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January/February 2019

Real-time treasury comes into view

New technology, a proliferation of instant payment schemes globally and the advent of open banking look set to hasten the arrival of real-time treasury.

The Corporate View

Suzanne Perry

Assistant Group Treasurer

Relx Group

Women in Treasury

New York Forum 2018

Our annual event goes from strength to strength with professionals from across the US attending the gathering.

Funding

Sustainable finance comes in from the cold

Banking

Open banking and what it offers treasurers

Regulation

Managing the impact of regulatory change

Back to Basics

Syndicated lending: with help from friends

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Time to reflect

In 'The Gumball Rally', a 1970s comedy film about an illegal US coast-to-coast road race, the Ferrari Daytona-driving Italian, Franco Bertollini, rips off his rear-view mirror exclaiming "what's behind doesn't matter".

Entertainment value aside, most racing drivers would disagree. Of course, they need superhuman 'in-the-moment' skill to stay ahead of the competition but they also need to know what the other drivers are doing.

To assist, modern racing cars augment mirrors with pit radio and a host of high-tech telemetry, giving the driver a concise but highly accurate and timely picture of the state of their own vehicle and what's going on around them. From this they can plan their race (if team orders don't interfere…). This may sound familiar.

Whilst few treasurers, if any, experience quite the same level of sustained adrenalin flow as racing drivers in everyday situations, when things change quickly, the pressure ramps up and the treasurer's skill and experience must come to the fore.

An almost superhuman awareness of what's going on, often on an expansive international stage, is vital. Boosting the reflective power of the 'mirror' with modern technology allows every situation to become clearer, and the decisions made that bit sharper. Quite simply, more than ever, treasurers need to be the financial 'all-seeing eye'.

The International Monetary Fund (IMF) and Organisation for Economic Cooperation and Development (OECD) are downgrading their outlooks for the US in 2019, mindful of the escalating trade war, the Fed's resolve to continue raising interest rates, and a likely sharp increase in oil prices caused by low global spare capacity, sanctions on Iranian exports, and political uncertainty in Saudi Arabia. There is the ongoing Brexit saga between the UK and the EU, and now the UN Economic Analysis and Policy Division has warned that improved economic performance in the global economy "is increasingly being overshadowed by heightened risks and humanitarian concerns".

For treasurers, managing economic and political uncertainty is now part of the job. Being effective in these arenas demands ever-greater awareness of trading conditions. In this issue, we look at the concept of real-time treasury, asking how it can help both decision-making and operational efficiency in the here-and-now.

Also, given that the world's governments and authorities are not easing up on their attempts to manage the vagaries of the financial markets, we explore how best to identify, plan for and implement regulatory change.

Of course, all competitive arenas demand that its participants look every which way, including ahead. With the Paris Agreement and 2030 Agenda for Sustainable Development including a firm commitment to align financial flows with climate-resilience, our investigation of green finance and sustainability is a timely reminder for treasurers that full awareness must include what lies ahead.

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IN THIS ISSUE

INSIGHT & ANALYSIS 4

How soon is now? The value of real-time treasury operations

Real-time treasury operation has been an ambition held by many for a number of years but new technology and the proliferation of faster payment rails globally are proving major drivers in making it a reality.

WOMEN IN TREASURY 10

New York Forum 2018

The third Women in Treasury New York Forum showed that the annual event continues to grow in stature. It proved the perfect occasion for Treasury Today to share the findings from its Women in Treasury Global Study 2018, proudly supported by State Street Global Advisors.

WIT ROUNDTABLE 20

Women in Treasury: from insight to action

Following the release of the findings of our Women in Treasury Annual Global Study 2018, Treasury Today, State Street Global Advisors and a host of treasurers gathered in Geneva to discuss the challenges for inclusion and diversity going forward.

STATE STREET GLOBAL ADVISORS

FUNDING 14

A natural development: sustainable finance making a difference

Ten years ago sustainable finance was regarded as a fairly exotic instrument but it is now beginning to come into its own on mounting concerns about climate change and damage to the natural environment by man. How can treasurers respond to this growing demand for green finance?

WEBINAR REPORT 25

Digital treasury

Interest in new technology such as big data and robotics is growing fast among treasurers. In a recent webinar Treasury Today and BNP Paribas considered their merits and benefits.

BNP PARIBAS

BANKING 22

Corporate treasurers urged not to ignore benefits of open banking

Open banking has yet to make much of an impression on corporate treasurers but experts warn the initiative is slowly picking up steam and it would a big mistake for treasurers to ignore its benefits.

REGULATION 26

Managing the impact of regulatory change

Regulatory change brings challenges for treasurers everywhere, and there are plenty of developments to be aware of, both now and in the coming months. How can treasurers monitor and manage the impact of upcoming changes?

TREASURY ESSENTIALS

Treasury Insights 7

Adam Smith Awards 2019 8

Question Answered 33

Market View 35

17 The Corporate View

Suzanne Perry
Assistant Group Treasurer

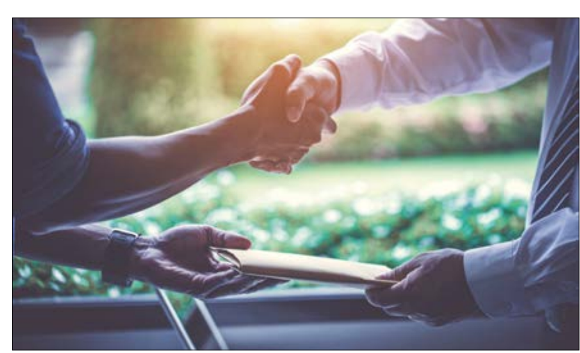
RELX Group

Suzanne Perry, Assistant Group Treasurer, RELX Group, may be a hugely experienced treasurer but, as she explains to Treasury Today, she never stops learning and relishes new challenges. Operational responsibilities ensure her days are always hectic but she seldom passes an opportunity to promote the work of her department across the group and explain how it can, and does, help the wider business.

BACK TO BASICS 30

Stronger together: the power of syndicated lending

Syndicated lending – loans offered by a group of lenders – has had its fair share of ups and downs in recent times with liquidity crunches, challenges on pricing and new market participants. Yet it is now an important part of the financial landscape, offering as it does a powerful solution for corporates needing a big loan which cannot be secured via a single lender.



How soon is now? The value of real-time treasury operations

For many treasurers, real-time financial services are yet to make any headway in the corporate world. Is it time for real-time? We consider some of the advantages and drawbacks for treasurers.

The idea of 'real-time' treasury seems like a distant dream when there are still siloed operations, manual processes and operational bottlenecks challenging many corporate finance functions. But slowly the bad old days are ebbing away as new technologies are rolled out and essential real-time infrastructure developments are being brought to life by regulatory decree.

The chatter around automation, virtual accounts, artificial intelligence and even machine learning in a treasury context is reaching fever-pitch. It may be the peak of the hype phase, but next comes delivery and, in a real-time world, these tools could make a huge impact on the way treasuries function within their organisations, and how organisations function within the world.

With downward pressure on finance function budgets, and the pressure of compliance and having the right checks and balances in place bearing down on them too, finding the "sweet spot", where fragmented treasury systems can come together, seems more than ever like an imperative, says Alok Tyagi, Chief Product & Technology Officer, GTreasury. Without it, he says the job becomes increasingly difficult; with it, treasury can become "a true strategic partner".

The initial challenge here is to identify the key areas requiring integration, says Tyagi. Only then can connectivity be undertaken in earnest. It's not an easy task, he warns. "At one end of the spectrum, every function wants to see data in its own way, and at the other end is the strategic vision of what the organisation's best practice workflows and business processes will look like." Without detailed prior analysis, these micro and macro demands can seem irreconcilable.

Evolution in action

The idea that real-time has a future at all also demands major infrastructural change. With 41 countries live with an instant payment set-up, and 12 in planning (according to the InstaPay Tracker), the payments space is clearly leading the way. It is also the catalyst for wider change, with developing concepts such as request-to-pay, for example, presenting an alternative to traditional consumer and business 'push payments' but also forming part of a broader shift from batch to real-time processing. This is important in the grand evolution of real-time for corporates.

Organisations receiving incoming flows, and accompanying data, in real-time will be able to access their funds sooner, plan outgoing payments based on these flows more accurately, and reduce the liquidity management buffer required to ensure adequacy of funds for their day-to-day obligations. This could result in reduced counterparty risks and, where credit lines are quickly cleared, increased sales opportunities.

What's more, instant receipts and payments could facilitate more accurate cash flow forecasting and better cash visibility across countries, with faster cash concentration through real-time intra-day sweeps. All this enables organisations to put idle cash to use faster, reducing cash management risk and finance costs. Imagine too that cut-off times and the need to build clearing time into payment schedules are no longer necessary. It all seems too good to be true. There is a caveat.

Real-time systems mean real-time crime. It's not the technology that is the problem, it is the people. The concept of 'strong' or multi-factor authentication adds resilience to any system, says Tyagi. And configurable real-time systems, some now using AI and machine learning, can capture many issues (including sanctions list infringements), checking and monitoring more data than any human can. But employees still do things they should not do. Unless there is a major educational programme – not an online box-ticking exercise but a real open discussion – that brings about a cultural change, cyber will remain a huge and growing threat in an increasingly digital world.

Collaborate

Of course, before companies start planning their fabulous futures or worrying about unseen threats, the whole financial ecosystem has to connect fluidly. For that to happen, a collaborative mindset – with banks, vendors and corporates sharing ideas – needs to prevail. There are stirrings already.

In November 2018, Deutsche Bank published a white paper, 'Preparing for real-time liquidity', which put forward the notion of an industry-wide framework for real-time liquidity management. It said such a framework would enable banks to provide a range of value-added services, including real-time currency conversion and hedging, instant cash concentration solutions, intraday cash pooling and optimised short-term investments.

If the industry, and its clients, are to enjoy these benefits it argued that "banks must look to evolve their clearing and settlement architecture, collaborate with TMS and ERP vendors to ensure complete end-to-end efficiency of operational processes, and help corporates develop their own real-time-ready systems".

> Treasury, with its view over the banking relationships, is at the heart of the business transformation.
>
> Jon Williams, Principal Consultant, Mk2 Consulting

The idea of real-time treasury – encompassing real-time payments, liquidity management, FX management and cash flow forecasting – is often seen by treasurers as a long-term vision – "nice for the future-gazers, but with no short-term, practical implications", says Shahrokh Moinian, Head of Cash Products at Deutsche Bank.

"This is far from the truth. There are tangible steps that treasurers can take now to start building their real-time treasury capabilities – whether it's integrating instant FX conversions and even instant hedges, or establishing instant cash concentration through solutions such as virtual accounts. These solutions can all add value today."

It is surely then a matter of letting the market know that most of the technology needed to power real-time treasury is already available. "Whether it's been noticed or not, the industry has assembled the pieces for businesses to begin constructing their own real-time treasuries," says Moinian. "For treasurers, it's a question of reaching out to their partner banks and working in tandem to piece the jigsaw together."

For Jon Williams, Principal Consultant, Mk2 Consulting, the real-time imperative is gathering pace and treasurers are advised to get on board. Whether or not they want to make use of real-time payments, their wider adoption challenges all businesses to become more real-time. "Treasury, with its view over the banking relationships, is at the heart of the business transformation."

Not there yet

However, whereas real-time information could become a necessity for all, real-time payments will only be of use for some. "Unless a company is consumer-facing, its business is not about 24/7 operations," explains Marcus Hughes, Director of Business Development, Bottomline. "In any case, switching to real-time requires a big shift in culture and business practices." For now, with the current relatively low limits of immediate payments systems (UK and Singapore are leading the push for higher limits), B2B is still entrenched in batch, he notes. And whilst real-time high-value funds transfers are available for corporates in the form of central bank RTGS systems, these are still subject to normal cut-off times.

And whilst real-time liquidity management could be beneficial, "same-day is still okay because corporates aren't being charged intra-day interest, yet", notes Hughes. That may come, he adds, but until then, using SWIFT gpi to execute, settle and confirm cross-border, cross-currency transactions in around 30 minutes is sufficient for many.

Indeed, the information that gpi gives is possibly more important than the speed of payment, Hughes adds. With the planned roll-out in 2019 of a gpi iteration that offers a single view of a corporate's multi-banking activities, it may be all that's needed in B2B for now. The gpi platform will become real-time if the world's immediate payments systems become interoperable. This will enable 24/7 for corporates, "but only if the demand is there".

It seems that although there are advantages for all, the immediate pressure to get on board with real-time is in the consumer payments space. Indeed, as Williams notes, "customers now expect to know immediately when they have paid, and to see that reflected on their statements". Efficient cash application procedures and systems are becoming extremely important.

"With many businesses still working on daily cycles, the always-on, connected nature of commerce does not seemingly lend itself to end-of-day statements and reconciliation," Williams comments. For this reason, open banking or access to accounts via APIs will go hand-in-hand with the new instant payment schemes if the 'instant corporation' is to be brought to life.

To this end, core system vendors such as GTreasury are making headway. "We are really proactive with our API library as a major foundation of what we offer as a product," explains Tyagi. "We want to have as many APIs with the banks as possible, but it helps to have a client-sponsor in that process to work with their banks and drive the programme."

Some banks are less advanced in this respect than others, notes Tyagi, batch systems still sitting behind their processes. This suggests to him that "a value argument" is still to be made over what is real-time – what delay is acceptable for treasurers – with some feeling that 'real' real-time is perhaps not entirely necessary.

Limited interest

Indeed, for Fabrizio Masinelli, Panini's Group Treasurer – Accounting Department, real-time payments are generally "of little interest to treasurers". He accepts the advantages to retail operations or where cash-on-delivery is the model but for medium to large B2B operations "they will not deliver any real added-value". He is, however, concerned that where real-time payments could create new problems around cyber fraud, treasurers "will have to change the way they work", necessitating a major revamp of policy.

Alexandre Bousquenaud, Senior Director, Head of Treasury Advisory Continental Europe, Redbridge Debt & Treasury Advisory is concerned too that, for an international business, the value of real-time payments will be limited unless foreign exchange exposures are managed in real-time. For group companies that are net payers, adopting real-time may experience an increase in their working capital needs, potentially requiring additional external financing, intra-group funding or guarantees.

> The earlier we receive a payment from our customer, the sooner we can make the delivery. Parcels often get held up in customs because there is a surcharge that must be paid.
>
> Carola Schmitz-Becker, Vice President, Corporate Treasury, DHL

What's more, he says, real-time payments systems are "yet another type of payment added to the long list of payment options open to corporates". This can "further complicate their daily cash management activities". He concurs with Masinelli, noting that treasury functions will require a regular review and amendment of processes and controls to mitigate new risks, maintain efficiency, and provide appropriate staff training.

Nevertheless, Bousquenaud believes that real-time incoming payments "can help improve the client experience as they may enable the faster delivery of products and services, providing the treasurer with the opportunity to play a more commercial and strategic role to the organisation". Even if real-time payments are not widely used within an organisation, they can still "act as a last resort solution", to avoid missed payments that can lead to penalties and reputational loss.

Opportunities aplenty

The view that real-time presents risk as well as benefits is espoused by Jonas Hedman, Associate Professor at the Copenhagen Business School. As an expert in how digitisation is transforming businesses and society, he sees that banks have a potential issue too. Their 'old world' was defined by batch processing and cut-off times, allowing them to predict how much money would be on their books at the end of each day. "In the real-time world, payments happen 24/7, so this is no longer the case. And the implication is that if banks cannot get a control over this, it might make them a bit more reluctant to lend to individuals and businesses."

Whilst instant payments are a positive development for end-users, there are risks and challenges that the financial ecosystem needs to think through and solve. Nonetheless, Hedman is certain that the world will become real-time and that eventually all countries will be operating an instant payment and clearing infrastructure. More cross-border instant payment systems will emerge but, he says, "what will be most exciting is the value-add services that banks and fintechs build on top of these payment rails".

One business that is embracing the real-time opportunity is Deutsche Post DHL. Carola Schmitz-Becker, Vice President, Corporate Treasury at the firm says her team started investigating real-time in 2017. "Particularly, we are interested in implementing a real-time zero-balancing system that would enable us to do intra-day sweeps from local subsidiary accounts into a master account," she says. "This would give us an immediate overview of our aggregated liquidity positions across countries, which would help us better forecast cash flow and deploy free cash."

The idea of real-time payments too is seen by Schmitz-Becker as a potential benefit, speeding up Deutsche Post DHL's operational processes. "The earlier we receive a payment from our customer, the sooner we can make the delivery," she explains. "Parcels often get held up in customs because there is a surcharge that must be paid. Instant payment means there is no additional lag introduced to this process and the shipment can get back on the move."

The possibility of rolling out new channels using real-time payments is one that she is exploring. "It is very applicable to eCommerce. We operate several online shops and I see instant payments and the fact you can debit directly from a customer's bank account potentially replacing expensive credit cards schemes in this domain, or at least putting pressure on their pricing."

Currently, low per transaction limits, referred to previously by Hughes, restrict the applicability of most instant payment schemes to treasury operations, says Schmitz-Becker. These are slowly moving upwards (the UK, for example, is now £250,000 and Singapore at $200,000, and counting). But, like Hedman, she says banks also have to develop their own instant payment offerings further. "I am yet to find one that interfaces with our ERP system. This is crucial for us in order to deliver efficiency and promote straight through processing."

Whilst no one can be certain of the outcome of the real-time trend for corporate treasury, Schmitz-Becker believes that there could be a lot more standardisation and automation in treasury departments. This will likely be driven by new technologies that are fully integrated, using APIs, building a digital ecosystem.

With the likes of the EU's PSD2, the UK's CMA Open Banking, and the Hong Kong Monetary Authority's draft Open API framework all facilitating open banking, closer integration moves a step nearer. It is the tip of the iceberg in real-time terms, but for the large corporates with SWIFT access, Bottomline's Hughes points out that they will "really need to see a significant value-add from open banking before they run after APIs". If suitable progress is made, Schmitz-Becker suggests that "it might reach the point where treasurers are just dealing with exceptions and spending most of their time focusing on pure strategic matters".

Time to act

Real-time clearly has a lot of unfinished business to attend to. Lothar Meenen, Global Head of Corporate Cash Management Sales at Deutsche Bank believes that it is important now for treasurers to analyse what is happening in their industry to stay ahead of their competitors.

"There is also a need to engage stakeholders in the business, especially around IT, to make sure that the business is ready to adapt and change in line with market forces. On top of that, treasurers need to develop a real-time mind- and skill-set," he advises. "This is a lot of work, but instant payments and real-time treasury are not passing trends, they will become the 'new normal'. Treasurers must prepare for this."

THE ALGORITHM ECONOMIST:

BRINGING 'THE DISMAL SCIENCE' UP TO DATE

If money makes the world go round, then algorithms are its driving force. Black box style coding has propelled investment decisions, most notably in the big bucks world of high frequency trading, for decades. In the 1980s, 'programme trading' was common between the S&P 500 equity and futures markets.

And no wonder, compared to humans, algorithms are faster, more accurate and can process infinitely more data. However, one area of apparent resistance to the lure of algorithmic speed and accuracy in the financial community can be found in the central banks, more precisely, amongst the economists who help direct the policies that affect everyone.

Whilst the Fed economists, for example, use arcane mechanisms such as the Anderson-Moore algorithm (for solving linear saddle point models), their wider adoption as a tool to aid policy-making is still very much a work in progress.

And when respected economists such as Nouriel Roubini dismiss that other great techy hope, blockchain, as "the most overhyped – and least useful – technology in human history" and "in practice, nothing more than a glorified spreadsheet," what hope is there?

Machine time

Recessions generally happen because of unanticipated shocks. The global financial crisis of 2008 was caused by the subprime mortgage crisis, the recession of the early 2000s was caused by the dot-com bubble, and the recession of the early 1990s was triggered by the sharp rise in oil prices.

There will always be anxiety within central banks as to how to react to such events. And the inability of economists to spot them and provide timely advice makes matters much worse. So, having been found wanting with respect to several major and seemingly unforeseen events, might the economist community be due an update in modus operandi? Why not let the machines have a go at dictating policy?

Today's available computing power, allied with improvements in algorithmic complexity and accuracy, could mean that machines really are better suited to making economic decisions than humans. We could be about to enter the era of the 'Algorithm Economist', where coding decides economic policy. Arguably, as the new breed of millennial economists emerge into positions of authority, fully steeped in economic theory yet also immersed in the benefits of technology, that time is not far off.

Algo world

According to commentator, Yuval Noah Harari, currently only about 1% of the population understands the economy. In 20 years, he argues, if most of the economy is run by algorithms, no-one will understand it.

Decision-makers will then be taking policy directions from machines that will be using a rationale far too complex for humans to understand. Machines will be making most tactical decisions, being much faster and infinitely more consistent than their human counterparts. Perhaps that is a good thing. Of course, an algorithm requires the widest set of variables, inputs and scenarios to function effectively. But even then, their ability to adapt to extreme states is questionable, at least by today's standards.

Optimally tweaking interest rates to increase or decrease inflation may be easy in normal times for a smart bit of coding with the right inputs. But when things aren't normal, could an algorithm come up with the right policy to defend an economy? Possibly not. But then, if it was that smart, perhaps it would not allow economic disaster to draw its first breath anyway.

With the availability of more and better data, and huge computing power, a future where algorithms will find causes rather than just correlations, and solutions instead of just problems, is not beyond reach.

Warren Buffet has been out-invested by an algorithm. A chess world champion has been beaten by one. Just as treasurers may one day find that artificial intelligence has taken their job, the day of the 'Algorithm Economist' is surely coming. If corporate systems connect to those of the central banks, then a revolution is nigh. The solution? Reinvent yourself before it's too late.

And the winner is…

Step into the spotlight – nominations open 31st January

The highly acclaimed Adam Smith Awards programme is now in its 12th year. This globally renowned platform showcases the very best and brightest in corporate treasury across the industry.

The Adam Smith Awards programme recognises best practice and innovation in corporate treasury, regardless of company size, budget or industry sector. Nominations open on 31st January and there are 19 award categories in total. Representing the full range of activities that corporate treasury teams undertake, these categories are sure to capture your achievements. If you believe your work has gone above and beyond the call of duty, now is the time to put yourself forward.

Corporate treasury departments operate as a true strategic partner to the business. You are constantly challenged to deliver better and more innovative solutions and an Adam Smith Award is the benchmark of that achievement. The Adam Smith Awards recognise the position of importance the treasury profession now occupies around the world and how treasury professionals are stepping up to support business growth in challenging times.

Everything you need, including the nomination form, can be found on our website during the nomination period – it is a simple case of completing and submitting the short form online.

3 easy steps to nominate

Step 1:

Visit **treasurytoday.com/adamsmith** to access the nomination form.

Step 2:

Provide a detailed account of the challenge you faced, the solution you implemented and the benefits this has provided.

Step 3:

Winners will be announced in May and will celebrate their success at the Adam Smith Awards Gala Presentation Lunch in London on 20th June.

2019 award categories

Treasury Today's Top Treasury Team 2019
Best Cash Management Solution
Best WCM, AP/AR Solution
Best Card Solution
Best Trade/Supply Chain Finance Solution
Best Funding Solution
Best Sustainable Finance Solution
Best Risk Management Solution
Harnessing the Power of Technology
Best Fintech Solution
Best Cyber-Security Solution
Best in Class Treasury Solution in the Middle East
Best in Class Treasury Solution in Africa
Best in Class Treasury Solution in Latin America/Caribbean
Best Liquidity Management/Short-Term Investing Solution
First Class Relationship Management
Best Foreign Exchange Solution

Individual awards

Treasury Today Woman of the Year 2019
A Rising Star

Nominations can be made by any corporate, and banks and service providers can assist their clients in completing the nomination form. Banks and service providers are also able to submit nominations on behalf of their corporate clients (with their approval). Nominations close on Monday 15th April and the winners will be announced in mid-May. All winners will receive an invitation to the Adam Smith Awards Gala Presentation Lunch on Thursday 20th June at Plaisterers' Hall in the City of London.

For full details on all categories, please visit **treasurytoday.com/adamsmith**

Save the date

Thursday 20th June | Plaisterers' Hall | City of London

All award winners attend the Adam Smith Awards Gala Presentation Lunch on Thursday 20th June at Plaisterers' Hall in the City of London to be presented with their awards. Good luck with your submissions and we look forward to welcoming all 2019 award winners!

Should you have any queries please do not hesitate to contact us at **awards@treasurytoday.com**

By submitting a nomination in the Adam Smith Awards you accept that if you win an award, a case study outlining the details of your winning solution will appear in the Adam Smith Awards Yearbook.

WOMEN IN TREASURY

NEW YORK FORUM 2018

On 10th October over 150 attendees from the worlds of corporate finance, technology and banking came together to celebrate women in treasury at the third annual Women in Treasury New York Forum.

Over 150 women and men from the world of finance gathered at the Pierre hotel in Midtown Manhattan on 10th October for the third Women in Treasury New York Forum. The event saw professionals arrive from the East and West Coasts of the US to celebrate women in corporate treasury and the allies who support progress in our industry.

The Forum is going from strength to strength every year. Not only is it a fantastic and rare opportunity to bring together likeminded professionals to meet their peers and share their views and experiences; it also enables them to assess data from the latest Women in Treasury Global Study in partnership with State Street Global Advisors and hear from our fabulous panellists who this year were: Debbie Kaya, Senior Director, Treasury, Global Cash and Operations, Cisco; Nancy Pierce, Managing Director, Global Head of Payment Programs, Global Liquidity and Cash Management, HSBC; Christy Barwick, Treasurer, Core Scientific; and Pia McCusker, Senior Managing Director and Global Head of Cash Management, State Street Global Advisors.

The day began with a networking drinks reception during which Treasury Today Group's Sophie Jackson, Joint Publisher & Head of Strategic Content, and Meg Coates, Joint Publisher & Head of Operations, talked briefly about what inspired them to launch the Women in Treasury initiative before providing a summary of the latest annual global study results. Guests then moved through to the lavish ballroom of The Pierre, built in the 1930s and a landmark on Fifth Avenue, for a seated lunch. After the main course, the panellists took to the stage for a discussion moderated by Sophie.

Christy spoke about her path to treasury, recalling: "My treasury career began at an early age when I was elected as treasurer of my elementary school!" Christy has enjoyed a varied and exciting career, having initially held corporate treasury and finance positions at Daimler Trucks and PACCAR before moving on to Microsoft where she worked in treasury capital management – corporate finance under the leadership of her professional mentor, Anita Mehra. In 2011 she became the first treasurer of the largest invention capital company, Intellectual Ventures, founded by former CTO of Microsoft, Nathan Myhrvold. After spending nearly seven years at Intellectual Ventures, Christy was approached by Kevin Turner, former Microsoft COO and the current CEO of blockchain and AI start-up Core Scientific, to become Core's first treasurer.

Pia spoke of the fabulous mentors who have helped her throughout her career, notably people who provided support and training when she started her career at Fleet Bank. A stint at a start-up followed but it was short-lived as the company sadly closed. Pia returned to graduate school and, armed with a degree, went to State Street Global Advisors where she has been for 18 years. She is full of praise for her manager, Matthew Steinaway, Chief Investment Officer of Fixed Income, Cash and Currency,: "He is a leader I have followed and been supported by the whole way. We have worked together for 13 years. He is a leader who allows talent to thrive and has no bias or prejudice."

Debbie spoke of her career journey, beginning with her desire to become a doctor. She recalled graduating in the early 90s when there was a big downturn and a challenging jobs market. Debbie was initially cajoled into her role in treasury at Cisco by her manager – something she is now grateful for, as it has led to a rewarding career. She describes her career path as "one that has been defined by taking chances and moving to take on roles that I had never done before and by leadership that believed in me".

Nancy has been based in New York for the majority of her career but her postings have included Hong Kong (with Chase Manhattan) and London (with HSBC). Her career has been defined by making decisions, such as changing company or

The challenge for me has been to understand and recognise when the time is right to make a major decision like relocating or changing company.

Christy Barwick, Treasurer, Core Scientific

location, based very much on what would work for everyone at home at a given point in time. "The challenge for me has been to understand and recognise when the time is right to make a major decision like relocating or changing company," she says.

Christy followed up on Debbie's comments by talking about the importance of "knowing when the time is right to move on". These moments allow us to refresh and 'to tap into our network' she says, pointing to her own decision, after leaving Intellectual Ventures, to take some time out, meet lots of different, interesting people across her network, and generally recharge. Understanding what is most important at various stages of one's career and being strategic in identifying and filling gaps in your professional portfolio is critical, she says.

Boardroom quotas

The evolution of female representation in the financial industry was the next focus of discussion, with Debbie relating how, from her college days through to working in capital markets and European cash management, she saw changes in that representation. Working in predominantly male environments early in her career and then, later in Amsterdam, in a largely female environment, led Debbie to understand the importance of real diversity in representation, one that is not just limited to gender. The tokenism that she had encountered many years ago appears to have abated, Debbie feels, and she has begun to observe women truly moving up the ranks in the industry.

A debate about how best to encourage a culture of inclusion and what is meant when we speak of an inclusive environment followed. For Nancy an inclusive environment is one where everyone is welcome and where there is true representation, creating a perfect "recipe for businesses to do well". While she has observed women coming up the ranks, she believes there is still a long way to go. Leaders are now under growing pressure to reach down and to pull up rising talent and that needs to be encouraged, even if it requires the use of quotas, she believes.

A live poll of the forum participants to gauge their support for the use of quotas for board representation revealed that roughly 70% of those present were in favour – far greater than the 44% of the Women in Treasury Annual Global Study 2018 respondents who also support quotas.

Pia then highlighted the importance of diversity of thought and getting different people, with different viewpoints, together in a room. In her current role, Pia has worked hard to bring some interesting new hires into her team and to really make sure that diverse opinions and backgrounds are represented.

Mentoring is being seen as an increasingly vital tool in the corporate workplace. Christy shared her experience about the benefits she herself has derived from acting as a mentor and how honoured she felt to have such a role. For many years she was a leader in Intellectual Venture's Senior Women's Mentoring Circle, comprising a diverse group of senior women who came together to help support each other to achieve their personal and professional goals. Nancy expanded on the theme by detailing how mentoring, sponsorship and coaching can come into play at various key moments during one's career.

Question of balance

It is more important than ever in today's fast-moving world to manage not just our careers but also our own personal development, ensuring a balance. Pia explained that the domestic set-up that has allowed her to be at her best professionally is to have a stay-at-home husband. She emphasised the importance of extracurricular activities for ensuring the pressures of work do not overwhelm. She is also a champion of parental leave and has worked to ensure that the people who work for her, both men and women, take up their entitlement in full.

Parity continues to be an issue to the respondents of the Women in Treasury Annual Global Study, with 39% of the 2018 respondents feeling they were not being paid the same as their male counterparts. Nancy was asked to share some implementable advice on negotiating, as this should be at least one route women can take to be paid what they are worth. She suggested those with a grievance over pay should do some research through various means to determine industry benchmarks and company expectations, followed by some tough but fact-based conversations with their managers about what they think they are actually worth. Christy amplified Nancy's comments by sharing her own approach when negotiating. When asked what her own salary requirements were, she replied, "more is better!" A lesson for us all.

Inspirational journeys

Outside of our professional communities is a wider community that we all belong to. The Women in Treasury initiative strongly supports and encourages all professionals from the industry to think about the ways in which they can be part of a broader community movement which helps everyone to thrive. Christy shared her experiences of serving on the board of FIRST Washington, a STEM and mentor-based organisation, and of the importance of finding opportunities to contribute and give back to our communities.

Pia's final piece of advice was to be "real and authentic", noting her own experience of being honest and human in front of her team at critical moments and seeing how powerful that can be.

The event ended on an emotive note, as the panellists spoke of the special and unique individuals who had most inspired them in their own journeys to where they are today. They included the story of one woman who went from segregated schooling to M.I.T and then to running a large corporation. What was noticeable in all four individuals who were highlighted as an inspiration by our panellists was their human traits of authenticity, kindness, determination and respect. What never fails to surprise at our discussions on career development is how important it is to be ourselves and to cultivate the best version of that as we advance up the ladder.

Treasury Today Women in Treasury initiative

Our Women in Treasury initiative recognises the importance of women in the treasury profession and creates a means for women to communicate with one another; learn from each other and network in order to help each other. Women need to be much more visible in their roles, both inside and outside of their organisation. Women and men need to come together to celebrate diversity in all its forms and move the conversation forward. Events such as our Women in Treasury Forums are an integral part of this path to diversity.

In 2019 we will host our Women in Treasury Forums in Singapore, London and New York.

Our Women in Treasury initiative also includes:

- Profiles of female corporate leaders.
- The annual Women in Treasury Global Study, proudly supported by State Street Global Advisors.
- Our Women in Treasury LinkedIn networking group.
- Woman of the Year awards at the Adam Smith Awards and Adam Smith Awards Asia.

To learn more about the Treasury Today Women in Treasury initiative please visit:
treasurytoday.com/women-in-treasury

For further information please contact Lisa Bigley, Global Head of Events, **lisa.bigley@treasurytoday.com**

A natural development: sustainable finance making a difference

Sustainable finance, sometimes seen as a gimmicky alternative to real finance, has grown up. It is now a viable means of funding that has potential benefits for us all. Here's how all treasurers can use it to make a difference.

The old proverb, 'those who live in glass houses shouldn't throw stones' has a new twist. In today's somewhat perilous climate, where weather systems seem to have become more extreme, living as we do under a great protective atmospheric 'greenhouse' demands that, at the very least, we all do our best not to make things worse. The City of London Corporation's Green Finance Initiative says that globally, US$90trn will be needed by 2030 to achieve global sustainable development and climate objectives. It seems an insurmountable figure. So why bother?

In treasury terms, there is something that can be done that arguably achieves a positive outcome for us all. That something requires bringing about a change in the way funding is sourced so that, ultimately, only the most environmentally responsible corporate activities are sustained.

What it means

Sustainable finance is, according to the European Commission, "the provision of finance to investments taking into account environmental, social and governance (ESG) considerations". It includes a strong focus on the notion of 'greenness', aiming to support economic growth whilst reducing pressures on the environment from pollution, and being more efficient and considerate in the use of natural resources. It includes a wide range of financial products such as bonds, loans, securitisation and fund portfolios.

Since 2015, the Paris Climate Agreement and, in particular, the UN 2030 Agenda, have asked for commitment to align financial flows with a pathway towards low-carbon and climate-resilient development. The 17 Sustainable Development Goals (SDGs) set out in the 2030 Agenda have been likened to 'a purchase order from 2030 for business and government action today'.

The Global Sustainable Investment Alliance shows that in 2017 there were US$22.9trn of assets being professionally managed using responsible investment strategies. This represents an increase of 25% since its 2014 review.

With the sovereign green bond market slowly expanding (Poland, France, Belgium, Indonesia and Fiji, so far) and large institutional investors such as Swiss Re announcing the movement of its entire US$130bn investment portfolio to ESG indices, steps are being taken in the right direction. However, there is a major regional imbalance in support.

The Global Sustainable Investment Review of the proportion of global socially responsible investment assets by region shows Europe at 52.6%, the US at 38.1%, and Asia (excluding Japan) at just 0.2% (Japan accounting for 2.1%).

Benchmarking

Whilst the key driver of ESG is often the customer, there is a strengthening policy and regulatory focus in this area, says Michael Wilkins, Head of Sustainable Finance, S&P Global Ratings. Indeed, the international Financial Stability Board (FSB) has released a set of recommendations for better disclosure on climate-related risk and opportunities. These, he notes, are being adopted "in a widescale manner".

"Green finance is very much becoming a mainstream part of capital markets," Wilkins says. "If you look at the signatories, there are in the region of 1,800 asset and fund managers who are now part of the Principles for Responsible Investment (PRI), and that represents over US$60trn of assets under management."

With countries signed up to the Paris Climate Agreement starting to implement so-called Nationally Determined Contributions, financing of projects to meet targets is assured. With most of the necessary financing coming from the public sector, there is a massive opportunity for private sector companies able to assist the transition to a low-carbon economy or improve the environment in broader ways.

But these projects need to be benchmarked, says Wilkins. In the capital markets, although the value of credit is well-understood by investors, understanding the "value of green" is more difficult to grasp. "If it can't be measured it can't be priced. If you can't price it, you can't discover what the value is," he states. Because not all green bonds are equal, he believes that enabling a relative ranking of 'greenness' enables better price discovery. To this end, S&P's Green Evaluation is an environmental credential applied to bond issuances and bank loans, providing investors with a clear picture of the green impact of their portfolios.

For issuers, although generally "the jury is out" as to whether green pricing benefits can be achieved, there is evidence from larger, well-recognised names making benchmark issues in the corporate bond market, suggesting it can, says Wilkins. Renewi (see case study) has beneficial margins linked to sustainability targets, as has Danone in France.

Of course, few investors would openly declare their preparedness to pay more for green bonds but Wilkins notes a two-to-three basis point advantage in the primary market, and in the secondary markets, anything up to 25 basis points. For now, it appears that green pricing is at least as good as for regular issuances. For the longer term, Wilkins says benchmarks and better information on the relative value of greenness will be necessary to facilitate market growth at scale if the projected investment required to meet the transition goals is to be met.

Royal engagement

"The skills in the financial and accounting community are not currently in a position to help us transition to a sustainable economy," warns Helen Slinger, Director at Accounting for Sustainability (A4S), an organisation established by the Prince of Wales in 2004 to challenge the existing financial model's appropriateness for the 21st century.

Working closely with senior financial figures through the organisation's CFO Leadership Network (itself formed of a group of companies looking to deploy sustainable business models), she is aiming to get the message out to many more finance teams, helping them to embed sustainability into their financial decision making.

A key project, started in 2017, is aiming to drive the integration of ESG into mainstream debt finance. Working with networked CFOs and their treasurers, and a number of their debt providers, the initial mission was to achieve an understanding of the extent to which ESG considerations are currently incorporated into funding activities.

As part of the programme, a roundtable was held, bringing in asset managers, banks, credit agencies, ACT leadership, and HRH The Prince of Wales himself. This group was tasked with discussing progress and the challenges faced. "One of the most important things we can do is to get people talking to each other, to get everyone to consider how we move from the current position on sustainable finance and to help it move into the mainstream," says Slinger.

Discussion has so far revealed that, in a green context, some banks are being much more careful about who they lend to from both a risk and reputational perspective. "Within their governance processes, they are looking much more closely when making lending decisions and even stepping away from some sectors altogether," notes Slinger.

London's big environmental issue

CASE STUDY

London has a growing problem with its ageing sewers. It has long-since needed an updated system to keep ahead of demand. Tideway is the regulated utility responsible for building the city's new 25km super-sewer, known as the Thames Tideway Tunnel. This is a US$5bn project. Helping to raise the debt to keep this essential work on track is Tideway's Treasurer, Ines Faden.

"The company was created to address a sustainability issue. We thought it was only natural that the financing should align with the mission," says Faden. Tideway has now issued six green bonds, one public and five as private placements, both cash and deferred, and all indexed to inflation (CPI and RPI).

In 2017, a strategy was approved that would enable the creation of a green bond framework. This would be used to help guide this process and give investors better understanding of the company's approach.

Today, almost 90% of green bonds issued are voluntarily aligned with the "relatively straightforward" green bond principles established by the International Capital Market Association (ICMA), notes Faden. "Ours are no different." But confirming green credibility remains important and, following publication of Tideway's framework in October 2017, S&P Global Ratings published its Green Evaluation of the company's funding platform. It gave an overall evaluation score of 95 out of 100, making Tideway the joint highest global scorer to date.

In practice, Tideway's framework documentation, drawn mostly from internally sourced data, acts as the definitive information for investors, detailing the company, its alignment with sustainable objectives, use of funds, reporting to stakeholders, and the governance steering its approach.

The success of its funding model saw Tideway become the largest corporate issuer of green bonds in sterling after pricing a CPI-linked issue in early November 2018. This £200m private placement complemented its first UK public green bond issued the previous week, giving a combined total of £450m.

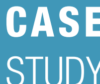
"The main motivation for us to issue green bonds is the alignment of the finance function with the rest of the company," says Faden. In the investor universe, there are some investors who only consider sustainable or green financing. It is a small but growing group, she says, but this helps to diversify the funding source, bringing in additional investors.

"There is also the matter of pricing. From our perspective, it is difficult to say if our bond was issued at a premium or discount as there is no curve out there for us to benchmark. There was a lot of interest in the issue right at the bottom of our pricing expectation; it has since been trading very well."

An additional benefit derived from the experience has been the change in internal dynamics, notes Faden. "Not only are our shareholders very happy – some are now doing more in this space and are coming to us for advice – but it has also brought the finance function much closer to our sustainability team and to our delivery and operational teams."

The general reaction from the banking community has been mixed. Although Faden says some banks were "very engaged" with the idea, some of them were, at best, "indifferent". She recognises some institutions have some very knowledgeable people when it comes to green finance, "but they tend to sit somewhere between compliance and HR; miles from their debt capital market desks". There is clearly an education issue here.

Funding the circular economy



Renewi is an international FTSE business focused on waste management and recycling. As a pollution prevention and control specialist, its green and sustainable activities fit perfectly into the eligible categories within ICMA's Green Bond and LMA's Green Loan principles.

In 2015 it issued its first green bond on the London Stock Exchange. In December 2018 it created a €25m Green European Private Placement (EUPP), adding an important new non-bank source of funding in addition to Renewi's existing retail bonds and bank facilities. This was issued under Renewi's existing Green Finance Framework, created with the help of its relationship banks to expand on the company's commitment to sustainable finance.

The framework (which, similar to Tideway, incorporates an external evaluation), has also enabled Renewi to convert its general purpose revolving credit facility into a green loan with its banks; the Benelux institutions with which it works being most receptive to, and thus learned in the matter of sustainable finance, notes Adam Richford, Group Treasurer, Renewi.

The company has also put in place a 'sustainability improvement' aspect in the loan. "This links our pricing on the loan facility to ambitious targets for environmental and safety aspects of our business," explains Richford. The margin discount, directly linking pricing to sustainability performance, is aimed at further improving Renewi's critical ESG metrics.

Indeed, a €150m Green operating Lease Programme, issued under the framework, was also added in December 2018, reducing Renewi's operating costs due to the efficiency of its new Euro 6 trucks. These are 'best in class' for reducing harmful exhaust pollutants and emissions and will significantly improve the environmental impact of the company's collection fleet. By Spring 2019, around 90% of Renewi's fleet will be Euro 5 or Euro 6 trucks.

Today, the sustainability framework Renewi has built is such that it could issue all future instruments – such as bonds, loans, leasing and receivables finance – under the same green guidelines, says Richford. But by strengthening the internal connection between finance and treasury, and the company's CSR credentials, it also helps tell the broader equity story, positively positioning the business within its market place and with its stakeholders.

"For us, green finance is very much congruent with our overall corporate sustainability focus and our equity story," he comments. "It's now an important discussion point with our existing and potential new equity investors, many of whom are focused on socially responsible investing."

So convinced is Richford of the value of green finance that he believes all businesses should consider using it "wherever possible, as a differentiator to investments that do not contribute environmentally or socially". Over time, he believes that this could result in more capital being deployed for positive impact. "I don't see any real downside," he concludes. "Ultimately, rather than ask 'why green?', we should be asking 'why not green?'"

However, she adds that there is an indication that companies with a sustainability focus are increasingly attractive to debt investors. She also senses an expectation that committed lenders could set further sustainability criteria within their governance and terms sheets, helping to promote the concept to a far wider market.

That said, there are many challenges ahead. "This is not an easy fix," warns Slinger. A4S is uncovering these challenges, creating a wider dialogue and on-boarding the right people to move sustainable financing in the right direction. Early adopter corporates are making great headway.

Future?

There are always cynics and the 'greenwashing' of finance is still a hotly debated point. Yet almost 90% of green bonds issued are now aligned with the voluntary ICMA green bond principles; these principles check, measure and report on the transparency and governance of the allocation of proceeds. They go a long way to preventing exploitation of the concept. The argument against is ebbing away slowly.

Both treasurers featured here report that sustainable financing has been very positively received internally with their respective shareholders, executive committees and boards. Clearly it also sits well with their respective investors.

With PRI investors keen to follow the story of companies that are taking the sustainability seriously, it is opening up a new and valuable source of funding that may well have to become the norm.

With the likelihood of FSB's climate-related reporting recommendations being hardwired into accountancy standards (the City of London's Green Finance Initiative is pushing for it), they could de facto become a compliance requirement, forcing companies to either invest in or mitigate their exposures to climate issues. This will have huge consequences for the sustainable finance market.

For Faden, within the next decade, the green bond market will cease to exist. Why? "Because all financing will have to be sustainable." Treasurers opting in now will be helping to shape this nascent market, and making a positive difference for all our futures.

Open for business

Suzanne Perry
Assistant Group Treasurer

Although treasury has remained a career-constant almost from the outset, Suzanne Perry, Assistant Group Treasurer at RELX Group, is driven by a need for continuous learning and tackling new tasks. This has assured her rise through the ranks of this vast global organisation.

RELX Group is a global provider of information and analytics. It is headquartered in London and listed on the London, Amsterdam and New York Stock Exchanges. It covers four market segments: scientific, technical and medical; risk and business analytics; legal; and exhibitions. The company has offices in about 40 countries and serves customers in more than 180 countries.

"I like the variety," says Suzanne Perry of her role as Assistant Group Treasurer at RELX Group. Based in central London but looking out across the company's global operations, she is not short of opportunities for job satisfaction. In shadowing the work of the company's Boston-based Group Treasurer, she oversees all of the traditional treasury functions but also focuses on group risk management and funding, with additional responsibilities for elements of insurance and UK pensions.

It's a truly broad remit that requires her to take the lead on RELX's term debt projects, steering its ad hoc internal restructuring plans and ensuring capacity for close involvement in major events such as the company's recent corporate simplification programme.

At the 'traditional' end of the spectrum, cash management for example, Perry can be found directing enquiries to the right resource rather than working at the coalface. The ability to do this comes from a great depth and breadth of experience within the business.

It started in 2000 in her first role in the company (then Reed Elsevier) as a Treasury Analyst. After a period at Deloitte as a chartered accountant, Perry, naturally competitive and

inquisitive, decided that RELX Group's international profile was an exciting career prospect. Indeed, the thought of traversing a large and diverse business – and one that, as it transpired, respects the sanctity of work-life balance so important to her – was an opportunity not to be missed.

Having taken the plunge, she soon realised that, as a mathematically sharp philosophy graduate, the analytical and forward-looking nature of treasury and its demand for a strong technical base was the perfect fit for her.

To support her understanding of the role, she embarked on formal treasury study, heading directly for the more challenging MCT level. Being "very aware of only ever having worked in treasury at RELX" and needing to know she was on the right track, she viewed her professional studies as a way of formally evidencing her always-accumulating 'best practice' technical knowledge. It has also been a means of further developing the "art, not science" side of treasury, in which she believes the skill of balancing risk and reward enhances the role greatly. Furthermore, observing a willingness in some to "follow the numbers without questioning them", Perry argues that the world is far too messy for such a rigid default approach. "Things can and do go wrong; flexibility is essential."

Early involvement

As one who sees "getting involved" as an essential part of the job, Perry has undertaken an increasingly broad sweep of financial functions since her arrival at RELX Group. When accounting rules changes in 2004 (IAS 39) meant derivatives had to be recognised on the balance sheet, the value in getting involved at an early stage was clear.

Rather than seeing it merely as engaging with compliance, she viewed her input as a solid contribution to the bottom line. "I'm a practical person; I always like to feel I am doing something," she comments. Having thus built a reputation for expertise, colleagues executing derivatives and hedging deals in the group's Swiss treasury centre called upon her to help them correctly structure and administer their own deals.

Roll forward to 2009 and Perry, keen to take part in a benchmark-sized debt deal, headed off to Switzerland on secondment. An equity placement that concluded in July of that year, driven by concerns about the declining economy, presented a major new opportunity for her to get involved in the deal's foreign exchange management, converting cash to pay down some of the facility.

However, this deal, of which she caught the tail-end, meant the company was now very well financed. She had to wait a few more years for the next one to come along. Although this meant extending the secondment twice, true to form, she took it as an opportunity in itself. "There was a lot to get to grips with," she recalls.

RELX Group's largest business – scientific, technical and medical – has annual subscriptions to its publications; these are mostly paid in Q4. Whilst cash is moved intra-group, consolidation of group cash (to the tune of around US$1bn) is always weighted towards the final quarter. To support its capital needs, RELX issues commercial paper throughout the year, paying it down at the end.

With Switzerland originating much of the commercial paper, Perry relished the challenges of this market-facing role, learning about negotiation, trading, guarantees, and its legal and administrative processes, through a number of bi-lateral smaller deals. "It was good to have a lead-in before tackling a benchmark bond," she reflects. That came in 2012. "Whilst it was not a great market, we hit a sweet spot when we issued; it was a great teamwork experience." This was followed in 2013 by a Swiss bond issuance which saw Perry fully involved in roadshow duties, helping it towards another well-received issue.

Building bridges

The Swiss experience ended in April 2014 but it has helped Perry build many relationships with finance team members. The fluidity encouraged in the business means many have since moved into the divisions, ensuring that she has become a familiar face right across the group. Although more of a strategic player now, having the wide-ranging background and contacts at ground level has proven advantageous in many ways.

Each division has its own finance team, often staffed by former members of the corporate finance function. Knowing that the door is always open, there is an easiness in approaching treasury with a problem; expert advice is always forthcoming. Whilst the units do not need to worry about financing, treasury's "main ask" of them is that they regularly submit their cash flow forecasts.

With the full support of the CFO, treasury is keen to support the different entities, acting as a centre of knowledge, says Perry. Whether setting up a new entity or an online payments collections process, it is, she adds, "all about having the right dialogue with them".

Know your treasury

Keeping in contact reduces the likelihood of a business "trying to do treasury without the knowledge," she explains. "The Heads of Finance in each division are now cascading the understanding that anything treasury-related – including bank relationships – goes through treasury."

Indeed, at a senior level, treasury is a well-known function. But as RELX Group is such a large business, it can be difficult to reach smaller entities. This is especially challenging where it has been brought onboard by acquisition or where it has minimal contact with the corporate team.

Perry's response is to always take the initiative to promote treasury. She can often be found giving talks on internal finance forums, explaining how treasury can help the businesses. The key message, she says, is that anyone not sure about something should always ask.

It might mean explaining again why cash flow forecast data is needed, but she feels that the more people understand that what treasury does eventually flows through to the key metric of earnings per share (EPS), and that the function "is not leaking away all their hard-earned profits above the line by being inefficient", the better it is for the whole business. It seems to work. "All the businesses now get EPS is very important – and we are getting them to understand the role treasury plays."

Understanding the world

Of course, there are macro issues for treasury to manage. Current concerns amount to more of a watching brief for Perry

though. Events such as LIBOR reform could impact the business; a lot of RELX Group's derivatives reference it so "keeping an eye on the direction of travel" and having a plan is essential, she says.

Although Brexit is not a big issue for the RELX business model, again it requires steady monitoring. RELX's banking partners are not forewarning of any issues making and receiving payments or anything around derivative counterparties in this context. But for Perry it is still necessary to keep an eye on developments.

It's a pragmatic approach that has also informed RELX's approach to technology. Of its 30,000 employees, around 8,000 are technologists. It's in the company DNA, says Perry confirming that "we're a big fan of technology but not for the sake of it".

With a strong in-house technical resource at hand, there has been a solid focus on the systems side for treasury and finance, says Perry. This has mainly been about consolidation, uniformity and keeping processes simple. "If you have a simple process it is easier to automate," she says. "Our biggest cost is people. If they can be freed from mundane processes, they can be applied to something with more value for the business. This is something we are constantly looking at and trying to leverage."

Discipline

With that in mind it may seem uncharacteristic that, in addition to the forecast data, treasury still requests every business unit to provide their end-of-month bank balances, either via email or, preferably, as a spreadsheet. "It offers treasury a good control," says Perry. "With these reports we are getting information which we can compare with the information extracted from our more sophisticated systems; it helps us to quickly spot any anomalies," she explains.

It's rare that anything is spotted but the reporting continues because it is a useful exercise and, although RELX Group is fundamentally a tech-company, "everyone is still quite focused on the accounting". On the treasury side, this focus means, for example, that every interest rate derivative it does is designated. "We do not have anything speculative, so even if something would be a good economic hedge, if we can't get the accounting designation as a hedge, we won't do it," states Perry.

In fact, she continues, the whole company is disciplined in terms of streamlining processes and accounting robustness. "It's a culture that I like. Everything tends to be done by the book, but the book is flexible where it needs to be."

This is clearly a mark of good treasury from Perry's point of view. As a senior treasurer who employs many, she naturally looks for similar core qualities in candidates. But for those seeking to move to the upper echelons where, as she has said, treasury "becomes more art than science", having a well-developed concept of risk and return is vital.

"Removing all risk can mean doing nothing but that in itself is a risk. Good treasurers need clarity of thought over all the possibilities, including doing nothing, and the strength to act," says Perry. Structured thought is indispensable and although complex treasury outcomes can merge into grey areas, she feels deeper analysis often reveals binary solutions. "Then it is essential to have certainty."

People skills

An often underrated but nonetheless essential treasury skill is that of being able to read people, she notes. Nowhere is this more evident than when doing debt deals. "We get feedback from the bank syndicate teams and they are always worried about giving too rosy a view, in case it cannot be achieved," she explains.

It might be in their interests to have treasury accept as bad a price as possible because a low price is easier to sell to investors. "But they are trying to be fair," notes Perry. But they won't, she notes, advise a treasurer to be aggressive in their pricing "because they will then worry that if they can't deliver, they will be blamed for failure". Appreciating that the syndicate teams are caught in the middle, she advises that when on calls with them, "it is vital to listen closely, to read between the lines, and be able to develop the conversation to flush out where the cut-off is to get those last few basis points".

In a more general context, similar to listening for subtle cues in a debt call, Perry is a keen advocate of listening to what people are really saying, rather than what you might want them to tell you. "Everyone is different and sometimes the individual's real thoughts will only be revealed if your listening skills are well-developed, she explains.

With so much risk in treasury, she feels that there is no room for uncertainty or hesitancy in what people say; it needs it be managed as soon as possible. The workplace environment can prove helpful here.

With RELX Group's dealing centre being open plan, Perry says it is easier to hear if a call is not going well and then deal with it quickly. It may be a simple misunderstanding between dealer and bank, for example, but whilst the dealer may not be willing to rock the boat, Perry being able to broach the subject with them afterwards can soon resolve the matter. A quiet word with the bank, for example, as a respected client, will quickly diffuse any tension.

In fact, although extremely rare, if ever there is a problem, especially with the volatility of the FX markets, she reiterates her earlier point about speaking up if there's an issue. For that to happen, her own approachability is indispensable. "You are running a huge risk by adopting an autocratic leadership approach; operating a reign of fear pushes people into hiding their problems. I've always tried to be open."

Happy treasurers

It's what someone considering treasury as a career would surely want to hear of their future boss. But for those entering the profession with intention of staying for the long-term, Perry advises a dynamic career path. The best route, she advises, is often offered by large international firms, simply because a greater breadth of experience will be open to the individual. "And when you get there, never be afraid to ask to move around."

Having risen up the ranks, she says she has reached a place where the work/life balance is about right. Family time, weekends, friends and socialising are what matter most to her. With RELX Group, she can do all that. As might be expected from a rational thinker, balance prevails. "If you are happy in your personal life, you can focus more strongly on your professional life." It's a cycle that can happily continue.

STATE STREET GLOBAL ADVISORS

WOMEN IN TREASURY

FROM INSIGHT TO ACTION

On 25th September 2018, on the eve of EuroFinance International Conference in Geneva, Treasury Today and State Street Global Advisors brought their eponymous roundtable discussion group on tour to Switzerland for a very special and intimate evening with a select group of corporates. Guests were gathered together within the beautiful surrounds of the Hotel du Beau Rivage, to discuss why diversity and inclusion in treasury is important to them. Attendees of the soirée came together to network and were amongst the first people globally to hear the latest analysis and takeaways from the Women in Treasury Annual Global Study 2018 proudly supported by State Street Global Advisors.

Sculpture by Kristen Visbal, commissioned by State Street Global Advisors

The data from the Women in Treasury Annual Global Study 2018 had been so freshly written up that the report was not yet printed, so this group was lucky enough to exclusively hear the result highlights and to share what the findings mean to them in real terms as treasury professionals.

Gunjan Chauhan, Head of APAC and EMEA Cash Business at State Street Global Advisors, opened the evening, welcoming everyone and briefly outlining the reasons behind State Street Global Advisors' commitment to gender equality, diversity and inclusion, epitomised by the Fearless Girl. Attendees watched a brief video showcasing the unveiling of Fearless Girl and the fantastic work that State Street Global Advisors has been doing to lobby companies to increase their gender representation at board level. It was fantastic to bring the Fearless Girl and her story to Switzerland for the evening and to spread the message of power and progress that she represents.

Will Goldthwait, Vice President, Portfolio Strategist from the Boston office of State Street Global Advisors was also present in Geneva. After introducing himself, Will stressed the importance of the global dialogue around diversity and inclusion as critical in understanding the barriers that remain and measures needed to effect change. It was then over to Meg Coates, Joint Publisher & Head of Operations at the Treasury Today Group, to present a summary of the main takeaways from the Women in Treasury Annual Global Study 2018 results.

To bring insights from the experiences and opinions of a seasoned corporate treasury professional, Séverine Le Blévennec, Director of Treasury EMEA at Honeywell, was the expert guest speaker for the evening and was interviewed in a scintillating fireside chat by Sophie Jackson, Joint Publisher & Head of Strategic Content at the Treasury Today Group. Séverine's experiences over the course of her successful career were invaluable and she drew on her own personal insights in a frank and open conversation.

Amongst the wide ranging topics for discussion were some of the key highlights from the 2018 Study results. One of the areas that was assessed by our guests was this year's respondents' thoughts on the topic of mentoring, sponsorship and coaching. As with previous years' responses, there was overwhelming support for these activities, with 79% of our respondents believing they were key to career advancement. Séverine shared her personal experiences of two particularly stand-out managers over the course of her career encouraging her along the way. Her current boss, Marie-Astrid Dubois of Honeywell, had been a particularly strong influence in Séverine's decision to move to Honeywell and the support and inspiration that her boss had offered her rang true amongst our guests.

Beyond individuals, there was also talk of how learning and defining our roles for ourselves as we shift our focus and seek to grow, can be critical in career progression. Séverine's appetite for learning and for thinking outside of the box when assessing where she might seek to augment her knowledge base has certainly made her a sought-after asset in the companies she has worked for.

Mobility and moving location as an efficient way to boost a career was also mentioned by many of the Women in Treasury Annual Global Study respondents. Although Séverine had been offered a strategic move to Detroit as part of a previous role, she shared her experiences in declining such opportunities. There is a lot more to consider than our own career advancement when planning a big move, particularly for those professionals with families and other responsibilities. Her prudent approach offered a balance to the usual rhetoric around 'feeling the fear and doing it anyway' and a more risk-taking attitude towards one's professional development.

On a more practical and implementable level, our participants discussed statistics around parity, including the disheartening fact that 39% of our 2018 respondents felt that they were not paid the same as their male counterparts at the same level of seniority. Attendees shared their own experiences of negotiating their salaries and pushing for promotions and pay rises. It was encouraging to see a collective support emerge around the topic of negotiating within our attendees' organisations as we moved from this disappointing piece of data to more galvanising action for us all.

The Women in Treasury Annual Global Study 2019, proudly supported by State Street Global Advisors, opens in March and the results will be released in September. To learn more please contact Lisa Bigley, Global Head of Events – **lisa.bigley@treasurytoday.com**

Join our Women in Treasury community on LinkedIn where you can be part of the discussion around the findings of this study, contribute your insights and engage with a unique professional network. Simply contact our Head of Circulation, Sarah Arter – **sarah.arter@treasurytoday.com**, to join our Women in Treasury community and be part of the dialogue today.

Corporate treasurers urged not to ignore benefits of open banking

Open banking has yet to win over consumers and corporates with its promise of greater competition and innovation across the financial services industry. But with banks and fintechs beavering away creating solutions and infrastructure to support it, the initiative looks to be building up a head of steam, with advocates certain it will, eventually, prove irresistible.

Open banking, which requires banks to make customer account data they hold available to third parties so that they can create new, innovative financial products, is being hailed as revolutionary. Yet, so far, almost a year from it coming into force, the concept seems to be having a tough time making much of an impression on those who it is intended to benefit most: consumers and corporates.

A YouGov poll in August 2018 found that nearly three quarters of Britons had not even heard of open banking and that, moreover, over 77% of the 2,074 polled are wary about sharing their data with companies other than their main bank. Just 12% said that they would be prepared to share their financial data in order to access new and innovative products or services.

Further evidence of consumers being distinctly underwhelmed by open banking came in November, with design and technology firm Splendid Unlimited revealing that just 22% of UK adults polled had heard of open banking as a concept and for many of them trust remained a big issue, with security and privacy high on their list of concerns. Just 9% of the 2,000 adults surveyed by Splendid said they use open banking.

On the face of it then, despite its bold and honourable mission of opening up financial services to greater competition and innovation, open banking appears to be struggling to win over the public. And if a live audience poll at the recent Eurofinance International Treasury Management conference in Geneva is to be taken at face value, corporate treasurers too seem to be wondering what all the fuss is about.

Approximately 60% of the treasurers polled at a plenary session said they believed open banking and the EU regulation that enables it, PSD2, are not relevant to them.

The regulation that launched open banking in the UK came into force in January 2018 but the groundwork for it was being laid as far back as 2015. The Open Data Institute (ODI), an independent, non-profit organisation co-founded by the inventor of the web Sir Tim Berners-Lee and artificial intelligence expert Sir Nigel Shadbolt to champion open data and its innovative use, played an instrumental role in creating the technical framework that underpins the initiative.

David Beardmore, the ODI's Commercial Director and an expert on open banking, recalls the early period of its conception: "We corralled and convened all of the regulators, the banks and consumer groups to help that framework come into being and we provided a lot of the written paperwork that went into the UK Competition and Markets Authority's (CMA's) report that eventually led to open banking coming into force."

In 2016 the CMA mandated the nine largest personal and small business account providers in the UK – Barclays, Lloyds, Santander, Danske, HSBC, RBS, Bank of Ireland, Nationwide and AIBG – to adopt an "open standard" that would enable third parties such as fintechs to easily tap into their data to create new products and services. With the nine mandated banks accounting for 85% of all personal and small business current accounts, the body could be certain that the open banking regulation had the potential to impact most Britons and SMEs.

Slow burn

Beardmore is well aware of the reticence of consumers and corporates to fully engage with open banking but insists it is still very early days for the mission. He recalls that even before the mandating of the banks by the CMA there was a lot of talk that open banking was never going to happen for one reason or other. "That has proven not to be the case and there is a lot more to come. For sure we are on slow burn here with open banking but make no mistake, momentum is building."

The mandated retail banks have been active with launching open banking solutions, of course but for Beardmore, a rather more powerful indicator of the forces that will help drive and shape open banking going forwards is "the absolutely thriving, burgeoning fintech sector around open banking that is growing at an exponential rate".

He adds: "There are about 50 fintechs out there already accredited by regulators to operate in this open banking space and behind them there more than 150 looking to secure the same privilege. That all amounts to an awful lot of creativity and enterprise being expended on open banking. Add in the efforts of the high street banks, and the direction is clear. So, corporates absolutely need to take notice of open banking – it would be an absolute folly for them to ignore or believe it is irrelevant to their business models or financial operations."

So, what exactly is open banking and how does it relate to PSD2? Beardmore explains that open banking is essentially the UK's take on PSD2, the EU regulation that enables it. The big difference is that while PSD2 also requires banks to open up their data to third parties, the EU regulation is leaving the technical format for how that is enabled up to the market to define. The UK's open banking, by contrast, demands banks open up their data according to a common standard format: "That is a really important aspect and distinguishes the UK from the other countries."

With open banking, the nine banks mandated by the CMA have been required to implement a pre-defined single application programme interface (API), the underlying plumbing that enables software at one company to gain very fast, secure access to software at another company. "Many people get very excited about APIs and think that is what open banking is all about – it really isn't. An API is just a piece of code that allows two applications to talk to each other. It is like a universal power socket for the digital world, allowing multiple systems to work together and speak to each other and we have been using them for many, many years.

"Uber, for instance is built on API calls, so when you stand in the street and say "I need an Uber right where I am now", there's an API call from the GPS module in your phone to the GPS server that locates where you are. When you pay using the credit card registered with Uber, there is another API call to your credit card provider to take the payment."

The open-ended formatting proposed by PSD2 means that across the rest of Europe we could see the rise of various groups of standards driven by consortiums of European banks and third-party providers. That has given rise to concerns that the development of new services to clients of specific banks could be limited. The Berlin Group, consisting of 40 banks, payments associations and payment service providers from across the EU, has been formed to define a common API standard called NextGenPSD2. Although several other PSD2 API initiatives have been set up, the NextGenPSD2 looks to be in pole position to become the leading API framework across the EU as it has the greatest scale and number of participants.

API days

Whether it is PSD2 or open banking, the prime objective of both is that once consumers and firms have given permission for their bank data to be shared with third parties, they will be able to access new services and products from those parties. Within such an open environment, corporates, especially those that enjoy multiple bank relationships, are likely to benefit from more convenient payment management across different banks via a centralised platform, enabling more effective cash management. "An example here would be fintechs offering an account aggregation solution. They would create a platform where you can see accounts from multiple providers on a single platform, see the operation of those accounts together. That is just one potential and obvious application of open banking.

"The real beauty, though, and the reason why there are so many fintechs developing open banking solutions, is that they can build whatever service they want to put out there. As long as they do so with this common API recipe, they know they can go to any of those nine banks mandated by the CMA in full confidence that their app, service – whatever it is that they've built – will connect directly to those banks without any middle ware, without any transition or transposition, and directly to the customer's accounts providing, of course, they have been given permission by that customer."

Clearly fintechs are mightily keen on tapping into a market that potentially offers them access to up to 85% of bank

> Don't ignore open banking because not only are the institutions mandated by CMA doing it, so too are those who weren't told to do anything and were outside of that order. Momentum is building.
>
> David Beardmore, Commercial Director, Open Data Institute

customers in the UK alone, but they are not alone. Beardmore says there is growing, active interest in open banking right across the financial services industry: "There are a lot of legacy players – banks like TSB, credit card companies like Amex, credit reference agencies, all kinds of institutions – none of whom were mandated by the CMA. They too have noted that the big banks are playing to this single API recipe and feel it would make a lot of sense if they were to follow suit by building APIs to that same recipe. They also want to leverage into the seamless, interoperable banking space. So that again is another powerful signal to corporate treasurers saying: don't ignore open banking because not only are the institutions mandated by CMA doing it, so too are those who weren't told to do anything and were outside of that order. Momentum is building."

For treasurers, one of the most important benefits that open banking and common API standard is expected to offer is speed in access to data. Corporates today may receive details about their account balances at set times through SWIFT MT940 messages but in an API enabled world, there would be no need to wait: they would be able to access up-to-date balance information via their TMS, ERP or online banking portal in near real-time. Batch to near real-time processing will become far more ubiquitous and accessible to firms of all sizes.

Beardmore believes that when it comes, open banking's impact on businesses, it will initially be the small firms that benefit most: "They are the most underserved in the whole spectrum. In fact, I think the first real evidence of the positive impact of open banking will actually come from small firms and their experience will then encourage ordinary consumers.

"Although it might lag behind for a while, I think there will be significant benefits for corporate banking. Instead of having them go through the more manual processes for decision making, whether that's for lending, underwriting, payments, insurance, they'll have a very rich API ecosystem that will give them fast, accurate, granular information for automated decision making. Open banking will also allow firms to pull in other sources of data, to marry up with existing data streams to make far richer, more informed sources of decision."

Tangible benefits

Among the banks, HSBC has been one of the most proactive in offering open banking solutions. Like Beardmore, Lance Kawaguchi, Managing Director and Global Head – Global Banking Corporates for HSBC's Global Liquidity and Cash Management (GLCM) division, also believes open banking and PSD2 are paving the way for innovation, transparency and open market competition and as such "provide a wealth of opportunity for corporate treasurers to leverage".

In considering their benefits for firms, Kawaguchi points first to their potential for easing the heavy administration and 'non-value added' workload on founders and directors of SMEs and mid-market enterprises. Solutions that integrate technology like machine learning and AI with open banking and PSD2 will help to reduce these burdens, he says, freeing up management time for greater focus on growing their business.

For the larger corporates, one of the benefits is likely to be the eradication of the interchange fee charged by payment gateways like Paypal and Worldpay and card processors like Visa and Mastercard. Corporates that receive money from consumers via existing card or wallet providers will be able to utilise open banking and PSD2 to allow transfers to be made instantly and so remove or reduce the interchange cost.

Kawaguchi says HSBC is committed to developing "compelling open banking propositions" that help all parties do what they need to in a frictionless and secure way. "We are working with some interested corporate clients to build and enhance our propositions. Our goal is always to work in partnership with a broad set of customers to build propositions that solve real client problems."

Cash flow forecasting is one area HSBC believes can benefit greatly from open banking-based solutions, with SMEs and mid-market enterprises especially well placed to gain access to a service that extracts and visualises information in a clear way, and allows them to aggregate and consolidate the data using apps, all without the need of SWIFT messaging.

Within its Global Liquidity and Cash Management business, HSBC recently launched a liquidity management portal to give corporate and financial institution clients a clearer picture of their cash position globally and provide tools to self-manage their liquidity, enabling improved funding and investment decisions. The portal uses data visualisation to give treasurers an accessible, real-time view of their cash and cash-equivalents, across multiple banks and products. Kawaguchi says the portal aims to provide "easily consumable information" and likens it to HSBC's 'Connected Money' app, which allows retail customers to see their various bank accounts together in one place.

He adds that HSBC has a significant portfolio of customers and evident leaders among them looking to actively pursue opportunities that are arising from open banking, especially across sectors where they can disintermediate banks and/or third parties, and own the relationship with the end consumer.

But he adds that the "vast majority" of treasurers are yet to understand the tangible opportunities open banking and PSD2 present and are waiting for either banks or fintechs to come up with propositions that solve real problems and evidence of their benefits: "Our focus at HSBC is to really understand those customer pain points and innovate to solve them."

Digital treasury

Moving to a digital treasury should not represent new cost, but instead demonstrate savings or additional value and ideally both. We have all heard a lot recently about robotics, artificial intelligence (AI), APIs, big data, open banking and blockchain, not to mention the emergence of fintech; but what does this all mean for you?

Jan Dirk van Beusekom

Head of Strategic Marketing

BNP Paribas Cash Management

In a recent webinar, Jan Dirk van Beusekom, Head of Strategic Marketing at the Cash Management Competence Centre of BNP Paribas Group explained and discussed how treasury should aim to remove complexity, improve transparency and control, and free up resources to 'do more with less' as part of a digital treasury agenda.

Van Beusekom set the scene with responses to a question in an EACT survey conducted in March (see chart below) which identifies digitalisation of treasury as the most important trend impacting treasury strategy in the coming years.

"Very often digitalisation and digitisation are terms used to describe the same thing without knowing the difference," suggested van Beusekom.

Digitisation involves converting non-digital, analogue material to a digital format, for example, keeping digital records of account balances rather than paper-based records. Digitalisation is about transitioning your business to a digital business. This is why digitalisation is sometimes referred to as digital transformation. You achieve this using digital technologies, so digitisation is a part of digitalisation. It is only a part of it, though. This is because digitalisation involves changing or adapting your business model, not just digitising your data, processes and actions.

In response to these results he expressed surprise at the lower rankings of certain elements which enable digital treasury transformation such as data analytics, fintechs, blockchain and crypto-currencies. "My explanation would be that data analytics are already playing their enabling role, fintechs have so far disrupted mainly financial institutions and blockchain and cryptocurrencies are not yet mature enough to have an impact on strategy in the short term" he said. "Blockchain is used for smart contracts, mainly trade finance, but also to create a trusted server for KYC documentation that can be accessed by different branches of the same bank."

Digital treasury is the trend most impacting on treasury strategy in the coming years. The role of the CFO and treasurer is changing and is becoming even more forward looking. It is not only operational efficiency that is important, therefore, but also the ability to perform sophisticated analytics to enhance strategic decision-making. Digitalisation has a major role in achieving this by leveraging machine power to carry out tasks with greater speed and volumes of data than humans could do. Improving the cash conversion cycle, accounts receivable, funding and investment and cash flow forecasting all fall under the spotlight as areas of opportunity for a digital transformation.

"Other processes such as KYC, mandate and signature management and compliance and regulations can also be added to that list," he commented. BNP Paribas worked with one of its clients to tackle KYC via an electronic signature solution called Docusign. They have also recently announced a partnership with Cashforce to offer an integrated cash forecasting and working capital management solution.

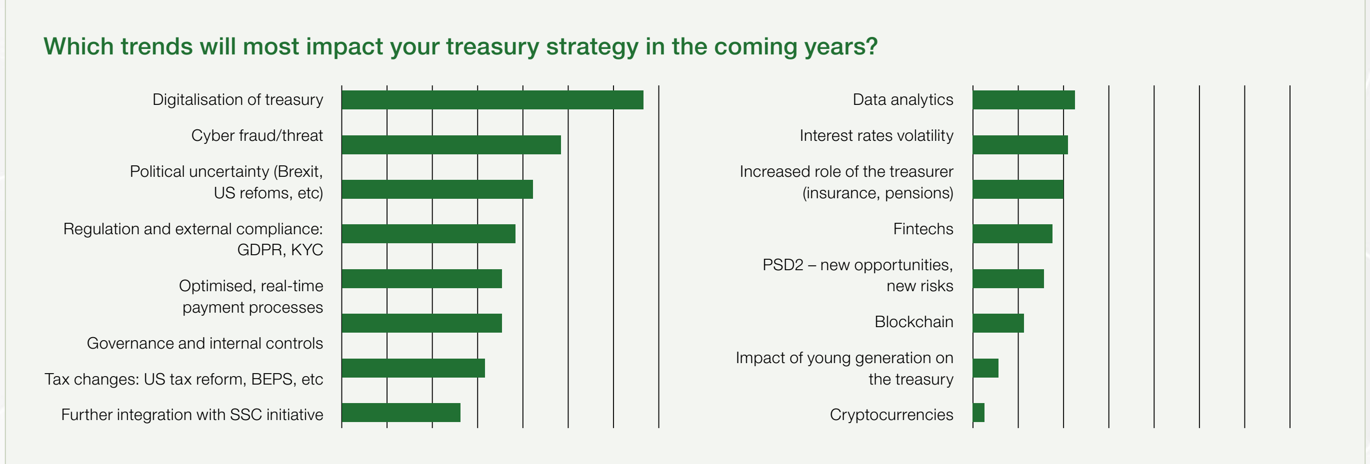
"Treasury should aim to remove complexity, improve transparency and control and free up resources to 'do more with less' as part of its digital agenda," concluded van Beusekom.

Did this webinar change your willingness to take your treasury through a digital transformation?

55.1% – YES

44.9% – NO

For further information on BNP Paribas' Journeys to Treasury, please visit **journeystotreasury.com**



Source: BNP Paribas

If you missed the webinar and would like to hear the full recording this is available at ***treasurytoday.com/webinar/previous-webinars***

Managing the impact of regulatory change

From PSD2 to GDPR, and from IFRS16 to KYC, the challenges of regulatory change extend far beyond the numerous acronyms. Which regulations should treasurers be focusing on in 2019 – and with many treasury teams operating on a streamlined basis, how can treasurers best understand and manage the implications of the recent and upcoming changes?

For corporate treasurers, the importance of managing regulatory change may be nothing new – but in recent years, the high volume of new regulation has pushed this topic higher up the priority list than ever before.

Consequently, it should come as no surprise that research published by the Economist Intelligence Unit in 2018 found that 35% of respondents identified regulation as a driver of change. And as the report highlighted, there are plenty of regulations to consider: the survey's respondents – a third of which were based in the US – said that treasury would be most affected by US tax reform (28%), IFRS 9 (25%), AML/KYC regulations (25%) and PSD2 (24%).

Likewise, the impact of regulatory changes can affect many different areas of treasury. For example, Deloitte's 2017 Global Corporate Treasury Survey found that a fifth of treasurers were using or considering alternate funding sources as a result of banking regulatory reforms, while 17% were revisiting their short-term investment policies and the same percentage had noticed an increase in hedging costs.

"Regulatory change is constant," says Ashley Pater, Senior Vice President, Product Management at GTreasury. "Not only do corporate treasury teams need to think about what is ahead in 2019, and prepare accordingly, but they also need to consider the continuing impact of regulations that came into effect in 2018, such as PSD2."

With that in mind, which recent and upcoming regulations will treasurers be focusing on in 2019 – and how can treasurers best manage the growing burden of regulatory change?

Weighing the impact of Brexit

Straddling the divide between a regulatory and a political topic, Brexit is one area that treasurers have been monitoring closely over the last couple of years. While the final shape of the UK's exit remains unclear at the time of writing, Brexit is likely to have a considerable impact on treasurers over the course of this year – whatever the outcome.

Without clarity over whether or not a transition deal would be agreed, treasurers have had no choice but to plan for a hard Brexit scenario. The possible implications of this have been wide ranging, from predicting the impact on deposits and lending to understanding the implications for market liquidity and derivative clearing.

Also unclear at the time of writing is whether the UK will continue to be part of SEPA following Brexit. A paper published by the European Payments Council (EPC) in May 2018 described three different Brexit scenarios, outlining the impact for participation in SEPA. However, the paper also noted that the EPC "needs to wait until the negotiation parties deliver a concrete outcome."

Beyond Brexit

While Brexit is set to have major implications for European treasurers in 2019, this is far from the only regulatory topic that treasurers will be monitoring. Other areas of interest include:

- **PSD2, payments and open banking.** The Second Payment Services Directive continues to have a wide-reaching impact. "Particularly notable are the technical standards around customer authentication, which are due in September 2019," says Ad van der Poel, Head of Product Management for GTS EMEA, Bank of America Merrill Lynch. "This may have an impact when it comes to logging into online banking platforms, and may impact the treasurer's experience as well."

Meanwhile, van der Poel notes that local regulators are looking to ensure the execution of payments is as secure, risk free and transparent as possible. "For example, the UK is planning to launch a confirmation of payee feature within CHAPS and faster payments," he says. "That means participating banks will require their customers to confirm the name as well as the sort code and account number of the payee."

While the initial focus of open banking may be on the consumer side, in time the implications for treasurers could be considerable, as treasury management systems and ERP systems are likely to implement an open banking approach. "That means building different API connections to different banks, and creating an even more flexible and easy-to-use multi-bank environment than is available today," explains van der Poel. "This will translate into a more flexible experience, which will definitely have an impact on a treasurer's daily life."

Source: The Economist Intelligence Unit

- **Accounting standard changes.** IFRS 9 Financial Instruments became mandatory from 1st January 2018, with significant implications for the accounting of financial instruments – not least of which was removing the 80-125% rule for hedge effectiveness testing. Compared to IAS 39, IFRS 9 has the potential to make hedge accounting more achievable, while reducing the associated back office complexity.

Meanwhile, treasurers also need to be aware of the implications of the new lease accounting standard, which came into force on 1st January 2019. Pater notes that under IFRS 16, lessees "will now be required to recognise most leases on their balance sheet," adding that accounting for lessors remains substantially unchanged.

With the International Accounting Standards Board (IASB) estimating that the new standard will bring over US$2trn of leases onto the balance sheet, the implications of IFRS 16 are substantial and range from greater auditor scrutiny to the need for robust data management. Alankar Karol, Managing Director, EMEA at GTreasury, adds that IFRS 16 "will impact reported earnings and change the classification of expenses and cash flows", bringing a "downstream effect on covenant calculations, cash sweep mechanisms and also, in some cases, management incentives."

- **KYC/AML.** Know your customer (KYC) compliance is a major burden for corporations around the world: with banks increasingly alert to the risk of fines, simply opening a bank account is a process that can sometimes take months to achieve. Likewise, even established relationships can come with regular requests for KYC information. Respondents to the EIU survey noted that from a corporate point of view, the most useful steps to improve the KYC process include the use of new technology (30%), the creation of a global standard to address KYC (24%) and corporate-bank collaboration within current regulations (19%).

- **Demise of LIBOR.** With LIBOR expected to be phased out by 2021, Karol explains that structural changes in capital markets "are forcing most treasurers to rethink their debt and derivative structures." While the valuation of derivatives has traditionally relied upon a discount curve "derived from the LIBOR rates and their underlying swaps, futures etcetera," Karol notes that the reduced liquidity in LIBOR is necessitating a change to discount curves based off overnight indices such as SONIA (in the UK), SOFR (in the US) and EONIA (in the EU). "Besides creating a legal quagmire of restructuring their contracts, it is also having a significant impact on the valuations of their derivative and their collateral obligations," he comments.

- **Money market funds.** European money market funds are required to comply with new rules by 21st January 2019. While fund managers have been busy converting CNAV funds to the new LVNAV model, treasurers have had plenty to do to prepare for the changes, such as updating investment policies, engaging with auditors and checking that their cash and treasury management systems can accommodate the new products.

- **GDPR.** While not aimed specifically at financial services, the EU General Data Protection Regulation (GDPR) adopted last year has had significant consequences. The regulation, which introduced strict rules for data privacy and security – and hefty fines for non-compliance – has implications for treasurers as well as their providers.

"Audit of information is quite important to this particular regulation, which has had a major impact on software systems in general," comments Christian Suhrbier, Director Product Management, Treasury & Cash Visibility at Serrala. "It requires providers to restrict data, for example via encryption and reduced access – but it also requires systems to be open. So overall, systems need to be able to communicate more effectively than in the past."

- **New European Parliament.** Also significant are the upcoming parliamentary elections in Europe. These are likely to result in a hiatus where new regulations are concerned, as well as a review on progress so far on areas such as the Capital Requirements Directive (CRD IV) and MiFID agendas.

- **Future regulatory topics.** As well as understanding the regulatory changes already under way, treasurers should also give some thought to topics which might one day result in further regulation. As Suhrbier explains, "Today's innovations can lead to tomorrow's regulatory changes."

Suhrbier says that these innovations could include areas such as blockchain and machine learning. "At the moment there is no real regulation for these topics," he says. "A company could start to rely completely on machine learning for areas such as cash forecasting – but what if a company went bankrupt because of this reliance? At this point there would need to be specific laws for this type of technology." Likewise, Suhrbier says that as the adoption of blockchain becomes more widespread, it will become more relevant as a regulatory topic.

What should treasurers be doing?

With so many regulatory changes to consider, it's important for treasurers to have a clear view of the direct impact that different developments may have on their businesses – and, indeed, of the changes that may affect their banks and technology providers. As Pater remarks, "Obviously it is better to be proactive than reactive."

At the same time, with fewer truly global banks now able to support businesses across multiple jurisdictions, corporates are increasingly required to work with more local institutions, which can introduce additional complexity.

There is plenty to consider in this rapidly evolving landscape – but the good news is that treasurers are rising to the challenge. "While managing regulatory change has always been part of the treasurer's role, my personal experience is that treasurers are more savvy about regulation now," comments van der Poel. "The conversations we are having with treasurers about regulation are more detailed than ever before, as treasurers take it upon themselves to make sure they understand the changes."

Defining responsibilities

When tackling regulatory change, one important step is to define who is responsible for managing any changes that may be needed. "Since most treasury departments consist of one to four employees, it should be clearly defined who is responsible for the changes through adjustments to the regulation," comments Suhrbier. "It is often advisable to draw up a small project plan and thus consider both the time perspective and the corresponding tasks. It is also advisable to find reliable vendors that can assist in compliance and also some that are focussing on keeping systems up-to-date such as including fraud prevention and encryption."

He adds that using vendors that have many customers also allows any weaknesses to be detected early – "since they are tested by the many."

Seeking advice

Achieving compliance with the relevant regulations may be non-negotiable, but it also takes time and resources that streamlined treasury teams may struggle to free up. Fortunately, there is help available in the form of banks and technology partners, which should be able to keep treasurers up to date about the relevant changes and advise on any changes needed.

"It's important to partner with your technology provider to collaborate on what is happening in the industry and how to prioritise changes to meet requirements and stay compliant," says GTreasury's Pater. "Treasuries need a strategic partner, whether it is a TMS provider, a consultant, or a bank, to stay accountable. As a TMS provider, we ensure we have the technology in place to handle change. We additionally have an internal security and compliance team focused on looking at trends in the market, regulations, and internal compliance."

In practice, some treasurers will be more proactive than others when it comes to seeking advice. As well as speaking to banks and technology providers, treasurers may also be able to keep abreast of relevant changes by attending industry events, monitoring guidance by industry bodies – and, of course, reading relevant articles.

Taking advantage of regulatory change

While new regulation can bring considerable challenges, it is also important to consider whether upcoming changes introduce any opportunities for treasurers to operate more effectively. As van der Poel comments, "My advice to treasurers is – if you have the time – to try to understand as much as you can and see if new regulations can help you, rather than only looking at the mandatory impact."

In practice, he notes that open banking creates an opportunity for treasurers to revisit a multi-banking approach and review how they connect to different banks. "Using APIs could change the way that treasurers connect with their banks," he says. "It may also alter the way that they collect data or initiate payments – and treasurers should consider whether there are opportunities to make payments more efficiently."

Moving forward

In conclusion, regulatory change has long been a fact of life for treasurers everywhere – but this topic has become increasingly central as the volume of change has increased. Treasurers will have their work cut out for them this year in monitoring everything from the impact of Brexit to the adoption of IFRS 16. But by building an action plan and seeking support from suitable sources, they will be better placed not only to keep up with regulatory change but even, on occasion, to take advantage of it.

Tackling regulatory change

George Dessing, SVP Treasury & Risk at global information, software and services company Wolters Kluwer, says that his treasury team has been affected by a number of different regulatory changes and activities, including US tax reform, IFRS 16 and issues around KYC. He explains how the company approaches regulatory change in the context of treasury:

- Be prompt and stay on the ball, otherwise you will simply be too late.
- Be proactive and speak with your peers, advisors, auditors and banks. In other words, get more intel out of your treasury network.
- Be a team player – as treasurer you need many departments (eg tax, accounting, legal) to stay compliant, so you need to have enough airtime with each of them.
- Be mindful, but arrange enough resources to achieve regulatory compliance – technology could be one of the solutions.
- Finally, this all could be an opportunity. Determine if the regulatory change can lead to benefits for the company – often this can be a better catalyst for keeping up with regulatory change than just the reactive 'we do it because we are required to do so'.

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Stronger together: the power of syndicated lending

When a single lender is not strong enough to take on a large loan it can call a friend, or several if needed. By syndicating a loan, it enables huge sums to be lent and can mean the difference between a project funded and a project terminated. We go back to basics to see how and why this works.

When a corporate needs funding which cannot be met by a single provider, usually because that sum is deemed too large a risk, there may be an opportunity to share or 'syndicate' the loan.

Lenders are usually tier one banks and, particularly for leveraged transactions, institutional investors such as hedge funds, insurance companies and pension funds. Borrowers are usually large corporates (often seeking to refinance on improved terms, fund M&A or a major capital project), or major infrastructure projects (road or airport construction, for example).

Deals typically start at US$100m and are of at least one year. However, loans are bespoke and so price, size, tenor, structure and purpose are highly variable.

That said, for investment-grade borrowers, where more funding options are available, syndication is often seen as a strategic manoeuvre or an alternative funding source; the market in 2018 has seen a lot of US$1bn and US$2bn bridges to bonds, for example. *(Source: Reuters)*

Syndication can also be used as a borrowing strategy for a corporate with a lower credit rating, where it is unable to easily access the levels of funding required through the bond markets.

With a higher credit rating, the margin payable to lenders tends to be lower and few, if any, covenants restrict the way the company operates. The opposite is usually true for lower-rated borrowers, although strong due diligence will be in evidence in every case. In both cases, the existence of a syndicated facility may serve to reassure investors holding other instruments issued by the borrower, such as commercial paper, potentially facilitating a lower overall cost of future funding or a wider pool of liquidity.

Syndicated lending by numbers

In 2017, global syndicated lending totalled US$4.6trn from 9,887 transactions (up 12% on proceeds and 3% on completed loans). The US captured 58% of global lending (US$2.7trn, up 25% on 2016). Canada, for the first time ever, was the second largest loans market (US$235.2bn).

Regionally, the Americas took 65% of total proceeds (US$2.9trn/c.5,000 transactions). Europe saw 18% of the market (U$816.3bn, down 1% in proceeds and 14% in number of completed deals). Asia Pacific totalled US$493.3bn (down 3% in proceeds and 2% in number). *(Source: HITC)*

Bank of America Merrill Lynch ranked as the top global loans bookrunner for FY 2017, with 9.46% of credited market share. The bank acted as bookrunner in 1,412 deals over the period. J.P. Morgan and Citi ranked second and third, with 9.22% and 5.42% of credited market share, respectively. *(Source: Bloomberg)*

Loan types

Loans are typically offered as a fixed sum or a revolving credit line (the KKR/Flora deal included a US$799.5m equivalent 6.5-year revolving credit facility) but may also be a combination of these. Standby letters of credit may also be offered. Interest rates can be fixed or floating, the latter typically using a benchmark or reference rate such as libor or the US prime rate, plus a margin.

Apart from where collateral requirements may differ, most loan terms and conditions are uniform amongst all lenders and there will be one loan agreement for the whole syndicate. This commonly (but not mandatorily) uses Loan Market Association (LMA) documents.

Global syndicated loans volume (as at 27th November 2018)

Rank	Lead manager	Amount US$m	No. of issues	Share %
1	J.P. Morgan	420,828.07	1194	10.93%
2	Bank of America Merrill Lynch	377,688.13	1213	9.81%
3	Citi	237,399.89	691	6.16%
4	Wells Fargo Securities	213,501.86	782	5.54%
5	MUFG	162,641.64	983	4.22

Source: Dealogic

Loan syndicates: legal structure and red flags for corporates

Traditionally, lead arranger banks conduct lender due diligence, so the choice of which financial institution has that role has always been of decisive importance for corporates, says Julian Roche, Consultant at Redcliffe Training.

In conjunction with the corporate's own lawyers, they will draft the key documents sent to potential syndicate members, the confidential information memorandum and associated corporate financial model in particular; and they will also draft the credit agreement itself. Borrowers must always assess potential syndicate members under a range of headings: any history or covenant impacts, knowledge and understanding of the business, balance sheet strength and stability, and track record.

Whilst the loans are collective, the obligations of lenders remain individual: a syndicate is not itself a bank. On the contrary, a syndicate is conventionally covered by partnership legislation, which imposes a range of reporting and tax obligations on partner financial institutions that corporates must study.

Legal issues remain varied and syndicate structures are sensitive to, and adapt to, regulatory regimes. Hence for example both the number and the volume of syndicated loan issuances in the UK dropped by an economically and statistically significant 15% after the Brexit referendum relative to the global market[1].

Concern among lawyers therefore remains over important legal matters. For example, given the different definitions and practice of default between institutions, how individual syndicate members or the syndicate as a whole are permitted to respond to borrower default or the borrower or other party's bankruptcy. Or whether unanimity or majority voting by syndicate members will suffice for decision-making – and if so whether by size of participation or not – how facility and security agent payments are treated.

Meanwhile bankers regret the slow development of the secondary loan market, with many markets still insisting on borrower consent before transfer of loan obligations. Problems of legal uncertainty for syndication are however gradually resolving across jurisdictions – Russia, for example, passed syndication legislation last year.

But there remain issues that corporates should, but often do not, recognise. The advantages of syndicated lending come at a cost because of the agency problems linked to differences in information between syndicate members[2]. These emerge in two principal forms.

First, as upcoming research[3] will suggest, local lending by international financial institutions is far more sensitive to macro-economic data than transnational lending. Second, as long established by Harvard Business School's Benjamin Esty, multiple lead arrangers can serve to curb the agency problem associated with individual banking relationships, control issues within corporates – which affect syndicate structure – and poor creditworthiness signalling in project finance.

But second, the range of permitted participants in syndicates is growing: from banks to non-bank financial institutions such as pension funds and even eventually loan crowd-funders, an evolution that poses significant financial risk for borrowers in future syndicated loan transactions as their borrower due diligence costs mount.

Recent research[4] has indicated that syndicated loans with greater funding by non-banks experienced greater sales activity and downward pressure on secondary market prices during the global financial crisis.

These adverse effects were pronounced among loans funded by non-banks with relatively liquid liabilities: broker-dealers, hedge funds, and other investment funds. In a world where syndicated loans are frequently traded in secondary markets, quite contrary to the prevailing wisdom in academia[5] and the business world alike, corporates could be sitting on enormous potential risks.

[1]Berg, T. et al. 'Brexit'and the Contraction of Syndicated Lending'. [2]Godlewski. C. University of Strasbourg, 'Banking Environment and Syndicate Structure: A Cross-Country Analysis'. [3]Avdjiev, S. et al, 'What drives local lending by global banks? [4]Irani, R. M.et al. 'The Rise of Shadow Banking: Evidence from Capital Regulation'. [5]eg Kamstra, M.J. et al 'Does the Secondary Loan Market Reduce Borrowing Costs?'

- **Term.** A term loan is a more traditional arrangement. The full amount is drawn either initially or in pre-determined instalments. The principal is either repaid over the term of the loan or at maturity.

- **Revolving.** This will have a specified term limit but the borrower can draw down funds and repay them as necessary, as long as the terms and conditions of the loan (covenants) are met. This style of loan is more suited to companies which view the syndicated loan as a secondary source of finance or have a periodic need for funding.

Investment grade borrowers will often structure their loans into different revolving tranches, with short (one year) and longer maturities (typically three to five years). This provides a longer-term source of assured funding, particularly useful as a back-up to commercial paper or where it is beneficial to delay repayment (if it takes time to bring new equipment into service for example).

Main roles

Within the corporate loan market, it's worth knowing that the Loan Syndications and Trading Association (LSTA) is the main

resource centre. It can bring together loan market participants, provide market research, and has the ear of the authorities in terms of influencing compliance procedures and industry regulations.

The main roles operating within a syndicate are (with much differing of opinion as to precise function):

Mandated lead arranger (MLA): usually takes a significant portion of the syndicated loan commitment, selling parts of the debt to build the syndicate.

Bookrunner/arranger: advises the client, organises and arranges the loan, negotiates the broad terms, and often underwrites the loan (see below).

Agent: day-to-day management of the transaction, liaising between banks and borrower. The task can be broken into facility agent (managing the day-to-day running of the loan itself and compliance with its terms) and the trustee who manages documentation and holds any securities required.

Deal types

A decision will be taken with the arranging bank as to whether the loan will be underwritten. In an M&A deal, for example, certainty of funding may be essential. If so, the borrower knows it will receive the full amount of the loan, irrespective of whether the arranger has successfully syndicated the deal. If the arranger fails to fully subscribe the loan, it must take on the difference (which it can later sell on to other investors). Underwriting is a competitive tool to win mandates and it generates more fees.

Without underwriting, a best effort arrangement means the borrower receives only as much as can be generated amongst participants. Undersubscription can mean the loan may not close or that it needs major changes to create market interest.

Fees

Fees associated with the loan can include the following:

- **Margin:** lenders will charge a margin over an agreed market benchmark.
- **Commitment fee:** where a loan is not fully drawn, borrowers will be charged a commitment fee to maintain it
- **Utilisation fee:** banks may charge an additional fee if a high proportion of the loan is drawn in one.
- **Arrangement fee:** the arranging bank normally receives a fee once the syndication has been successfully completed. This depends on the size of the syndication and the credit risk. Occasionally other lenders will receive an upfront fee of a few basis points for participation in the syndicate.
- **Legal fees:** companies will have to meet the costs of their legal advisors.

Starting out

In practical terms, treasury must begin with a clear understanding of the role the loan will play in the company's wider funding strategy. This provides a focal point when the company presents its case to potential investors.

Syndicated loans can be structured in many different ways. Treasurers will also need to pre-arm themselves with accurate forecasting data, especially covering future funding requirements; only this way can appropriate terms and conditions be agreed. A repayment strategy will also need to be outlined.

Of course, the arranging bank's expertise and market influence are vital but so too is strength of the relationship, which can play a key part in making the decision as to which bank to mandate.

Finer points

Negotiations will be ongoing throughout the arrangement process and it is therefore important to understand what the other side wants. Treasurers must identify each potential lender's approach to, and appetite for, syndicated loans. Points of discussion might include:

- The type and size of banks involved and whether they will sell their participation right away or take a longer-term view.
- The importance of the relationship to each party.
- The proposed structure of the deal.
- The fees.
- Covenants or other restrictions that might conflict with policy.

Timing

Deal complexity will influence timing but the key driver on the corporate side for delivering a syndicated deal is the underlying transaction. For M&As, speed may be of the essence, less so a refinancing requirement. Typically, from initial meeting with the agent to signing the loan agreement it can take two to three months.

Secondary market

For primary lenders, an important factor is the secondary market, where exposure to the syndicated loan can be managed by selling on part or all of a bank's participation in a syndicated deal. Secondary market deals represent work (and therefore fees) for the agent as each deal requires contract documentation to be drawn up and all the proportions for monetary calculations to be changed.

Most transfers are made 'by novation', in which case the new lender becomes a 'lender of record'. In these circumstances, the new lender simply replaces the original lender. The original terms and conditions apply, with the only change relating to which bank receives the interest payments.

The key factor in all cases is that the bank's ability to sell loans in the secondary market reduces the counterparty risk associated with the decision to participate in the syndication. As a result, the secondary market enhances liquidity in the syndicated market.

What is sometimes less well understood is the importance of the secondary market for borrowers. For the corporate borrower, the development of the secondary market has also enhanced liquidity in the primary market, arguably bringing down margins for all borrowers.

The future of treasury

What will treasury look like in ten years' time?

Carole Berndt
Strategic Advisor, Transition Hub

As an industry we are optimists. Each year the agenda and speakers at industry conferences present a pot pourri of solutions to automate, integrate and sophisticate the treasury functions. The increasing importance of the treasurer is preached, often in contrast to the constant challenges they face in securing funding for the technology and regulatory projects they must complete.

A glance back to an industry event agenda from 2009 shows many of the same themes as today. Lack of real-time information, inconsistent processes, poorly integrated systems, paper statements, eBAM and the dark cloud of challenging times. We have progressed, but not in a game-changing way.

The future though I think will be different. Today, banking is not just done by banks, and this changes everything. Treasury of the future will benefit from the disruption that the changing regulations and fintechs bring. The combination of open banking, APIs, improved networks, generic standards and regulatory support for 'Option B' type banking licences will bring game-changing tools and capabilities into play. You double down on this when you take away the time and cost of proprietary bank development and add in the hyper-creativity of kids who code!

Ultimately, the treasurer will have available a range of plug-ins that will sit between them and their bank, augmenting, aggregating, disseminating information and performing functions in a way specific to the corporate's needs: basically, a transaction banking app store. Just as Microsoft and Apple realised the benefit of their platforms was enhanced by outsourcing application development to third parties, the banks may too.

So yes, the treasury ten years from now will be significantly different. They will be smaller, smarter and more responsive. The treasurer will have time to be strategic, to advise and to look forward, no longer caught in the Catch 22 of transaction triage. Transactions, and their associated pain points, will be automated to a greater degree. Technology will be more user centric, easily integrated and development timelines aggressively reduced.

Banks will cede their proprietary development to fintechs and other vendors, providing instead secure infrastructure, the best in open banking services, optimised APIs and an open and collaborative approach to industry standards and shared utilities.

No longer will a treasurer have to operate multiple bank systems, carry around bags of ID tokens or run a plethora of Excel spreadsheets to close the consolidation gap.

And for those worried about what's in it for the banks, they will have time to provide the advisor and regulatory advice that treasurers so often call for. After all, a treasurer does not just buy transactions, they buy people, expertise, security and relationships. This is where the real value of banks lies.

Yes, it's nirvana, but I'm an optimist, and have been one since 2009! But I could be wrong and the robots might win, leaving us all on the beach and WALL-E left to do the keynote address at the next industry conference.

Michael Kolman
Head of Business Development, ION

Within the next decade, treasurers will become much more effective and increasingly proactive as real-time information and platform technologies enable them to make decisions and manage their financial assets, liabilities and risk with greater speed and accuracy than ever before.

The availability and application of real-time data is poised to bring about dramatic shifts in how cash is managed. For example, technology providers together with banks are working for the delivery of real-time cash balances with the capability provided by APIs. Some banks can already return an organisation's available balances with a single API call. This means a treasury management system could provide, in real-time, the same balance that is visible on the bank's portal and corporations can view their cash positions globally across all currencies in real-time.

But the benefits of real-time information such as cash positions will be limited if that information cannot be transformed into actionable insights. To that end, it will become essential for treasurers to have a real-time view of liquidity and exposure forecasts, working capital allocation, insights into minimal cash required, investment opportunities, and counterparty risks. With the right data feeds, treasury systems today can provide crucial information such as cash deposit rates and the CDS spreads associated with investment counterparties.

As data becomes more accessible and the capabilities of new technologies expand, the treasury systems will be recommending and possibly even taking action based on pre-defined algorithms and rules. Armed with such data, treasurers will be able to adjust capital structure, execute capital markets activity and make hedging decisions faster and with better information that simply isn't available today.

Technology providers will need to continue adapting their solutions to the specific ways that individuals consume data. For example, treasurers may want to perform simple

approvals on a mobile device but then use a tablet or larger device when making more strategic decisions. In the future, machine learning will help vendors anticipate how their customers want to view and interact with data and then develop their solutions accordingly.

The rise of predictive algorithms could also fundamentally change how treasurers operate. Outside the world of treasury, sports owners use advanced analytics like time series and heat maps to make projection-based decisions on how best to build and manage their teams. Likewise, by harnessing predictive algorithms to make calculated decisions about funding and capital structure, treasurers will be better positioned to take advantage of market movements. While this type of approach might currently be considered speculative — and therefore outside the treasurer's remit — we believe the future of treasury will include the utilisation of predictive data strategies to support a more proactive approach.

Finally, automation will soon make repetitive manual tasks trivial, which means that duties such as payment processing and invoice reconciliation will happen without any human intervention. With sufficient automation, some forward-thinking innovators should challenge themselves to expand their role to data scientists. Treasury is set to become less focused on processing, and more concerned with monitoring and investigating exceptions to these increasingly automated processes.

Sir Roger Gifford

Country Head, SEB UK and Chair of the City of London's Green Finance Initiative

We expect treasury will look very different in the future. This is assuming that it cannot remain an understaffed, manually intensive, support function. Treasury will develop into a technology-driven strategic advisor to leadership and front line business teams, supporting critical decision making.

The Fourth Industrial Revolution can be characterised by a fusion of technologies, blurring the lines between industries and the physical, digital, and financial value chains. As part of building these future ecosystems, many businesses are moving from selling products to providing services and collaborating across industries to build propositions.

In particular, significant resources are being applied to developing the 'Internet of Things' and 'As a Service' concepts. In both of these models, the financial flows will become an integrated part of the operation, not a separate process. Micro, real-time payments will become the norm as opposed to larger, less timely payments related to the sale of capital goods. Treasury will need to understand the impact of this on cash flows and how financing needs may be more dynamic.

Within treasury itself, we believe there are four areas that will involve developing new ways of working, competence building and deployment of new technologies.

- Full and smart process automation – eliminating manual, repetitive, low value activities.
- Being central to the business – working closely with the front line to help develop new business models whilst managing cash flows, securing liquidity and managing financial risks to support them.
- Complete information control – deep access and understanding of company wide data.
- Artificial intelligence at the core – applying smart processes to perform basic treasury functions with better outcomes, scenario planning and providing insights and analysis to the business and the CFO.

The question we are asked by treasurers is 'where do we start on this particular part of the journey'. We believe that there can be a logical sequence, working on practical items initially and developing learning along the way as shown from the bottom up.

We can also consider the impact that global and national initiatives to address the world's social, economic and development issues will have, as identified by the UN's Sustainable Development Goals.

Increasingly, corporates need to show what they are doing to promote these goals. This includes demonstrating the source of goods traded and where finance is being applied. At the same time, banks are being put under pressure to measure climate-related risks far more than before, and report on them in their corporate and trade-related portfolios. This can rapidly become a shareholder issue as well – as we've seen in other reputation-linked challenges.

Investors want ESG (environment, social and governance) investments more than ever before and the UNPRI measure the demand in the tens of trillions of dollars. Companies and banks that meet these demands are clearly likely to benefit from greater investor interest.

The treasury of the future will use a different set of technologies to provide end-to-end automation, provide strategic insight and free up time to partner with business as it realises new opportunities or responds to macro trends. Developing some basic actions now and building a learning-based approach to these subjects will help treasury embark on this exciting journey.

Next question:

"Forecasting and liquidity planning is often cited as a major challenge for treasurers. What would help gain the information needed?"

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

2019 – breaking point?

There are challenges aplenty to navigate over 2019 ranging from the US-China trade war; increasing geopolitical risks; hair-raising scenarios for Italy and Brexit to name but a few. It all amounts to a new and uncomfortable global reality in the making, one in which markets' perception of political risks in advanced economies more and more resembles that attached to emerging economies.

The global economy did quite well over 2018 until stock markets decided the party was over. Their retreat owed much to tentative monetary tightening, a looming trade war, Brexit angst, protests in France, the Italian budget drama and concerns over the Chinese growth slowdown.

Some analysts claim that geopolitics has made a comeback in recent years after almost two decades in which the US ruled the roost, a period over which liberal democracy appeared invincible. However, geopolitics has never gone away. The likelihood of the western capitalist, democratic welfare state surviving is increasingly called into question. Freedom has been under pressure worldwide for over a decade in any case. Also, it is now no longer a given that all countries will tend to evolve into liberal democracies in the end, be it sooner or later. There is, alas, an element of chickens coming home to roost.

The least evil version

Yet we should not forget that the mode of governance implied by liberal democracy is more resilient than appearances suggest. It came under very heavy fire in the 1930s but then the New Deal, modern social democracy and (counterintuitively) a world war helped to save liberal democracy. The nuclear holocaust that threatened in the 1950s and the economic stagnation and oil crises of the 1970s cast doubts on it but, yet again, solutions were found to prop up the system.

Now, owing to the credit crisis and China's accelerated rise to power, it appears that another era has started in which liberal democracy needs to develop and adapt in order to "stay in business". China is trying out a different form: the authoritarian one-party state with a hybrid economy, involving both the free market and a government that is pulling the economic strings. Other countries are emulating its example in one way or another.

It is understood that undermining democratic foundations can undercut growth in the long-term: democracy and structural, sustainable growth mostly go hand in hand. Corruption, machinations, misuse of power, and frustration run rampant if democracy crumbles. At the same time, however, we should not forget that countries such as China have managed to suppress political liberties for a long time and still have delivered innovation, reforms and very rapid growth.

West past its peak?

It is difficult to avoid the conclusion that the time is well and truly over when the West enjoyed a combination of robust economic growth, higher productivity, rising real wages, technological advances, plus a generous social safety net that supports people who threaten to fall through the cracks. Whether the West manages to address the dissatisfaction and uncertainty that has gripped sections of society (without buying off the discontent with mushrooming budget deficits) will be absolutely pivotal in 2019 and years ahead. Politicians in Italy and France seem to have fallen into this trap. Simultaneously, countries in Central and Eastern Europe continue with policies that go against the grain of the EU's democratic foundations.

Brexit worries

London also frantically tried to unravel a united EU front but did not succeed. As things stand now, the UK is set to leave the EU by the end of March. We still think the UK will not hurtle out of the EU without a deal and that the worst scenario will be avoided after much ado and a creative implementation of the rules. This does not mean to say that (especially) the British will get off scot-free in 2019, as the Tories seem incapable of getting their own house in order. Plus, the alternative for a rudderless Conservative government could be a cabinet led by Jeremy Corbyn, something that many investors fear.

Clash of the century

Another prospect that will probably not make the markets very happy is a third year of Donald Trump in the White House as President. They applauded Trump's election and were content with the first half of his term, but the reasons were strong deregulation, tax cuts and an accommodating Fed. These three pillars are no longer in place and President Trump should really start focusing on constructive rather than destructive policies. Owing to the Republican losses during the midterms, he will get less done concerning domestic issues. Foreign policy appears to offer more opportunities. It very much remains to be seen if his focusing on 'international relations' (or the lack thereof) will really be a good thing, particularly as he proves unable to impose any form of discipline on the White House. The turnover hasn't helped: more than two dozen senior figures in the administration have now been fired or quit since he took office in January 2017, the latest being John Kelly, his third chief of staff.

The trade war with China is one of the most important issues for the financial markets. Beijing has been given until 1st March to take measures that please Washington sufficiently to stop it from imposing hugely increased import tariffs on Chinese products. China appears to be making an effort to buy more US products and to make it easier for foreign businesses to operate in the Chinese market. Yet, the underlying reasons for the American-Chinese tensions are still there, and further escalations are likely.

How China will continue to make headway and how the West – particularly America – is going to deal with this will be one of the most prominent political stories for the markets throughout 2019 and in subsequent years. The difference with the Cold War is that there is no single communal enemy facing the West at present, which could force it to unite and put aside differences of opinion. To quote Dominique Mosi, the French political scientist and writer, "respect and balance are the keys to success for any alliance … and, let's not forget, the perception of a common threat."

Underestimated risk

So, from a political viewpoint there are plenty of indications that 2019 will be turbulent. Overall, we think the biggest danger is, as FT political columnist Jana Ganesh recently pointed out (and he is not the only one), that the Trumpists, the Brexiteers, and the yellow vests are not just united in their will to shake up the established order but are virtually unanimously under the illusion that the only consequence will be economic disruption. That is to say, they underestimate the risk that their actions will have a domino effect, with social collapse as an unintended but possible outcome. As Ganesh says: "Social order is to some extent self-cancelling. The longer people have it, the more they take it for granted."

As it stands, western political-economic foundations will continue to weaken amid deteriorating economic conditions; insufficient productivity growth; roofs that were not repaired in the good times when the sun was out; mounting tension between China and the US; disputes between the democratic Western countries and the authoritarian states in general; a frailer German-French axis in Europe; and more paralysis in Washington under a president who goes for increasingly grotesque antics as he is pushed into an ever-tighter corner.

With growth slowing, central banks running out of ammunition and structural reforms absent, it may not be so easy for the financial markets to ignore the political problems that have been simmering for a long time. Previously, the political risks played a relatively small part as far as the markets in the industrialised countries were concerned. However, under the new normal, the political risk perceptions in these 'advanced' countries and in the emerging markets may well start to resemble each other more and more.

Another implication of the growing tension between and across countries is that it will be harder to take large-scale concerted action to tackle a new emergency; as the G20 did when the credit crisis erupted. As central banks have used up most of their resources, more countries will turn to fiscal stimulus and there will be political pressure on central banks to step on the monetary accelerator – once again – as we saw earlier this year in the US, India and Turkey.

All in all, 2019 is shaped to be a fascinating, challenging year for markets and businesses, with geopolitics and national economic policies globally major risk factors.

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ASSET ALLOCATION

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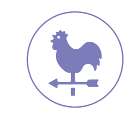
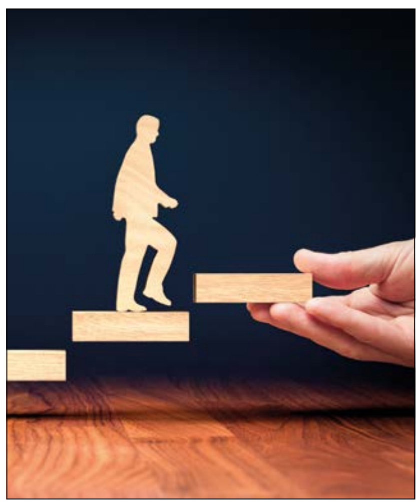

MORNING BRIEFINGS

The clever research solution for time-pressed decision makers



INSIGHT & ANALYSIS

Global transaction banking

Transaction banking used to be considered a reliable source of income for global banking groups but is it still the case? With multiple factors putting pressure on transaction banks' revenues, including the rise of real-time payment networks, increasing use of digital and analytics-based solutions by corporates, and challenge from fintechs, what is the outlook for global transaction banking?

TREASURY TALENT

Coaching, training and mentoring

No one comes as a complete package; it takes years of hard work to be a skilled treasurer. But help is at hand in the form of training, coaching and mentoring. We look at how individuals and companies can get the most from these different approaches to building the rounded professional.

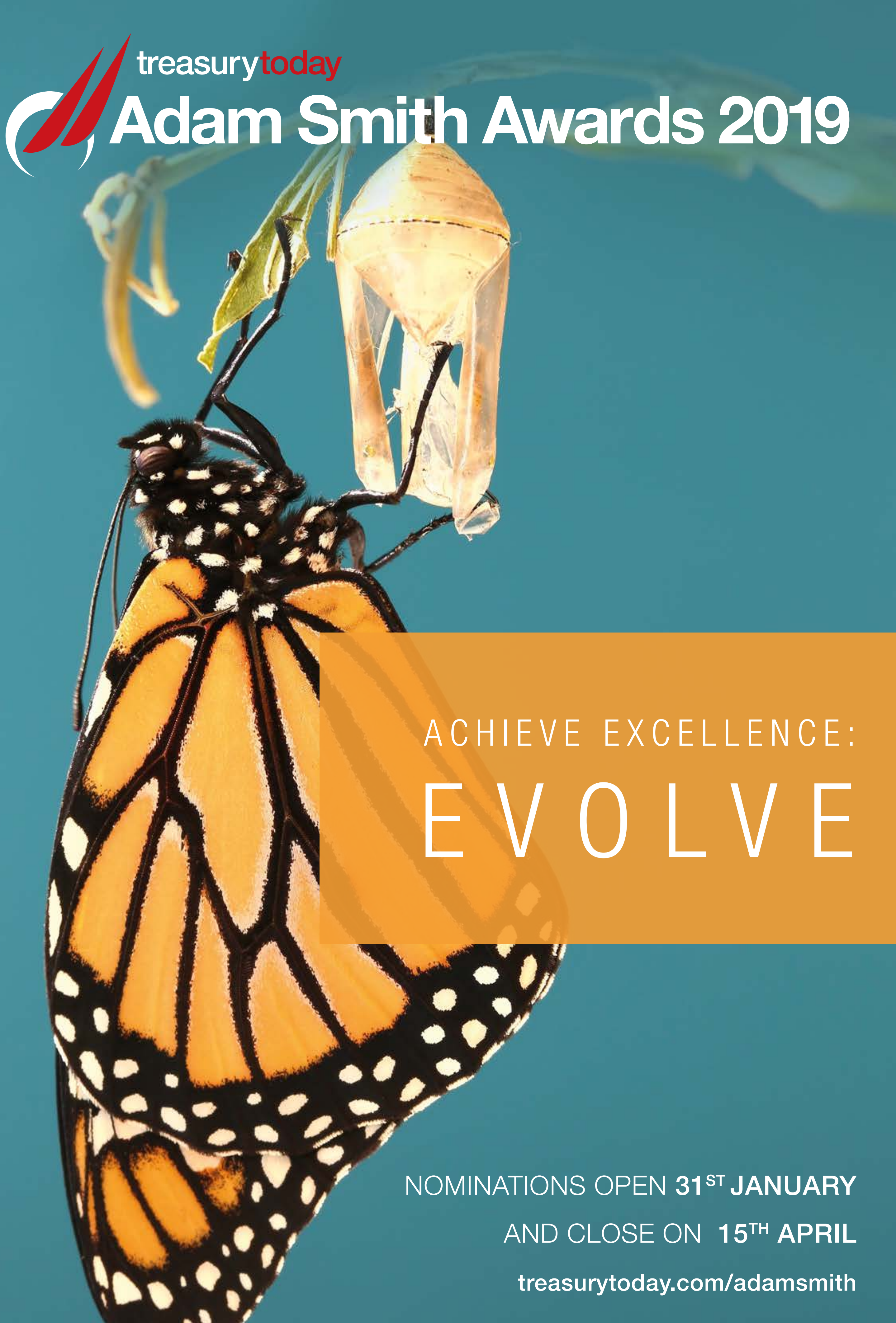
TREASURY PRACTICE

Debt investor relations

In a challenging and volatile market, it becomes more important to build a robust liquidity and funding model. Where capital markets are used, managing relationships with investors – who want more information, more often – is essential to keep them on side. We consider best practice in debt IR, in the company of a trio of seasoned professionals.

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

Suzanne Perry, Assistant Group Treasurer Relx Group; Alok Tyagi, Chief Product & Technology Officer, GTreasury; Jon Williams, Principal Consultant, Mk2 Consulting; Shahrokh Moinian, Head of Cash Products, Deutsche Bank; Marcus Hughes, Director of Business Development, Bottomline; Fabrizio Masinelli, Group Treasurer – Accounting Department, Panini; Alexandre Bousquenaud, Senior Director, Head of Treasury Advisory Continental Europe, Redbridge Debt & Treasury Advisory; Lothar Meenen, Global Head of Corporate Cash Management Sales, Deutsche Bank; Carola Schmitz-Becker, Vice President, Corporate Treasury, Deutsche Post DHL; Debbie Kaya, Senior Director, Treasury, Global Cash and Operations, Cisco; Nancy Pierce, Managing Director, Global Head of Payment Programs, Global Liquidity and Cash Management, HSBC; Christy Barwick, Treasurer, Core Scientific; and Pia McCusker, Senior Managing Director and Global Head of Cash Management, State Street Global Advisors; Michael Wilkins, Head of Sustainable Finance, S&P Global Ratings; Helen Slinger, Director, Accounting for Sustainability; Ines Faden, Treasurer, Tideway; Adam Richford, Group Treasurer, Renewi; Gunjan Chauhan, Head of APAC and EMEA Cash Business, State Street Global Advisors; Will Goldthwait, Vice President, Portfolio Strategist, State Street Global Advisors; Séverine Le Blévennec, Director of Treasury EMEA, Honeywell; Marie-Astrid Dubois, Assistant Treasurer, EMEA and Asia, Honeywell; Sir Tim Berners-Lee, Open Data Institute; Sir Nigel Shadbolt, Open Data Institute; David Beardmore, Commercial Director,Open Data Institute; Lance Kawaguchi, Managing Director and Global Head – Global Banking Corporates, Global Liquidity and Cash Management Division, HSBC; Jan Dirk van Beusekom, Head of Strategic Marketing, BNP Paribas Cash Management; Ashley Pater, Senior Vice President, Product Management, GTreasury; Alankar Karol, Managing Director, EMEA, GTreasury; Christian Suhrbier, Director Product Management, Treasury & Cash Visibility, Serrala; Julian Roche, Consultant, Redcliffe Training; Carole Berndt Strategic Advisor, Transition Hub; Michael Kolman, Head of Business Development, ION; Sir Roger Gifford, Country Head, SEB UK and Chair of the City of London's Green Finance Initiative.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