handling the burden of foreign exchange management. Once their systems, policies and processes had been updated, they shifted their attention to cash management incorporating the new currency.

One key advantage of the euro to corporate treasury departments was that it further enhanced the benefits of cash pooling when carried out on a pan-European basis, thus increasing the value of centralised cash management. The majority of large multinational companies operating in Europe rationalised their European cash management structures once pooling in euro became possible. Some corporates, such as Siemens, changed their internal accounting systems over to euros early on (before 2002). Others also insisted that their suppliers invoice them in euro too. Despite the introduction of physical notes and coin being the final, and most visible, stage in the implementation of the single European currency, the actions of corporates to become euro-compliant at this stage made it clear that the euro already existed as a currency well before the actual cash arrived.

In addition to increased benefits of cash pooling under the euro, the single European currency offered a number of other wider advantages to the business community in the zone, such as:

- The marketing of goods and services across Europe became more transparent in that prices and competitors could be more easily compared. However, differing tax rates and other costs still mean that there are some price variations across boundaries.
- Currency settlements are now easier and more effective.
- Currency fluctuations have been eliminated across the participating countries and their interest rates aligned (as we have seen, monetary policy is set centrally by the ECB, based in Frankfurt).
- A larger and more liquid capital market has emerged for raising capital, or investing funds.
- Merger and acquisition activity across Europe has accelerated, and a more pan-European view of stock markets is generally taken, replacing the focus on countries' individual bourses. For example, following the launch of the euro, a FTSE Eurobloc 100 index was created, as was a FTSE Eurotop 100 and a wider 300 index.

Development and SEPA

Since its launch, the euro has gone on to become the world's second reserve currency, accounting for 24% of foreign exchange reserves held by central banks. However, it is still some way behind the USD as the reserve currency of choice, which represents 62% of global foreign exchange reserves. Of course this could all change in the long term if China's RMB continues its path towards internationalisation. The euro is also the world's second most-traded currency, again behind the USD.

One of the most significant initiatives to be implemented since the launch of the euro has been the Single Euro Payments Area (SEPA), a payments integration initiative which forms a step towards the completion of the EU internal market and monetary union. SEPA is supported and promoted by the European Payments Council (EPC), the decision-making and coordination body of the European banking industry in relation to payments. The Council develops the payment schemes and frameworks which help to realise SEPA.

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Following migration to SEPA Direct Debits (SDD) and SEPA Credit Transfers (SCTs) in August 2014 (which had been extended by six months over fears of unpreparedness in the corporate community), 34 countries, 500 million people and 87.5 billion electronic payment transactions annually will be covered by the scheme, according to the EPC. However, despite the benefits of payments harmonisation SEPA promises, some have questioned whether payments technology has moved on too far in the decade it has taken to implement the initiative.

Nevertheless, the euro has significantly changed the way corporate treasury functions operate and this will no doubt continue to evolve as new initiatives come into being. ■

Re-engineering cash flows

Hold-ups in company cash flows are a major concern for corporates in most industries. How can corporates streamline their flow of cash? What are the common culprits for delays? And what is the role of the treasurer in all this?

The next time one of your treasury peers tells you that managing cash flows are not a significant challenge for his or her company, there is a good chance they are either bending the truth or simply disconnected from reality.

According to research published by American Express Global Corporate Payments, 95% of businesses say cash flow continues to be a major priority in 2014. The same study found that 93% of businesses were experiencing delays in getting paid by their customers. Now, that's no minor issue.

That most corporates face an uphill battle in managing their cash flows is not news in itself. The interesting question is why do companies experience these difficulties – especially in the age of technology and automation? What is more, how can companies 're-engineer' their cash flows and transform their working capital position without starting completely from scratch, or interrupting day-to-day business?

Lifeblood of the company

The importance of cash flows to the long-term success of a company is clear. "Working capital management is a strategic topic for treasurers and is key to the success of a business because astute investors always analyse the cash flow generating capability of a company," says Joerg Wiemer, CEO at Treasury Intelligence Solutions (TIS). "Cash flow is a value driver. Generally the better the cash flow, the higher the company value and the share price will be. The credit ratings agencies place a clear emphasis on companies' ability to create cash flow, so there are huge benefits to speeding up the process," he says.

An analogy Wiemer uses is to look at cash flows as the lifeblood of a company. "Just as doctors measure the pulse and blood pressure of their patients as signs of life, so too should a company's cash flows give key signs as to the financial wellbeing of a company," he says. "Excess cash sitting in local subsidiary accounts is destroying shareholder value because this cash is not earning interest, or being used at headquarters to grow the business. Improving visibility over cash flows and balances is crucial to addressing this," he adds.

There are essentially three areas which combine to influence a company's working capital situation: How quickly it collects from customers, how quickly it is paying its suppliers, and what size its inventory is at any given time.

So far, so simple. But if it all comes down primarily to these three factors, why can it be such a headache for corporates? One reason is that payments from customers can be difficult to keep tabs on, especially in large companies with a widely spread customer base.

Cash flow problems

"The incoming side of cash flow is the crux as corporates often don't know exactly where, when, and how much cash actually comes in," says Tobias Schaad, Treasury Consultant at treasury advisory specialists Zanders. "And once the cash reaches the organisation, depending on the structure, it can be very decentralised."

James Waud, Head of Subsidiary Clients and Sales Performance, Global Transaction Services at RBS, concurs that large corporates with internationally dispersed operations are particularly prone to cash flow issues. "As companies expand into new markets, this can create currency risk, as well as a host of potential issues with trapped cash, cross-border transfers, tax and regulation, among others, all of which make cash more difficult to manage," he explains.

He goes on to say that acquisitions can also impact a company's cash flow. "This adds to the number of banks and bank accounts, which need to be integrated into the relevant ERP, TMS and banking platforms. Acquisition can also dig deeply into balance sheet cash which, in turn increases the need to determine where cash flow efficiencies exist internally, as opposed to resorting to external funding sources, particularly when you consider the yield advantage of 'self-funding'."

Beyond these factors, corporate culture can exacerbate cash flow problems. This is particularly the case when company policy prioritises achieving revenues over how and when cash flows come in. "Salespeople often have the wrong incentives (from a cash flow perspective)," says TIS's Wiemer. "Their compensation is linked to recurring revenues, but not to cash flows." While revenues are obviously a key indicator of financial health, cash flowing into the company should not be overlooked. For this reason Wiemer recommends that at least part of salesforce compensation should be linked to when the proceeds from a sale actually hit the company's account. However, it is also important to bear in mind that cash flow alone does not present a complete picture of profitability.

Re-engineering

So what else are corporates who are experiencing cash flow issues to do? A good place to start is by looking at the three components that have the largest impact on cash flow. Indicators such as days' sales outstanding (a measure of the average number of days that a company takes to collect revenues after a sale has been made), days' payable outstanding (a company's average payable period), and days' sales of inventory (a measure of how long it takes to turn inventory into

revenues) should be analysed over time and compared with peers. Often the 'collect fast, pay slow' maxim can make a big difference if made a part of a company's culture.

Many corporates find the payables side easier to influence. "In our business the focus on working capital is more likely to be on the payables side rather than receivables side, namely in delaying cash flows," one head of cash management at a MNC in the technology sector tells Treasury Today. "We expect it to be easier to be able to negotiate better payment terms with our suppliers."

Buyer-initiated payment solutions and expense management tools can both help corporates actively dictate the speed at which suppliers are paid, the latter with the added advantage of cutting overhead. This initial analysis can also sometimes show that cash flow issues are arising because working capital is simply blocked in inventory.

Seeking outside help

However, where do you go when there are no more cash flow gains to be squeezed out internally? A logical second step might be to seek assistance for your bank or banks. And indeed in many cases this can do the trick. A bank (or banks) lengthening its credit lines to a corporate to act as a buffer against the vagaries of late-paying customers can be of great help, for example. However, banks have become much less willing (some would say able) to extend the support they already have in place for corporate customers.

"A number of corporates we have spoken to, especially in manufacturing industries, that have traditionally relied on a line of unsecured credit from their banks over time, are now struggling to obtain additional bank credit," says Alan Gillies, Vice President of Sales at American Express Global Corporate Payments.

This is forcing them to seek alternative sources of cash flow. Beyond extending bank credit, there are a number of 'traditional' methods available to corporates to ease the strain of restricted cash flow on their business. These include supply chain finance, invoice discounting, and credit insurance.

These can indeed take on some of a company's cash flow risk, although each solution has its drawbacks.

Take invoice discounting, by which money is drawn against revenues before cash is received, for example. While it can be an effective solution for some companies, it can also lock those who use it into an awkward situation. "Invoice discounting can be like a drug for a company," warns TIS's Wiemer. "It may well bring significant benefits in terms of working capital optimisation in the first year, but to maintain this higher level a company has to keep using the technique. Once you stop using it, your working capital will suffer. Plus it comes at a cost." He says a better way is to analyse cash flows in a more

Cash forecasting: a checklist

The best way to improve cash forecasting, according to Treasury Alliance Group, is to evaluate the current process against five best practices of cash forecasting.

1. **Simplicity**
   A cash forecast requires two pieces of accurate information: the amount of cash on hand and the amount to be received net of expenses. Add the dimensions of time and currency; when will the cash be received, and in what currency and you have a reasonable and very effective cash forecast. When asking business units to forecast cash, keep it simple. Don't ask for a detailed weekly flow of funds report requiring forecasts of inter-company receipts/ payments, loans/investments and third-party receipts/payments.

2. **Cooperation**
   Good quality forecasting input is the primary determinant of a good quality forecast. And the quality of the input is in the hands of your business partners. Building trust is an important step in this process. If forecasting accuracy is used as a punitive tool by treasury, units will hedge forecasts and refrain from sharing key strategic insights, diluting their value.

3. **Communication**
   Forecasting in a global company adds the challenge of multiple currencies, language and culture. It is critical that all business units adopt common definitions in the cash forecasting process. Cash in bank ledgers and available cash are two different concepts, familiar to treasury associates but less familiar to accountants or others involved, so make sure everyone completing the forecasts understands and uses the same definitions.

4. **Structure**
   Cash forecasting problems arise when business units lose faith in central treasury's ability to respond to their urgent funding needs in a timely manner. They respond with excessive caution in forecasting receipts and even hold onto their own cash reserves, diluting the accuracy and value of the forecast. The solution is to have an efficient account structure serviced by a reliable network of banks. This can take time to develop but results in reduced administration, transaction and other costs.

5. **Technology**
   You can increase simplicity, cooperation and communication with the effective use of technology such as gathering forecast information through an intranet or file-sharing site. Using an intranet adds security and administrative efficiency as well. Work with your technology team to develop a form for collecting the forecast input. These are relatively simple to develop and the data gathered this way is typically stored in a database on one of your servers. This is a winning approach from a number of perspectives; it is consistent, enterprise-wide, secure and administratively efficient.

The best practices outlined above won't get you perfection but will give you a good start.

sustainable way and devote more time and effort to negotiating better payment terms with customers and suppliers.

He is equally wary of resorting to using credit insurance before considering alternatives. "If you manage a business you should know your customers and their credit profiles. If you are a strategic supplier to them, why should you buy credit insurance? Even in a difficult economic environment, the case for credit insurance is weak, although that depends on how it is priced."

Innovation

Other than the 'traditional' methods, there are also more innovative solutions to help re-engineer a company's cash flows. Card providers, for example, offer corporate cards that allow companies to insert a fixed number of days' cash flow benefit between them and their suppliers. "This kind of solution is becoming popular as working capital performance is on almost every finance director's scorecard," says American Express's Gillies.

In-house banks can also revolutionise a company's cash flows, by allowing corporates to make payments in-house, which is cheaper and faster than using external banking infrastructure. They can also help reduce operating costs and banking fees. Wiemer says in-house banks can play a crucial role in addressing cash flow issues. "The time that cash spends stuck in the banking system is painful for corporates as it isn't earning interest."

However, he adds that this solution should not be the first port of call for a company looking to improve its cash flows. "In-house banks are more of a fine-tuning measure – a second step to be taken only after a corporate has streamlined its payment processes and increased the visibility and control over its cash flows," he says.

Payments factories, whereby payments processes are centralised, are also becoming increasingly popular with corporates. Enhanced by virtual accounts, these structures can help with a company's cash turnover from the outset. Furthermore, the growth of payments factories is being driven partly by connectivity to the SWIFT financial messaging system and the implementation of the Single Euro Payments Area (SEPA). One drawback of the setup is that it can be complex and time-consuming to implement, however.

So it seems there are solutions – albeit somewhat cumbersome in some instances – to help corporates deal with their cash flow problems. But what is the role of the treasurer in all this?

The treasurer and cash flows

Whatever the solution, the treasurer should be at the heart of the discussion when a company looks to improve its cash flows.

"The role of the treasurer in optimising cash flows is absolutely critical," says RBS's Waud. "They have the ability to leverage a company's internal cash flows in an optimal way that leads to a reduced reliance on external sources, in particular the capital markets and bank debt."

Waud adds that the treasury department can use its contacts in the banking world to gain expertise. "In managing bank relationships, treasurers have a very powerful ability to call on the considerable cash management advisory services of their relationship banking providers to demonstrate where they see best practice solutions. It is vital to demonstrate that they are running a world-class treasury function and are benchmarking that, constantly reviewing efficiencies against the marketplace," he says.

Gillies agrees that the treasurer has an important role, but adds that collaboration with other departments is also crucial. "We are increasingly seeing that treasury, finance and procurement are coming together to decide how to influence goals from a working capital perspective," he says.

Moreover, technology can help in the battle to improve cash flows. "In the future there could be a huge trend to leverage cloud-based technology in re-engineering cash flows. Some of the tools available are easy to use and can generate transparency and solve cash flow problems. It has the potential to be a real disruptive innovation in the working capital space," says TIS's Wiemer.

"Nowadays there are big data analysis tools that can improve your ability to forecast when you are going to receive cash," says Zanders' Schaad. "Having access to better forecasting is an important step in streamlining cash flows." ■

A break with tradition

Matt Cooper
Director of Treasury and Corporate Finance

He moved deftly between accountancy and banking before heading off in the direction of the oil and gas sector. But now, in a rapidly changing commercial environment, Matt Cooper, Director of Treasury and Corporate Finance, Affinity Sutton, is calling upon his well-rounded financial skills to ensure one of the UK's oldest and largest non-profit distributing housing associations is fit for another 100 years of service to the community.

Affinity Sutton is a UK-based not-for-profit housing association. Established in 1900, it has become one of the largest providers of affordable housing in England, managing over 57,000 homes and properties in over 120 local authority areas. Its core purpose is building and managing homes for rental for those who are unable to afford full market rates. It also now aims to make home ownership more accessible through its shared ownership scheme. In 2012/2013 it reported a £305m turnover and from that a £60m surplus.

As anyone who has ever stepped up to a full-size snooker table will know, it requires an analytical approach, the ability to take the long-term view and a steady nerve to win. As a snooker enthusiast, Matt Cooper, Director of Treasury and Corporate Finance for the UK's largest not-for-profit housing association group, Affinity Sutton, recognises the expertise and dedication of the professional player. But whilst his call to join the pro-circuit remains as yet unanswered, he has certainly carved out a successful career in another field using the same skills demanded of snooker's most prolific winners.

From accountancy to banking to treasury, Cooper has consistently taken a broad view of commercial financial operations and progressively applied his accumulated knowledge and analytical skills in preparation for his next big break. In his current role with Affinity Sutton, a not-for-profit organisation that traces its roots back over 100 years, he has been part of the winning formula in very testing times. The funding for such organisations in the UK has changed considerably in the last few years, forcing all to exchange a model reliant on government grants for one that calls on private debt and enterprising activity. The winners will be those with commercially astute and experienced professionals at the helm.

The road to treasury

Leaving university armed with a degree in mathematics and a notion that 'business' was the right direction, in 1999 Cooper secured a place with PwC. Aiming to qualify as an accountant, he used the next three years to develop an understanding of how different businesses function and the kind of challenges they face. Having spent time with the firm's European securitisation group, he recalls that this was the area that really got him interested in longer-term funding and structured finance.

By now a Fellow of the Institute of Chartered Accountants of England and Wales, Cooper was conscious of his lack of direct corporate experience. Departing PwC in 2003 he joined Deutsche Bank's financial controller's office before moving to its front office team, providing clients with structured credit finance solutions. The role of Senior Treasury Manager at international investment firm, Old Mutual beckoned in 2008. Here Cooper felt he was able to blend the "external-facing and forward-looking" function of corporate funding with the precise and analytical work of the accountant. By 2010 he was on the move again, this time as Head of Treasury for Expro, a private-equity (PE) backed oil-field services company. This gave him responsibility for all treasury functions across multiple regions managing some £2.5 billion of debt. With cash lodged in many places around the world he implemented a successful cash-pooling programme. Time spent on the global stage with Expro came to end in 2012 as Cooper moved in a new direction, taking up his current position as Director of Treasury and Corporate Finance for Affinity Sutton.

Cooper's role here is, as his title indicates, a two-part affair. He oversees the Head of Treasury and two Treasury Analysts on one side, and the Head of Corporate Finance and a team of five analysts on the other. Corporate finance in this context is predominantly about investment appraisal, considering the assumptions, risks and values of new building schemes, and presenting findings to the board. On the treasury side the primary responsibility is for formulating and managing long-term funding strategy for the group – a strategy that is about as far removed as it is possible to be from the rapid-fire 'instant reaction' world of the oil and gas sector. Not that the housing sector stands still; it has seen many changes in the past few years, some of which have tested, and continue to test, the skill and judgement of Cooper's treasury and finance functions.

Funding shift

Even though Affinity Sutton has a large and low-cost bank facility in place, more of its longer-term major funding is now coming through the capital markets. The split of debt funding today is 33% capital markets and 67% bank with six major UK banks and building societies providing it with £1.66 billion ("long-term and very cheap") committed facilities.

However, banks are generally less comfortable now with the kind of long-term lending housing associations need. The good news is that investors in the fixed income space – institutional players such as pension funds and insurance companies – have been finding it harder to track down highly-rated long-term debt. This places Moody's Aa3-rated Affinity Sutton in a very good position to secure funding, although even this is not as straightforward a decision as it may seem.

"Our asset base is property so it makes sense to have long-dated funding, but part of the risk of bond issuance is that you are never quite sure of the timing of the issue," explains Cooper. "A bank loan is more flexible so we use revolving credit facilities from banks to help us manage that timing. As and when the bond markets are favourable we will issue and use the proceeds to repay the revolver so we are not sitting on mountains of cash."

In the current climate the need is to find a balance between the two by retaining a flexible approach. This has included consideration of alternative sources of funding such as US private placements and even the German Schuldschein market although the UK bond market has "delivered value" so far. Affinity Sutton issued a £250m bond in 2008 which, at the time, was the largest own-name issuance by a housing association and the first AA-rated bond from the sector. Since joining the company, Cooper has raised a further £400m through a second £250m 30-year bond issue – at 4.25% the cheapest that had ever been issued in the sector – and a mix of bank debt and project finance.

With all sources of funding, treasury conscientiously looks after existing relationships with banks, investors and ratings agencies. The relationship with investors – some of the largest institutional investors in the country – is particularly important. Affinity Sutton is committed to running 'non-deal' roadshows. Rather as it runs annual funders' days for its banks, the idea of the roadshow is just to meet and greet existing and potential investors, and to update them on company and sector progress. "We could do nothing and then come back in a few years' time to issue another bond, but I like to keep the relationships going," says Cooper. When the time is right to issue again "the investors know us so we don't have to start again explaining what we do".

Mind the gap

Until a few years ago, the cost of a housing development for Affinity Sutton was made up of 50% government grant, the remainder coming from long-dated bank funding. As part of the government's 'austerity measures', grants for housing association developments have been slashed. This effectively pushed up the cost of development and the rents had to rise to partially fill the gap as providers were forced to exchange a capital subsidy model for a revenue subsidy model. Rent revenue is derived throughout the life of the asset not in one payment so the gap still has to be funded. "We want to grow our business and the way we have managed that is by developing more build-for-sale properties, giving us a cross-subsidy for the social housing," explains Cooper. Debt now accounts for 59% of funding, with government grants providing 28%, but around 13% come from the sale of housing stock and built-for-sale properties, the latter often constructed in partnership with a commercial building firm and going straight onto the open market.

The group's surplus from built-for-sale subsidises its social housing function. Indeed, in his foreword for the 2012/2013 Annual Statement, Group Chairman and CEO, Neil Goulden, wrote that "every penny of this surplus is directly applied to investment in new and our existing homes, and for the benefit of our communities". The current focus of built-for-sale is on the super-heated London market. As part of his finance role, Cooper sits on the board of one of the group's current 'built-for-sale' joint ventures. "This really gets me close to the business so I can see where the money is going," he comments. But the team is aware that this market may slow down at any time and has been "de-risking" by selling some properties off-plan (eg before they are built). The number is limited, in case the market fails to cool.

Increased commercial activity means risk assessment of each new housing scheme involves "a lot of modelling and scenario-testing" by Cooper's team as the group tries to understand the impact of market changes on requirements. A negative report can see a project delayed or even cancelled and so has to be executed with precision. This places a lot of responsibility at the feet of finance and treasury.

The rise of the treasurer

When the heat is on, the professional treasury team can really come into its own and the rapid turn of events at the start of the financial crisis "thrust treasurers into the limelight", notes Cooper. The biggest impact for many was the sudden pressure on cost and availability of traditional sources of funding. "As treasurers we had to deal with that, demonstrating that we have the knowledge and the expertise to be able to add value to the business."

A deeper consideration of risk management, both internally and externally, has been much in evidence too. Some of Affinity Sutton's suppliers – particularly the builders – have been less well-placed to stave off the recession. This has meant rigid adherence to treasury's due diligence programme – one which it had in place "even before the financial world started to fall apart". Although it often uses performance bonds (guarantees against failure to meet obligations) as a risk mitigation tool, every new relationship established requires the corporate finance team to investigate and report to a sub-committee of the board to get approval for that deal.

It has never been lost on Affinity Sutton that banks could also be a source of counterparty risk. At the lowest point of the crisis it moved some of its cash into short-term gilts, purely for safety's sake, and even drew down on some of its facilities. As Cooper comments, "you never want to be in a position where you can't get your hands on the funds". Although now working with the main UK banks, his team remains aware of the risk, monitoring bank ratings, CDS spreads and market activities. "Generally, treasury is in a good position not just to provide the data but also to offer strong analytical skills. In fact, I think treasurers in general have done a good job promoting their skills."

With funding and risk management now central to the strategy of many firms Cooper feels there is a lot more focus on giving treasury a voice in the boardroom. He attributes a part of 'the rise of the treasurer' to the progressive "professionalisation" of the role. As a member of the Association of Corporate Treasurers in the UK, he firmly believes in the value of professional study and always encourages members of his teams who have not yet done so to take the exams. They're not only "very relevant to the job", but also lend a certain gravitas to the work of the treasurer. "It gives you a piece of paper that shows you know what you are doing and are serious about it."

The need for skilled treasury personnel holds true at all levels. Seniority can distance some people from the operational work but Cooper is not averse to rolling up his sleeves and digging in when required. However, he does feel that it is important to give junior employees the opportunity to shine. "As long as you give people guidance and support it's good to see what they can do. You can't do it all yourself because others will not learn and develop; it's a balancing act that depends on the different skills and experience within the team."

Getting IT

One way to enable treasury and finance staff to focus on adding value for the rest of the business rather than just processing work is through technology. On the treasury side, Excel is still a common currency, admits Cooper. "It works, but we spend a lot of time gathering data from various systems and putting it into reports. There is a balance to be found between having controls in place and driving efficiency, but if we can get a system that can automate most of the basic functions it will allow us to spend more time analysing and understanding data, rather than just producing it."

Given the increased responsibility of Cooper's team, it comes as no surprise that it is part of a group-wide effort to design, scope and plan the roll-out of an ERP system. The go-live date is yet to be confirmed but Cooper, who sits on the project team, is hoping for as much integration of treasury and finance with asset management and other core functionality as possible. This will, he believes, improve data extraction and put in place better controls across the whole business.

Building a future

With so many fundamental changes in such a short timeframe, major investor focus is now on how the group manages the social and commercial strands of the business. Commercial development has typically been managed through 50/50 joint ventures with other builders. It works because it spreads the risk and shares the knowledge base. But having quickly accumulated an understanding of the commercial sector, Affinity Sutton has created an in-house development team that functions alongside Cooper's treasury and finance specialists. This puts solo build-for-sale projects firmly on the agenda. Cooper is adamant that the group has not forgotten its roots; it has put in place a "Golden Rule" preventing sales exceeding 30% of overall turnover, a move which simultaneously safeguards the business against overexposure to the vagaries of the housing market.

As that market continues to evolve, so treasury has responded. In doing so it is demonstrating the knowledge and expertise of the team. The fact that Cooper has guided the operation successfully into the strong positon it holds today is indicative of the value of his broad-based approach to the role. Whilst the snooker pro-circuit is yet to come knocking – "and probably never will" – he has exploited a broadly similar skillset to build a career of note. In doing so, he has hopefully gone a long way towards setting up Affinity Sutton for the next 100 years of serving the community; surely the treasury equivalent of a maximum break. ■

Payments systems in the Middle East and Africa

The spread of real-time gross settlement systems across the Middle East and Africa is creating new opportunities for both corporates and consumers in the region. However, there remain countries where there is still room for improvement in their payments infrastructure.

The Middle East and Africa region is experiencing a rise in the sophistication of its payments systems. Indeed, a large number of countries in the region have moved to implement real-time gross settlement (RTGS) value systems, which function together as the backbone of the region's payments infrastructure.

A significant part of this transformation has taken place over the last decade, with the World Bank and several other multilateral agencies, such as the African development Bank, as well as a number of foreign consulting companies with clearing and payments system expertise acting as key drivers of this transformation.

South Africa has traditionally been one of the pioneers of advanced payments systems in Africa, while Saudi Arabia has been the forerunner in the Middle East; the UAE has also joined the payments infrastructure vanguard of late. In the Middle East, there remain relatively few countries that have not implemented RTGS systems. These include Syria and Yemen, which has received little foreign direct investment compared with neighbouring countries.

"The development of payments infrastructure goes beyond bulk clearing using RTGS systems, however. There is also increasing use of direct debit transfers, faster payments, and imaging clearing of cheques, which are all in various stages of development across the region," says Murali Subramanian, Head of Transaction Banking at Abu Dhabi Commercial Bank.

Cash is king

While the speed and ease by which money can be electronically transferred has improved, cash remains the predominant means of payment, and in some countries looks set to remain so for some time to come. "Cash continues to be significantly used in all the economies in the region, even in the countries that are successful RTGS adaptors," says Subramanian.

In Egypt, for example, cash accounts for around 93% of transactions. In the UAE and Saudi Arabia it represents around 80%. Despite the ongoing popularity of cash, cards are slowly making inroads. "Any future displacement of cash in favour of non-cash transactions will likely be driven by credit and debit cards," says Subramanian.

The scope for mobile payments to take off in the region is also great, given the enormous penetration of mobile phones in the Middle East and Africa. And mobile payment technology has already started to thrive in countries where the traditional branch banking infrastructure is subject to instability.

"Non-traditional technologies are being used in some countries to supplement deficient clearing system infrastructure. The popularity of M-Pesa in Kenya is a prime example of this," says Subramanian.

The M-Pesa mobile payments service, through which transactions such as value transfer remittances and domestic payments can be made, was launched in 2007 by mobile phone network operators in Kenya and Tanzania. Now more than half of all payments made in Kenya go through the system. Part of the reason for the service's success is that users are not required to have a bank account.

Impact on corporates

Subramanian says one effect of this payments evolution on corporates is they are starting to recognise and harness the value of physical cash.

"The ability to handle receipts and deliver cash is important. While corporates in the developed world do not emphasise cash handling capabilities or outsource it completely, this outsourcing capability is being developed differently here," he says.

For example, security companies like Group 4 have started to take on an entire end-to-end operation from collection to value in an account in the Middle East. In sub-Saharan African countries, where for infrastructural or regulatory reasons this might not be possible, outsourced collections could be the solution.

Subramanian says this payments evolution is also creating scope for the use of new technologies such as image-based cheque clearing. However, he warns that corporates should carefully examine the currency control regulations in a particular country in the region before establishing operations there. "In many countries this is not an issue, but in some – Egypt, for example – this can be a sticking point," he says.

Choosing a partner

Corporates looking for a banking partner in the region essentially have two choices: a global bank or a local bank. Global banks can offer the advantages of a multi-country presence, consistent standards of operation, a common point of reference, and uniform pricing, among others.

However, the global banks can have limited branch networks in some Middle East or African countries. "One branch per country is typically the model for global banks operating in the region," explains Subramanian.

The bigger economies in the region often have large banks operating at a standard more or less comparable to Western banks. "What many corporates operating in the region tend to do is keep a global overlay bank for their international cash pooling and basic treasury activities, while using a big local bank to do everything else they wish to do in-country, such as supplier financing, collections, reconciliations, employee services and cash collections," says Subramanian. "This can be the best of both worlds," he concludes.

FX relationships: the human element

There are no financial risks facing corporates greater than those of foreign exchange risks. Keeping risks associated with their FX exposures in check used to be a very time-consuming activity for the corporate treasurer. That was before the advent of the portal, however. Now, rather than picking up a phone to call its banking partners, treasurers can supposedly find the best price at the click of a button. But is that really the case? We asked corporates and their banks.

Just over a decade ago the future for multi-bank portals looked rather bleak. Substantial investments in the technology had been made, but industry take-up was nevertheless lagging. It appeared, for all intents and purposes, that the days of multi-bank portals were numbered.

Fast-forward to the present day and the picture is very different indeed. Those providers that managed to endure the difficult early years eventually found a way to be profitable. The limitations of the first, primitive offerings, such as the absence of straight through processing (STP), were eventually addressed and efficiency and convenience became two of the technology's biggest selling points. Not only did the multi-bank portal survive; it went on to become the most prevalent FX trading solution for corporates on the market.

That has not led to the demise of the single-dealer portal, though. On the contrary, banks have in fact been ramping up investment in their single-dealer offerings. Improving user experience, as well as fostering closer relationships, has been key to the strategy which, evidence suggests, is working.

Since 2009, US software company Streambase has conducted a yearly survey of technology trends in the foreign

exchange market. In this year's survey, which polled 147 professionals involved in trading FX on both the buy and sell sides, multi-bank platforms were found to be the most popular. Just over half (53%) of respondents stated that they use multi-dealer technology. Single-dealer platforms came higher in terms of user satisfaction, however, with a very substantial number of those surveyed (80%) stating that they believe prices on multi-dealer platforms could be improved.

Healthy competition

Although most of the respondents to the survey are from financial institutions that tend to prefer the more sophisticated single-dealer platforms, the results are still striking. After all, it is well known that price competitiveness is the reason a lot of non-financial corporates use multi-dealer platforms in the first place. For Mitsubishi's European subsidiary, which brought in its first portal around 12 years ago, that was and continues to be the case. "We chose a multi-dealer platform and one of the key reasons for that was to be confident that we were getting the best price on our trades," notes Gary Williams, General Treasury Manager at Mitsubishi Corporation Europe.

Treasury will still hop on the single-dealer platforms from time to time, he explains. However, given that the foreign exchange exposures are not enormous, those instances are, he says, few and far between. "If we were to deal something significant we would certainly use a single-dealer portal and talk to the bank direct. That's because showing everybody on the portal that you have a large deal on the cards can start to affect the price you receive. That's never a good idea."

The sentiment that the best price is only achieved through competition on a multi-bank platform is understandably still shared by a large number of treasurers, particularly those at companies that do not tend to find themselves making frequent large trades. "In general, single-dealer portals are not our preference because we want to make sure we get the best rate," says Dimitris Papathanasiou, Financial Risk Manager at Coca-Cola HBC AG. "We are aware that single-dealer portals have some benefits, but we don't feel it makes sense to only go to one bank," he explains.

"Some banks prefer to promote their own electronic platforms by providing better quotes there than the multi-bank platforms. But at least when you use a multi-dealer platform you are pushing the banks to compete with one another, so these dealers are losing our trades."

But like Mitsubishi's Williams, Papathanasiou is well aware that multi-bank has its limits. There are, for instance, certain instruments for which single-dealer platforms are better suited. Take options, for example, which he says are not yet available to him through his multi-dealer portal. "Right now most of the banks do not price options in the multi-dealer platform automatically. The process is a bit more manual – you have to go on to the platform and put in a request," he notes. "But we still get competitive pricing-even outside the platform – as I will never go to just one."

Most treasurers, like Williams and Papathanasiou, will often speak of price competitiveness first and foremost when the advantages of multi-dealer portals are discussed. However, there are a number of other benefits too. "I think they can offer the best price if that is what they are looking for," says Jodi Schenck, Managing Director of Global FX eSolutions at Citi. "We are constantly hearing from our clients that there are regulatory or internal compliance reasons why they need to get more than one price. But I would say that it is not always for the best price, it is for a multitude of reasons."

Best of both worlds

Evidently, even where there is a stated preference for multi-bank, treasuries still have uses for single-bank offerings. So although much of the debate around FX portals is framed in terms of 'it's one or the other', the reality is that most corporates still need both. "What does that say about single-bank portals?" asks Schenck. It tells us, she explains, that there are other services banks like Citi will provide their clients, which urge them to deal with them in other ways, besides a multi-dealer platform, such as through Citi's proprietary solution, CitiFX Pulse.

> "We are aware that single-dealer portals have some benefits, but we don't feel it makes sense to only go to one bank."
>
> Dimitris Papathanasiou, Financial Risk Manager, Coca-Cola HBC AG

That multi-bank portals are convenient and easy to use is beyond dispute, she adds. But there are certain types of flows where people can get the transparency of pricing and a more efficient means of execution by using a single-dealer platform. Then there are all the additional services that come as part-and-parcel of the package. "We are not going to move away from sales people giving one-on-one colour about what is happening in a particular market," says Schenck. "Through using our portal they have access to our economists, to our technologists, our risk advisory group, our algorithms and our benchmark execution. So there are multiple ways to get better execution when they are not just looking to get the best price."

Like Citi, Société Générale does not see any reason why clients must necessarily choose between the two types of FX portal. In fact, the bank is quite emphatic about the neutrality of its stance on the FX portals debate. Although there is some preference amongst non-financial corporates for multi-dealer portals there are still some in the sector that prefer a single-dealer environment, and an even greater number who use both. That's why the bank, despite launching its own proprietary portal, Alpha FX, in 2009, has continued to focus on improving the offering for those that trade with them from a multi-dealer portal; rolling out functionalities, such as FX options, that some banks reserve for their single-dealer portals.

"For us the most important thing is to be relevant to our clients, however they want to trade. Whatever platform they use we say we will be there on the other side," says Stephane Malrait, Global Head of FIC eCommerce, Société Générale Corporate and Investment Banking. Pascale Moreau, Managing Director, Co-Global Head of Sales, Fixed Income, Credit and Currencies at Société Générale Corporate and Investment Banking adds, "we realised that was what we needed to do to effectively support our clients. We needed to be better on a multi-dealer platform as well as developing our single-dealer offering."

This seems like a sensible strategy. Everyone has their preferences, after all, so why push treasurers to deal in an environment they are unfamiliar with or have reservations about, for whatever reason? "An ex-trader who moves across to the buy-side is going to be used to single-dealer portals, and will probably want to stay in that environment," says Malrait. Equally, a client who is used to trading on a multi-dealer platform will also be reluctant to change. "Even if you tell them the price is better, they already have their back office processes. So we find that it is usually quite difficult to move a client from one category to the other."

> "I guess we don't pick up the phone and have those traditional conversations quite so much anymore."
>
> Dimitris Papathanasiou, Financial Risk Manager, Coca-Cola HBC AG

Whatever one thinks about the pricing of deals made on single-dealer versus multi-dealer platforms, there are certainly other factors for corporates to weigh up when sending out an RFQ, as Moreau is keen to point out. "Of course, corporates value best-execution," she says. "I think price is a very important component of that, but it is not the only consideration. Sometimes it is about picking the right counterparty to the trade, and that might be determined by the relationship you have with the bank, the research and advisory services that is provided, and so on." The question is to what extent is that relationship influenced by portal choice? Do corporates loyal to multi-bank portals feel their FX relationships have changed as a result of their choice? And does trading near-exclusively on multi-dealer portals diminish their access to such research and advisory services?

Staying in touch

"I think the relationship has changed," says Coca-Cola's Papathanasiou. It is not necessarily the case that bank relationships have become less important to himself and his team though, it's more that modern technology has enabled them to communicate a lot more efficiently than they were doing previously, he rationalises. "I guess we don't pick up the phone and have those traditional conversations quite so much anymore" he concedes. "But we try to be close to the market as much as possible so we do still have discussions from time-to-time. The difference is that these days the interaction through the phone is not every day and sometimes those discussions are conducted on a computer, using Instant Bloomberg (IB), for example."

It is a similar story at Mitsubishi Europe's treasury. "I think those relationships are still important but I would say that they have been scaled down somewhat," says Williams. "Out of the panel of banks we have on our portal, we maintain close relationships with two or three of them." That is beneficial in a number of ways, he adds. For one thing, it helps them to handle the one-offs – there could, for example, be an order that Williams is not necessarily confident of executing through the platform. In that instance, he would go to the bank directly, as he would to gain access to research or to attend to the convertibility issues sometimes encountered when dealing with certain esoteric currencies.

Even many of the multi-dealer portals themselves acknowledge that good banking relationships are a crucial factor in fulfilling certain trading objectives, including tighter, faster pricing. It doesn't mean the treasurer has to be on single-dealer portal to maintain those close relationships, they point out.

In fact, some savvy treasurers might want to use both in conjunction with one another when the circumstances call for it, Jim Kwiatkowski, Global Head of Transaction Sales for Thomson Reuters tells Treasury Today. "Some will be using multibank platforms to facilitate straight through processing of trades which have been executed on the phone collaboratively with their bank salesperson," he notes. "While corporations maintain banking relationships for a variety of reasons, multiple bank counterparties can assist the treasurer in accessing liquidity to execute a particular trade. Some banks may be better able to accommodate a particular currency, size or time of day to meet the needs of the treasurer."

> "Of course, corporates value best-execution. I think price is a very important component of that, but it is not the only consideration."
>
> Pascale Moreau, Managing Director, Co-Global Head of Sales, Fixed Income, Credit and Currencies, Société Générale Corporate and Investment Banking

The right tools for the job

Ultimately, then, there is room in the market for both single and multi-dealer FX solutions. However, one final piece of advice for treasurers, whatever FX solutions they use, would be to think regularly about exactly what they want to achieve with their FX trading – from lower transaction costs to faster execution, for example – and whether the technology they are using for a given trade is really the right fit.

"It's therefore important that traders carefully evaluate which execution mechanism is appropriate for a particular objective in order to maximise performance," adds Kwiatkowski, "And that they continually re-evaluate their choice of trading mechanism based upon their actual results to ensure that their objectives are being met." ■

Benchmarking, diagnostics and advisory: A blueprint for treasury success

Many corporates undertook a review and initiated a transformation of their core treasury and working capital processes post crisis. They are now looking to put in place updated workflows, systems, and structures that will maximise efficiencies by giving them visibility, mobility and control over working capital. According to Michael Guralnick, Global Head of Corporate and Public Sector Sales and Global Marketing, Treasury and Trade Solutions, Citi, it's about being prepared for the future, working smarter, and more efficiently.

For many companies today, the cheapest source of funds remains their own cash. In the years following the financial crisis of 2008/09, corporates of all shapes and sizes made significant efforts to free-up trapped cash from within their operations in order to optimise working capital. Fast forward to the present day and companies are starting to take that process one step further.

While there are still significant working capital efficiencies for companies to explore, forward-thinking corporates are now looking at their operations through a longer lens. Rather than seeking short-term wins alone, they are looking holistically at the ways in which the company's operational, organisational, process, and systems architecture interacts with their financial and commercial flows — with the twin goals of increasing visibility and creating value for the business as it looks to accelerate growth.

In short, smart companies are asking themselves: "What is our plan for success? Where are we going on our corporate journey? What high-level goals should we be setting over the longer term? And how can we best structure the company to maximise efficiencies?"

The treasurer as change agent

With an ever-expanding remit that has spilled over from traditional cash and FX responsibilities into areas such as the supply chain and shared services, the treasurer's role in this transformation process is pivotal. No longer bound by departmental silos, treasurers are able to use their extended reach to act as an interface between the financial and commercial activities of the company.

By working collaboratively, treasurers are perfectly placed to act as change agents — and to ask the questions that really matter: "Is the group's account structure optimally arranged so that it captures the maximum amount of liquidity to support the company's working capital goals? And are ERP and Treasury Management Systems (TMS) being leveraged to their full extent?" Getting to the bottom of these questions often requires expert help, which is precisely why many companies looking to plan their way forward, mitigate future risks, and maximise shareholder value, call on trusted advisors to assist them. In fact, Citi is currently working hand-in-hand with its clients, in both developed and emerging economies, to help them build a tailored blueprint for success. Citi has established three Innovation Laboratories located in Dublin, Singapore and Miami that collaborate to develop enhanced diagnostic tools and solutions for their clients globally, whether located in Asia, Europe, Middle East, Africa or the Americas. Clients are also

invited to visit any of the Labs for detailed blueprinting sessions to assist them in accelerating the development of the core framework for their global treasury transformation activities.

The first step in this analysis process is to undertake a diagnostic survey of your treasury and operational processes, risk management and governance policies in order to benchmark your company against its peers.

Let's run some diagnostics

"Citi® Treasury Diagnostics (CTD) is an award-winning tool Citi has developed for corporate treasurers. It enables treasurers to compare, on a confidential basis, their current treasury finance practices and policies with other companies, both industry peers and best-in-class companies from other sectors. This helps to identify current strengths and areas for improvement," explains Michael Guralnick, Global Head of Corporate and Public Sector Sales and Global Marketing, Treasury and Trade Solutions, Citi.

So how does it work? "Well, CTD is a web-based, easy-to-use, tool which securely collects information about your company's fundamental treasury disciplines through an online survey conducted with the company's treasury team. Since the survey questions have been carefully crafted by treasury practitioners and market research specialists, they are targeted to extract precisely the right information for the task in hand. Naturally, all responses are absolutely confidential between the client and Citi," explains Guralnick.

Currently nearly 500 clients around the world have taken the CTD survey and have had diagnostic sessions to review the benchmarking results. Citi® Treasury Diagnostics benchmarks in six critical areas of treasury and finance activities, namely:

- Governance and controls.
- Liquidity management.
- Cash and working capital management.
- Entity funding and repatriation.
- Risk management.
- Systems and technology.

Tailoring the fit

With the benchmarking data now complete, the next step is to jointly evaluate the results and look to build a blueprint that is specific to the company's needs. "This is the stage where our advisory services really come into play," says Guralnick. "When we start to peel the onion and look at what's going on beneath the surface, it's important that we not only put clients' objectives first, but actually take the time to understand what makes sense for the business in the longer term. This is not about plugging holes with products."

As such, the process is highly bespoke. While best practice is the name of the game, it's also about finding the best fit for the company. "For example, certain clients, based on their own resource capacity, may elect to address just one or two of the six pillars initially. Whether they want to put in place a plan to address the rest, and in what timeframe, is their decision entirely."

There is no one size fits all blueprint. "So, whether a company should be centralised, decentralised or partly centralised is not a decision you can simply make on paper," he explains. "We sit down and have a detailed discussion about how the company's financial and commercial activities, as well as legal entities are organised. Because whatever finance or treasury does, and however it is structured, it needs to be optimally organised to support the commercial activities of the company". The benchmarking results help provide direction and a framework for continued discussion and must fit with the overall corporate strategic goals and investment direction.

Asking tough questions

This advisory process will usually be followed by a fair amount of corporate internal discussion, not least around the difference between an effective process and an efficient process. It will also provide a good opportunity to question the status quo, Guralnick believes. "So, where a highly decentralised company is using a significant number of local banks, for example, we would highlight the possibilities to simplify and standardise the company's banking architecture and interfaces to eliminate inefficiencies."

Analysing the return on investment (ROI) that the company is getting from its ERP system is another good example of how the evaluation process adds value. "Many companies have invested a significant amount of capital to install what they believe to be best-in-class platforms and systems. Now, after these investments have been made, most companies are asking if they are deriving the maximum ROI from them, and if not, what plans do they need to put in place on an enterprise basis to achieve the initial expected benefits," Guralnick explains.

The good news is that, given the fast pace of technological development, better and cheaper connectivity models are emerging all the time. And with greater collaboration taking place between banks, vendors and clients, re-thinking the systems architecture of the company is helping accelerate the benefits initially envisioned.

Helping corporates to fully understand the benefits of big data is an additional key part of Citi's advisory process. "Big data is driving next generation treasury solutions. By turning data into useful information for decision-making, corporates can better manage their

overall transactional activities including supplier payment options, and global and regional liquidity pools. "In fact, big data analytics and related advisory is set to transform how business decisions are made across the procure-to-pay cycle. And that's where Citi comes in," Guralnick says.

From benchmarking to blueprint

Case study

The challenge

Transform the treasury of one of the world's largest mining companies to support the $22 billion company's global growth plans.

The blueprint

Citi worked with a leading Brazil-based mining company to understand the strategy and business model of the company and the nuances and constraints presented by the local and global environments in which it works. The first step was a complete benchmarking of the organisation's treasury operation. Then, together, Citi and the company designed a blueprint for success, which comprised three missions:

- Identify and address tax, legal and technology discrepancies across the enterprise
- Consolidate information and clean up processes to optimise cash flow forecasting and planning
- Develop a clearly defined cash management approach unique to the company

Any treasury transformation blueprint, by design, rationalises and simplifies a complex task, and in this case, the end result was a more efficient and agile treasury operation. Citi's effective, knowledgeable and global network of expert Treasury and Trade Solutions managers on the ground, combined with the company's new streamlined and powerful internal processes, made possible advanced cash forecasting and planning, and lowered risks of idle excess cash in uncertain markets.

Now, the company's treasury operation secures the liquidity necessary for the execution of projects and ongoing operations, and ensures that financial resources in the appropriate amounts are in the right place at the right time to fund projects. That is the way to ensure the success of the company's long-terms goals, and a true blueprint for success.

As mentioned earlier Citi's network of Innovation Labs, is dedicated to reinventing the client experience for digital banking. These centres of innovation allow Citi and its clients to work in collaboration to create and deliver the next generation of financial products and solutions. Citi can assist companies in digitally enabling their financial operations and visualising their supply chain operations. By turning intelligent data into actionable insights, Citi can deliver innovative solutions that transform client's banking processes, improve productivity and generate new ideas for commercial opportunities.

Citi's Interactive Solutions is a treasury application, developed by Citi's Innovation Lab in Singapore. This treasury solutioning tool leverages Citi's global proprietary data and publicly available industry data, combining it with the latest real-time visualisation technology. The application gives Citi clients the ability to benchmark their treasury and liquidity management performance against peers using publically-available data, thereby enabling them to develop new blueprints and gain increased visibility, mobility and control over their working capital.

Getting the blueprint right

What is important to remember about the blueprint, says Guralnick, is that it's a guideline. "When you're building a house, the architect will draw up plans, but then you'll amend them, adding a window here and a door there. And even during construction, you'll make little changes. Similarly, with the company's treasury transformation blueprint, flexibility is critical. The plan should be designed to evolve with the company's commercial activities, and as global forces, such as regulatory and macroeconomic variables change, the company will need to adjust its model."

Citi itself is a prime example of this in action. "We're absolutely looking to the future and thinking about how we should adapt our business model to the changing environment," says Guralnick. "As such, our aim is to be the world's digital bank. Not only because technology is driving innovation, but because digitisation leads to a whole host of benefits to our clients in terms of consistency, control and compliance. We want to ensure that we are providing standardised processes and platforms, because that leads to productivity and cost benefits to our clients.

"The fact that we are in over 95 countries around the world means that our clients can rely on a consistency of platform and service, wherever they are operating. Citi has a pedigree dating back more than 200 years, and having invested in the international markets since 1902, we understand how businesses evolve — and what makes them successful in the long run."

How Our Network Benefits You

Operating as a globally connected local bank
Our principles are globally consistent but we don't overlook the individual nature of local markets.

Committing to innovation
Our network and scale give us the capability to invest in new technologies and innovate how we work together.

Using our experience to help you
When you expand your business globally, our local experience gives you the support you need.

Making a difference for our clients
Our reach and insights enable you to be successful wherever you operate.

Taking a holistic approach to your needs
Committed to understanding the challenges you face as your business grows and bringing to bear the power of our network.

Being there when and where you need us most
Our global reach and 200-year history give us the local expertise and experience to help you in challenging times and in challenging markets.

Delivering regulatory insight
Our local presence facilitates long-standing relationships with regulators worldwide and enables us to share insights and advice with you.

Providing dedicated sector expertise
Industry sector experts around the world who understand the trends, challenges and opportunities you face and can offer you practical advice.

Giving you consistency wherever you are
Making the complex simple through a network that understands local nuances helps to standardise processes, platforms and experiences, and creates best practice.

Treasury and Trade Solutions

Smart thinking

Once the client has agreed to the new blueprint, it's all about execution. "What also sets us apart are our certified project management teams, who follow a very detailed process to construct the rollout plan with the client, assisting them every step of the way to achieve their goals. While it may sound like a cliché, our success is defined by the success of our clients," says Guralnick. "Additionally investment in our Treasury Advisory Group, made up of former corporate treasury practitioners, enables us to bring a deep understanding of corporate treasury activities to the blueprinting sessions, and how to address the challenges our clients are addressing. These Citi experts have been in our clients' shoes and they understand important industry nuances to benefit our clients. Their insights allow us to understand what tools actually add value to the treasurer."

Guralnick sees this as the way forward for transaction banking. "Citi will continue to provide added-value to clients through analytical and decision-support tools, driven by big data and data mining." Complementing those tools, a diagnostic and advisory approach will increasingly allow Citi to differentiate itself from other financial institutions; through helping clients work smarter by providing world-class advisory services and solutions to help them prepare for the future.

At a time when treasurers are working harder than ever, Citi's approach will surely provide significant productivity and commercial benefits to its clients.

Michael Guralnick has global responsibility for Citi's Treasury and Trade Solutions (TTS) Corporate and Public Sector Sales Team. In addition, he manages the global TTS Marketing Team which spans across product and segments. Prior to his current role, he held senior management positions with Citi in Asia Pacific, EMEA and North America. Guralnick is a member of the TTS Global Executive Committee. He is also a member of the UK Association of Corporate Treasurers and the British American Business Inc. Guralnick earned a Master's of Science in Foreign Service (MSFS) degree, from Georgetown University's School of Foreign Service, in Washington DC and received his BA from Allegheny College, in Pennsylvania.

Citi TTS continues to lead the way in providing its clients with the industry's most comprehensive range of innovative, tailored and digitally enabled treasury, trade and liquidity management solutions. With a presence in 96 countries, TTS offers its clients access to the largest proprietary network of any transaction service provider in the world, and with banking licenses in over 100 countries, globally integrated technology platforms and powerful analytics tools, TTS enables its clients to be successful where ever they operate.

transactionservices.citi.com

Not just any portal in a storm

Instead of trading separately and directly with a number of money market funds (MMFs), treasurers looking to optimise short-term yield on their cash holdings are increasingly turning to the single-platform/multi-fund MMF portals made available by banks and independent providers. What are they and what do they offer corporate users?

Money market funds (MMFs) are gaining ground in the short-term space as bank deposits typically remain low or zero yield. The method of accessing funds is changing to meet investor needs and the online multi-bank portal is becoming an increasingly attractive proposition for busy treasurers. The third annual cash management study issued at the end of 2013 by technology vendor, SunGard, collated the responses of 160 corporates globally and found a reduction in the use of telephone transactions for short-term investments from 51% in 2012 to 30% in 2013, in favour of web-based portals.

The attractions of largely automated trading platforms are many, not least being that some also enable other products to be traded too (such as short-duration bonds, separately managed accounts and certificates of deposit). In the MMF space, in addition to the facilitation of trade and settlement across multiple funds and providers, portals typically offer a range of pre- and post-trade services including market intelligence, consolidated reporting, trading access and authorisation, limit setting, position and risk analysis (from counterparty to country risk). By providing market and counterparty intelligence, trading and monitoring all under one roof, treasurers seemingly have access to a one-stop MMF shop. But are all portals created equal?

Portal differences

Multi-fund MMF portals may be offered either by international banks such as Citi and BNY Mellon or by independent providers such as MyTreasury, ICD and SunGard. This is the first great divide – and users seem to be swinging slowly towards the independents, having favoured bank platforms since they first arrived a decade or so ago. Of those that now use portals, the number of treasurers working with independent providers over proprietary bank offerings is rising, according to the SunGard survey. It shows that 35% of all portal users now prefer the independent option, an increase of 15% over the previous year.

Independent providers will always argue that they are cheaper for investors to use but banks will often bundle together their offering with other services such as custody, cash sweeping or asset management, which can create certain operational efficiencies. Whilst this tends to make the true cost of the portal easier to absorb, the flipside is that actual cost is less easy to discern.

The range of fund participation in a bank portal may be limited compared to an independent. This may influence a treasurer's decision where there is a need for portfolio diversification, although a portfolio of around five to ten is typically used. Banks often have distribution agreements with their fund participants which may be seen as encouraging partiality where advice is offered. Of the independents, ICD and SunGard are permitted to offer investment advice, and are thus regulated, whereas MyTreasury is concerned mainly with (and therefore earns its keep through) transaction processing and execution.

Independent providers will always argue that they are cheaper for investors to use but banks will often bundle together their offering with other services such as custody, cash sweeping or asset management, which can create certain operational efficiencies.

Banks typically offer 'omnibus' trading portals, which means the provider will set up and manage accounts on behalf of its users allowing trading and settlement (through a central clearing agent) to take place en masse and anonymously. As independent portal providers, both SunGard and MyTreasury offer 'fully-disclosed' direct trading platforms, which allow treasurers to trade directly with each fund on the platform – their independent competitor, ICD, provides a mix of direct, clearing bank facilitated and omnibus trading which clients can use in combination.

With direct trading systems the fund provider knows who its client is. For treasurers, maintaining visibility of 'share of the wallet' may be important. For other traders, particularly hedge funds, anonymity may be preferred. If using a bank portal, it may be perceived by other institutions on the treasury's bank panel as giving that bank preferential treatment; conversely it may be the intention to overtly give that bank the business.

Broadly, the omnibus model offers simplicity and ease of use but trading authority is given away with an omnibus account. Direct trading is more transparent and controllable. The investor opens one account with the portal provider and the portal provider opens an undisclosed account with all of the funds, doing all the admin such as account opening and settlement on the investor's behalf. Fund providers do not have access to their investors. A disclosed nominee account may be opened in the investor's name, but this account is still owned by the portal provider. If something happens to the portal provider or an intermediary, such as a clearer, if the client is an undisclosed nominee its anonymity means it will

not be able to approach the fund providers; as a disclosed nominee the issue remains that the trading account actually belongs to the portal provider and unless the client is a signatory on that account, return of funds is unlikely until the problem has been resolved. Most omnibus portal users do not have delegated trading authority on their own accounts.

Background movements

At the front end, the look and feel of portals will be quite similar; the difference is all in the set-up where, depending on which portal is being used, trades may be routed through a clearing partner or direct to the fund provider.

Case study

Honeywell

Honeywell is a US-based Fortune 100 diversified technology and manufacturing business which in 2013 reported global sales of $39.1 billion. Globally, Honeywell manages over $7 billion of cash and investments and a component of that is invested in MMFs. All MMF trades in EMEA and APAC today are executed and managed using the MyTreasury MMF portal.

The in-house bank which centralises the cash and provides funding to the affiliates is located in Belgium and overseen by the firm's Director of Treasury, EMEA, Séverine Le Blévennec. In 2009, when a European regulatory shift ended the in-house bank's Coordination Centre status, investment in MMFs became possible. With the cash balance notably increasing and the "investible universe of banks" decreasing, it led directly to the implementation of ICAP's MyTreasury MMF portal. Although Honeywell's treasury team had been part of a panel of investors that two years prior helped the vendor develop its platform, it still made market comparisons before selecting.

The set-up and integration of the portal was a fairly straightforward process, says Le Blévennec. The project started with the in-house bank and then rolled out to the UK before taking in the Asian markets. Honeywell sent documents to its existing fund providers explaining that beyond a specified date it would only be dealing through the portal. Where existing funds were not already on the platform the invitation was extended to join it, Honeywell having insisted that if the fund was not on the platform it would not deal with it at all. Only one agent (not the fund itself) declined the offer. For those that did, the terms and conditions of trading remain the same or better, she reports.

Le Blévennec notes too that the visibility and transparency that the platform provides over management fees has enabled her to negotiate rebates with various fund managers; in total it has amounted to a return of around $1m, although the low-rate environment has seen some euro funds subsequently cancel their rebates.

One of the key features of MyTreasury for Le Blévennec is its workflow system and ability to set up investment limits in the system. This means there is no need to monitor sub-limits of certain funds. "The platform gives us a view of the aggregate position of all money invested in the same fund. We can set limits and if a new deal would breach one of them, the system sends a warning message. A further control sends an e-mail message in case post trading, the fund AUM decreases causing us to be in breach."

Honeywell helped MyTreasury develop a feature for reporting underlying exposures, aggregated across all of its funds on the system. This is downloaded as an Excel workbook enabling, for example, a view of the exposure to a specific institution or country across all 68 accounts. Given the volatility of some markets this is a welcome insight. "We could not have done it manually. With this function, if I have any doubts I can download the data and quickly take a decision to rebalance my funds."

Today, the Group invests in six of the main currencies and has in the region of 40 active funds globally across the 68 accounts (different investors in the group can invest in the same fund). The only countries where Honeywell invests in MMF and where the MyTreasury system is not available yet are China, India and Japan, although the latter is in the pipeline.

Following geographical extension of the system's use Honeywell worked on portal integration with its SunGard Quantum TMS. This has enabled a high degree of straight through processing, with all transactions being entered automatically for exposure management and settlement for the in-house bank. The interface to the TMS was also further developed to automate the booking of dividend (or rebate) distribution as well as day-to-day accruals on outstanding funds. MyTreasury has also developed an auto-settlement process for Honeywell where each trade automatically generates a SWIFT MT101 payment instruction.

For any treasurer considering using an MMF portal, Le Blévennec advises close inspection of the potential for platform customisation, particularly for reporting. Platform scalability is also important, as is user-friendliness and the ease of integration with existing technology. "I would also ask for references from a number of customers with a similar or more complex business profile who have been using the system extensively." As a final point she expresses the need for a pro-active and open approach from the provider. "It is easy to deliver a platform where you just execute deals, but the devil is in the detail; when it starts to get more complex you will start to see the difference."

Background processes such as clearing and settlement vary according to portal type. Omnibus platforms may offer auto-settlement or direct settlement. Auto-settlement platforms do away with manual processing and payment and settlement requests. Automation will make all the trades across all accounts for the client and will net off all investments and redemptions before calculating what is owed. This does present an element of risk; whilst the money is in transit, if the clearing bank being used by the portal to facilitate the movement gets into financial trouble then the investor's payment will be locked into the system until such time as the clearer emerges from administration. Bear Stearns was such a clearer, rescued by J.P. Morgan. Auto-settlement is now optional rather than mandatory for most providers.

An alternative omnibus model will execute trades for the client, the client settling directly with each fund, going through the normal payment process for the business as if it was trading outside of the platform. Reference to direct trading on an omnibus account does not mean trading directly with the fund; it refers only to the settlement process. Settlement through a fully direct trading portal typically uses the same direct settlement process as for omnibus although MyTreasury offers an auto-settlement feature developed with Honeywell (see case study opposite).

Added-value

By building in compliance features such as trader limits, counterparty limits and maximum holdings, for example, a portal can automatically monitor every transaction. Electronic portals consolidate huge amounts of investment data and so reporting functions have notably improved in the past few years. ICDs offering, for example, allows users to import external investments (such as bank and time deposits) into its exposure analytics component to give a broad picture.

In addition to consolidated views of exposures, counterparty, currency and liquidity positions, a host of management information may be made available to users, depending upon the provider. These tools may show levels of activity and risk by country, asset type, maturity and so on and may be used to inform asset allocation. Market research, intelligence (including counterparty metrics such as stock price trends, CDS spreads and capital adequacy ratios), market price and news feeds are also typically delivered.

Cost

The explicit cost of using a portal as an investor is zero because the cost of providing a portal is borne by the fund providers. However, for an investor it is important to ask each fund it is already using – or intends to use – whether trading on a portal will alter its terms of trade compared to direct trade. Some funds operate a 'portal' share class, using this to effectively charge investors as an offset against the fees it pays to the portal provider.

The valuation debate

The ongoing discussion about MMF valuations, systemic risk and the various proposals for reform put forward by the EC and, in the US, the SEC, will have some impact on the way in which portals operate. The key requirement, if the shift is made to floating Net Asset Value (VNAV) funds will be how the portal provider will get information from the fund transfer agents in a timely manner. The agent, usually a bank, looks after records of investors, account balances and transactions and will provide the actual share price required for daily valuation. With constant NAV (CNAV), investors know the value is 'one' (dollar/pound/euro) and for accounting purposes this makes life relatively easy. VNAV brings uncertainty to valuation. On a daily basis portal providers will have to get the price in good time. It may be that cut-off times for investment may have to be brought forward, which for investors is going in the wrong direction. The decision is yet to be made.

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Even if floating NAV is the way forward, the focus by almost all portals on prime institutional AAA-rated CNAV funds is unlikely to shift by any great magnitude (assuming the regulators' proposal to abandon fund ratings is dropped). However, whilst treasurers will not necessarily want to have to seek permission to invest in new funds, if the reforms are accepted some portals may open up to a broader range of fund-types, even exchange-traded funds.

Firstly, this will require significant technological development on the part of the portal providers to accommodate the different fund processing models. And secondly, it would change the risk profile of MMFs. CNAV funds are sold on the back of their perceived robustness but when the US-based Reserve Primary Fund 'broke the buck' back in 2008, it cast a long shadow over CNAV money markets everywhere. The SEC stepped in with Rule 2a-7 requiring MMFs to restrict their underlying holdings' average dollar-weighted portfolio maturity to 60 days or less, and for credit ratings no more than 3% of assets must be in securities falling below the top two ratings. If the sanctity of MMF fund robustness is to be maintained, for all the discussion it may just be business as usual for most providers.

Integration

Treasurers are now able to source market, trade and position data, with most platforms at least offering market views, size of funds, current and historical yield, portfolio information and analytics, and account balances. The discussion about which data is required, when and in which format, should be ongoing and reflective of the changing needs of treasurers and the need to integrate data with existing treasury systems. The closer the integration the more likely straight through processing can be achieved, eliminating the need to re-key daily rate and trade confirmations, for example. ■

European Corporate Treasury Benchmarking Study 2014

Treasury Today's Corporate Treasury Benchmarking Studies offer you a means, today, of assessing the performance of your treasury function. Compare your key issues and KPIs with others. Be part of the programme to create industry-wide best practices.

Many of you have already participated in our pioneering Corporate Treasury Benchmarking programme. If you have introduced key performance indicators (KPIs) into your treasury function, completion of the KPI module in this year's Study will enable you to see how your performance measures compared to the total study universe and, importantly, with your peers within the same industry sector.

Even if you haven't yet deployed KPIs, participation in the Study will identify the metrics other companies are using. This may assist you to start to use KPIs to measure your treasury processes. It will also offer you the opportunity to compare your key issues and treasury priorities with other corporates operating in Europe or the Middle East, depending on where you are located and which regional Study you complete.

Furthermore, you can register your views on how the banks in your region are performing in the areas of cash management, trade services, foreign exchange, customer service, product innovation and technology. We also analyse the key factors you employ when ranking the banks against these six key disciplines.

Benchmarking in action

Here is what Karsten Kabas, Head of Corporate Treasury at Merz had to say about benchmarking when we spoke with him about our 2013 European Corporate Treasury Benchmarking Study.

"Benchmarking gives us the opportunity to identify where we stand and how we develop over time among our peers. The external comparison is essential for the progress of a unique corporate function like treasury."

"The main focus of our benchmarking processes is related to maintaining relationships with our banks. In essence this means: how we choose the banks; how we manage our FX exposures; and how we manage our finance costs," says Kamal Goyal, CFO at Alumco in the United Arab Emirates (UAE).

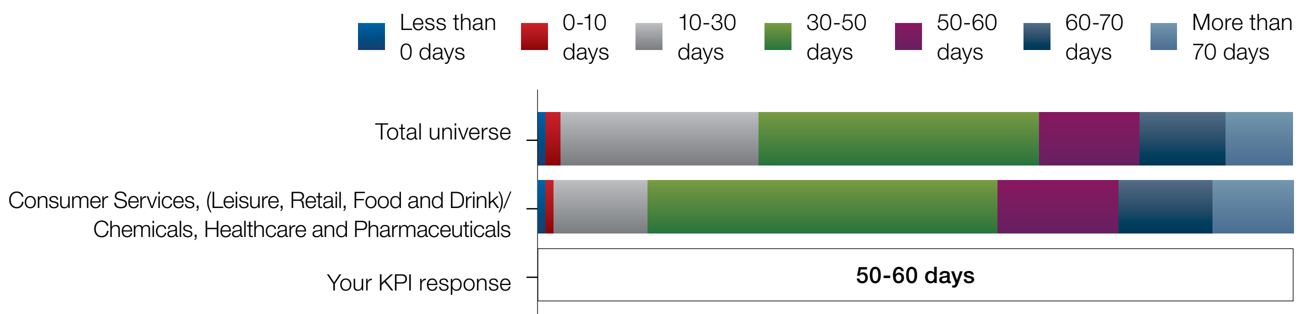
Treasury Today's Corporate Treasury Benchmarking Studies provide unique insight into the corporate treasury universe in Europe and the Middle East regions, letting you know how your organisation – and your peers – are performing.

It should take no more than 15 minutes of your time to complete. We guarantee 100% anonymity to all who participate and you will not receive any 'follow-up' sales calls. You will only receive a copy of the results if you complete the Study.

Five reasons why we think you will benefit by taking part:

1. Determine whether your challenges and priorities are the same as your peers.
2. Benchmark your KPIs against the respondent universe and your industry.
3. See which banks are 'best in class' and find out why.
4. Have your say on the key issues affecting corporate treasury. Banks analyse the survey to understand where they can do better.
5. Receive a complimentary copy of the findings, including a personalised KPI report.

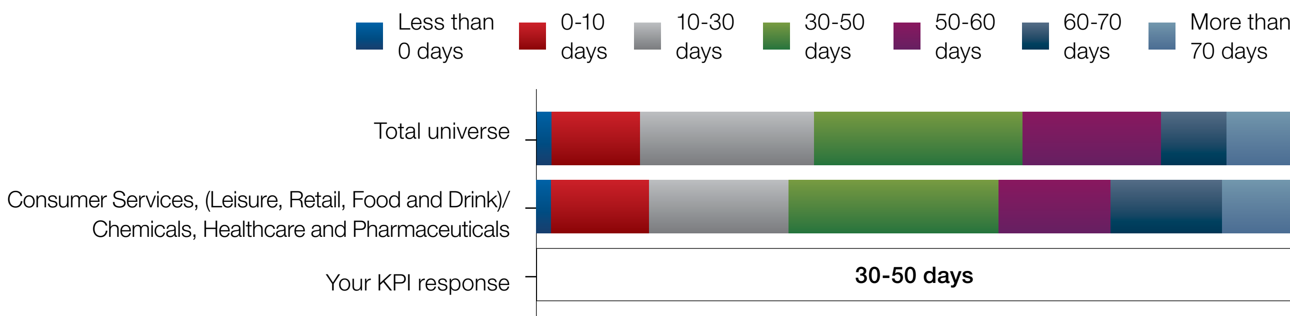
Chart 1: Days payables outstanding (DPO)



Source: Example response from Treasury Today's European Corporate Treasury Benchmarking Study 2013

The findings and individual benchmarking results are exclusively available to participating corporates.

Chart 2: Days sales outstanding (DSO)



Source: Example response from Treasury Today's European Corporate Treasury Benchmarking Study 2013

Here are some of the treasury areas we benchmark:

- Cash visibility.
- Cash pooling structures.
- Transaction error rates.
- Straight through processing (STP) rates.
- Cycle time taken to establish end-of-day cash positions.
- Cash flow forecasting accuracy.
- Working Capital Management.
  - Days inventory outstanding (DIO).
  - Days payables outstanding (DPO) – see Chart 1.
  - Days sales outstanding (DSO) – see Chart 2.
  - Days working capital (DWC).
- Short-term investment benchmark returns.
- Risk management (VaR).
- Extent of FX hedging.
- Balance sheet management.

Why benchmarking matters

"We now tend to review our days inventory outstanding (DIO), days payable outstanding (DPO) and days sales outstanding (DSO) on a monthly basis," says Priyanke Perera, Head of Group Treasury at Brandix in Sri Lanka. "But that is not all. We go beyond that, particularly when it comes to tracking how early or how late our suppliers provide inputs to manufacture a garment (on-time tracking) based on the dynamic production plan we have to support our buyers. This is a great indicator for the company's working capital management."

"Given the importance of cash pooling to the business, minimum cash holding serves as a key performance indicator," says Tan Lee Thong, General Manager, Group Finance at International SOS in Singapore.

Key performance indicators (KPIs) allow businesses to define and measure progress towards their overall business objectives. They have taken on a new importance, with more treasurers turning to them amid efforts to boost cash management efficiencies.

We appreciate KPIs will vary from corporate to corporate, and sector by sector – but we are not suggesting that every corporate should be achieving the best in class measure(s). Several factors will influence the relevance of a KPI to a particular company. Nonetheless, the results of our Benchmarking Studies provide some interesting data against which we are able to benchmark your organisation and offer some interesting insights as to where treasury is going in your region.

For more information please contact our Research Director, **john.nicholas@treasurytoday.com**

Take the time to participate in the 2014 European or Middle East Corporate Treasury Benchmarking studies which are now live. To participate please go to treasurytoday.com/benchmarking/participate

BACK TO BASICS

Outsourcing treasury

Since the late 1980s, when treasury outsourcing was first launched, the topic has generated strong corporate opinion. Due to this and a number of other reasons the function has failed to launch into the mainstream of treasury thinking. Yet outsourcing has the potential to offer corporates solutions to some of the challenges they are currently facing. In this article Treasury Today provides an overview of the topic and the debate surrounding it.

INSIGHT AND ANALYSIS

Making the grade – credit ratings

For a corporate a good credit rating can open the door to a number of benefits, including easier and cheaper access to debt. Yet corporates are often unaware of how a rating is actually constructed. This article seeks to demystify the methodologies used by agencies to construct a corporate rating and what impacts recent changes are having.

RISK MANAGEMENT

Emerging markets risk

The rewards of entering an emerging market can be great, but so can the risks. For corporate treasuries to understand and mitigate these risks, each emerging market has to be analysed on a case-by-case basis. Treasury Today looks to highlight the risks which treasurers should look for and analyse the methods which can help corporates to ensure the reward is bigger than the risk.

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

Pascal Ba, Head of EMEA Corporate Debt Capital Markets, Bank of America Merrill Lynch; **Richard Comotto**, Senior Visiting Fellow, ICMA Centre at the University of Reading; **Matt Cooper**, Director of Treasury and Corporate Finance, Affinity Sutton; **Jonathan Curry**, Global CIO, Liquidity, HSBC Global Asset Management; **Olivier de Schaetzen**, Director, Euroclear; **Alan Gillies**, Vice President of Sales, American Express Global Corporate Payments; **Michael Guralnick**, Global Head of Corporate and Public Sector Sales and Global Marketing, Treasury and Trade Solutions, Citi; **Séverine Le Blévennec**, Director of Treasury, EMEA, Honeywell; **Stephanie Malrait**, Global Head of FIC eCommerce, Société Générale; **Russell Maybury**, Vice Chairman, UK Debt Capital Markets, RBS; **Jessica McDarren**, Treasurer, L'Oréal; **Pascale Moreau**, Managing Director, Global Co-Head of Interest Rates and Forex Derivatives, Société Générale; **John O'Flynn**, Treasury Manager and Head of Investor Relations, Ryanair; **Dimitris Papathanasiou**, Financial Risk Manager, Coca-Cola HBC AG; **Tobias Schaad**, Treasury Consultant, Zanders; **Jodi Schenck**, Managing Director of Global FX eSolutions, Citi; **Neil Sorahan**, CFO, Ryanair; **Stephen Beill**, Director – Securities Finance, Citi; **Murali Subramanian**, EVP, Head Transaction Banking Group, Abu Dhabi Commercial Bank; **James Waud**, Head of Subsidiary Clients and Sales Performance, Global Transaction Services, RBS; **Joerg Wiemer**, CEO, Treasury Intelligence Solutions; **Gary Williams**, General Treasury Manager, Mitsubishi Corporation Europe.

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J.P.Morgan
Asset Management

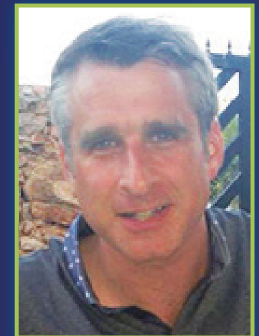
Conference Treasurer **Speakers**

Dympna Donnelly
VP Treasury, SAP

Niall Kelly
Head of Group Treasury, DCC plc

Colm Moriarty
Group Funding Manager, ESB Group Treasury (current IACT President)

Sean McKeon
Chief Financial Officer & Company Secretary, Dalata Hotel Group plc



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