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January/February 2020

How to face down global threats

Treasurers are, or should be, paying closer attention to political risk than ever before. But as an external threat, often of great magnitude, how can this risk best be managed?

The Corporate View

Julia Fordham

Group Head of Treasury

Small World Financial Services

The Bank Interview

Andrew Wild

Head of Commercial Banking Europe, Deputy CEO HSBC France

HSBC

Banking

Why treasurers must start asking questions about correspondent banking

Funding

Top tips for your corporate roadshow

Regulation

Sanctions screening: are you compliant?

Back to Basics

Effective commodity risk management

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Welcome to 2020. It's going to be… interesting!

In 2019, political risk-watchers were spoilt for choice. But from the Brexit saga, to drone strikes in Saudi Arabia, the conflict in Syria, the US-China trade war, protests in Hong Kong, the threat of a global recession ***et al*** – it all added up to one big headache for treasurers.

Charged with mitigating both macro-level risks – potentially impacting all businesses – and company – or industry-specific micro-level risks, it was evident that the way in which treasurers handled such events could substantially impact financial performance.

With all of the above occurrences as yet unresolved, expect 2020 to deliver risk in much the same vein. And no doubt there will be additional concerns to muddy the waters for those who pilot the finances of the world's corporates.

The pervasiveness of political risk is why we have prepared the first Insight & Analysis piece of the year on this very issue. Of course, treasurers cannot prevent these events from happening but a degree of mitigation is possible. We explore the first steps towards identifying, quantifying and responding to the wide-ranging threats being faced. Tip: Maplecroft's annual Political Risk Atlas is a very useful starting point for identifying future risk events!

From a multifarious overview of political risk, we take a deep dive into the murky world of sanctions screening. In this article, we offer professional views on how treasurers can ensure their organisations are fully aware and compliant. Shifting the risk stance slightly, we also explore ways in which commodities risk can be managed, assessing the current crop of tools available to treasurers.

We then take a diversion away from risk, towards the latest trends in cross-border payments and correspondent banking, and then explore how treasurers can get the most from their pre-bond issuance, IPO or direct investment roadshows.

One thing is certain, as we leave the volatility of 2019 and move into the New Year, treasurers should remain alert because, globally, we all seem to have fallen foul of the ancient (and apparently mythical) Chinese curse: "may you live in interesting times"!

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Managing political risk

Following recent developments surrounding Brexit, the ongoing trade war between the US and China, and tensions in the Middle East and Hong Kong, treasurers are paying closer attention than ever before to the issue of political risk. Although political risk cannot be completely avoided in today's volatile world, companies can still learn how to manage it effectively.

It goes without saying that we live in a volatile world. Global pressures from competing economic, political and social factors have combined in recent months to put a real strain on international businesses, local currencies and interest rates.

Between the Brexit saga, drone strikes in Saudi Arabia, the ongoing conflict in Syria, the US-China trade war, violent protests in Hong Kong and the threat of a global recession, there are numerous risks for treasurers to monitor. And as we start the new year, it seems our volatile world won't be calming down anytime soon.

As such, there's a growing need for companies to pay close attention to political risk. Take last September's drone strikes at the state-owned Saudi Aramco oil processing facilities at Abqaiq and Khurais in eastern Saudi Arabia as one example. For some businesses, the strikes were completely unexpected – but for others, they came as no surprise. That's a view held by Charles Laurie, Head of Country Risk at risk advisory company Verisk Maplecroft.

"Very rarely is an incident truly 'unexpected' – we had been highlighting the growing tensions in the region to our clients for some time," he says. Following the strikes, the country's oil production was almost halved, with Brent Crude oil futures surging by almost 20%.

"We believe the market has drastically undervalued what we call the 'Middle East risk premium'," explains Laurie, who recognises that mitigating against civil conflict or acts of war is highly challenging for corporate treasurers. "But understanding the local environment, having necessary contingency plans and responding swiftly can make all the difference." But in order to take the necessary actions, treasurers first need to answer a pertinent question: what exactly is political risk?

According to Nicholas Fitzroy, Director of Risk Briefing and Middle East analyst at The Economist Intelligence Unit (EIU), political risk is notoriously broad and difficult to define. That said, it is largely about tracking political decisions and the resulting actions which impact a business' ability to reach its goals – normally in terms of profit and/or revenue. For example, the drone strikes in Saudi Arabia have since been attributed to events surrounding the Saudi Arabian intervention in the Yemeni Civil War.

"What is most important to note when it comes to political risk is that the actors making these decisions are normally governments – but certainly, and increasingly, not always," says Fitzroy. "Terrorist groups, nationalist movements and hacktivists (cyber-criminals) are all examples of groups that can create significant political risks for companies without being anywhere near government."

In basic terms, political risk can be defined as any political event, or the results of any decision that has the potential to negatively impact commercial activities. This risk is often grouped and analysed on macro and micro levels:

- Macro-level risks are those which impact all businesses operating within a specific region. These risks are often widely discussed in the media and include: political and civil unrest (eg Brexit uncertainty/protests in Hong Kong), energy-price volatility (eg Saudi Arabian drone strikes), terrorism (eg the ongoing war against ISIS in the Middle East) and civil or cross-border conflict (eg Turkey in Syria or Russia in the Ukraine).
- Micro-level risks are firm or industry-specific risks. These types of risks are, by their very nature, discriminatory. This category includes the risk of a government nullifying a contract with a certain business, or the risk that a terrorist group will target a certain company's operations.

"In terms of the actual risks themselves, the broad nature of the political risk definition highlights how wide-ranging it can be; from warfare and social unrest, to shifts in governmental policy and regulatory environment, to things like cyber threats and environmental boycotts," says Fitzroy. As such, there is no doubt that political risk is hard to characterise.

Impact and management

Yet savvy investors know that any rise in political risk has the ability to negatively impact both a country and the companies operating within its borders. This is because political risk can do real damage to credit ratings and equity prices, and many countries experiencing political risk are often destabilised through reduced foreign direct investment (FDI).

Any reduction in FDI has the potential to slow economic growth and increase social unrest, inequality and corruption, not to mention a reduction in wages and the value of international equities.

In addition, these issues can affect other asset classes. For example, should a country experience slower economic growth due to a reduction in FDI, this can impact its ability to repay its debts, which would then have a detrimental impact on bond markets. Such events could also exacerbate currency-related issues, because any reduction in the value of a country's currency could lead to slower exports which would also stall economic growth. Yet before a company can even start thinking about how to manage political risk, the first step is to find a way of identifying and quantifying the different threats that the company faces. Armed with this information, the board can then analyse how these threats might impact upon strategy and the company's ability to access and operate in different markets.

Assessing the risk

A combination of political risk assessment and analysis is typically used for this objective. On the macro level, quantitative risk assessment considers the general attributes and variables of different political environments. Data from specific countries is aggregated to generate an overall score, allowing them to be comparatively assessed and assigned a graded risk level. A number of risk consultancies offer such indices, including both Maplecroft and The EIU.

"The EIU does two things," says Fitzroy. "First, we measure and update 70 indicators across a range of risk categories for countries around the world. These indicators offer a form of early warning for future risk scenarios. Then, more specifically, we also create a risk scenario watchlist for countries in which we write and score the top ten-20 risks for businesses. This involves giving each scenario an impact and probability score, which we then combine to give an intensity score, allowing us to compare and evaluate, and ultimately to prioritise, certain risks over others."

Maplecroft's annual Political Risk Atlas includes short-term risks, such as the rule of law, political violence and regime stability, in addition to longer-term factors such as economic diversification, resource scarcity and human rights.

"We work across three defined areas that enable us to provide a 360-degree view of risks to our corporate clients," says Laurie. "Our risk indices and predictive analytics offer a granular view of risk that is unique within the industry. These score 198 countries across 150-plus issues, ranging from civil unrest, to child labour, modern slavery, climate change vulnerability and government stability, which enables companies to pinpoint vulnerabilities in their operations, supply chains and investments."

He continues, "This is combined with expert analysis of human rights, environmental issues and political risk from a team of 60 experts who help our clients understand what these risks mean for them and where they are going." In addition, Maplecroft provides consulting solutions that draw on its data and research and are tailored to each client's specific needs. These can range from a supply chain risk management tool, to horizon scanning for geopolitical issues, to developing a strategic human rights framework.

For the risk manager or CFO, the changing values of such indices can provide a useful starting point for identifying future risk events. To take human rights in Hong Kong as a recent example, if you wanted to look at the probability of large-scale social unrest breaking out, both Fitzroy and Laurie agree this could have been foreseen after the proposal of the Chinese extradition bill in February last year.

"The extradition bill was one of the immediate causes of the protests, but there are so many other indirect causes, such as wealth inequality, the quality of the living environment not being as good as it was before, coupled with the cost of living increasing rapidly too," says Honnus Cheung, CFO, Asia and GM, China at Travelzoo. "Young people want to do something to improve the current situation."

The four Ts

Maplecroft's Laurie believes that when it comes to political risk, context is key. In a world of 24-hour breaking news, treasurers need to know much more than just the headlines. It's not just about finding out what has happened – it's also about having a clear view of the consequences. Treasury needs to understand why particular risks matter and how they will impact on the overall business – not just in the present, but in six months, two years and more.

Taking a holistic approach to understanding how these risks interconnect is the most important step. But how can treasury do this? In our increasingly-connected world, data is the new frontier for risk management: it can help treasury understand current risk, the trajectory this risk will take, and how it will change.

Civil unrest is a prime example. Protests and instability don't happen in isolation, so understanding the drivers behind these issues, such as corruption and the human rights environment, can help treasury pinpoint where disruptive events might occur in the future.

Once a political risk is identified and evaluated, companies can then begin the process of managing it. As is the case with other types of exposure, there are four main ways in which a company can do this:

- **Tolerate** – one option companies may opt for is to tolerate the risk, concluding that the level of risk they face is acceptable and decide to proceed as normal, while monitoring it to ensure that it does not increase in the future.
- **Transfer** – if a company decides that the level of political risk is too high, but still wants to continue operating in a certain region or country, one option may be to take out political risk insurance in order to shield the company, should the worst happen.
- **Treatment** – this involves taking actions that will reduce the likelihood of an adverse event occurring in the first place. That could mean lobbying a government in the hope of achieving a more favourable legislative outcome, or, alternatively, taking certain steps to mitigate the impact of a damaging policy decision.
- **Terminate** – in cases where the level of risk is deemed unacceptable, a decision may be made to terminate a certain activity. What is determined to be an acceptable level of risk may vary between industries and companies. To take an example, companies in extractive industries such as mining have little choice regarding the countries or regions in which they operate. A company which mines for platinum must operate wherever the deposits are, forcing them into sometimes volatile regions.

For The EIU, these are clear methodologies that can help firms. But the key things for businesses to consider is where their assets are geographically financially exposed, and on which other businesses they rely.

The EIU's Fitzroy continues: "This is important because the speed of information dissemination on the internet means that firms can often be reputationally damaged just through association, while complex global supply chains mean simply understanding a firm's own exposure is not sufficient."

Beyond exposure mapping, firms also need to have a system in place that helps to identify, evaluate and monitor key risks across countries. "One other thing to remember is that current stability is definitely not an indicator of future stability – so scepticism is useful," Fitzroy comments.

Cheung at Travelzoo agrees. "It's certainly not an easy task. When I do our budget, I will ask each respective Country Manager for more local insights, but I will also talk with respective bankers in each country to get the latest information. I also use The EIU's reports as a reference, but with my many years' of experience of the ups and downs of the economic cycle and political crises, these reports can only give treasury so much. Unless you know a country inside out, political risk will always be there. As such, diversification is so important – from a country or a product perspective."

The road ahead

For The EIU, the two main things for firms to focus on in 2020 and beyond are reputational risk and geopolitical relationships. First, the combination of geopolitical polarisation, the soaring power of social media and the rise of ESG activism mean that businesses must analyse their exposure to potential reputational risks more than ever before – and it is still an area that firms find hard to manage.

Second, as with the example of conflict in Hong Kong, it is not simply enough to understand a particular market and its government – treasurers also have to understand that government's relationship to other governments. The web of global geopolitics is particularly pertinent, with sanctions and trade tariffs being used as a weapon in geopolitical disputes.

Yet when all is said and done, political risk is dominated by human decision-making, which is notoriously hard to measure or predict. Not everything can be measured, and qualitative judgements will remain an important part of the field.

The EIU's Fitzroy explains: "In order to give each identified risk scenario a probability score, the EIU recommends combining data on previous similar examples in the same or similar countries and, crucially, identifying a few triggers that could set off the scenario."

While no one can predict the future, treasury does have the tools needed to anticipate political risk. Some risks are spontaneous, while others simmer for years. But it's the combination of thorough research, due diligence and the assistance of advisory services to identify the risks – especially with regard to issues that corporates are not aware of – that can help prevent a detrimental impact on the business.

Being able to mitigate known political risks allows the treasurer to see into the unknown. Effectively handling known risks such as human rights and environmental issues, which have the potential to impact a supply chain, frees up both time and space to prepare for what the world – and therefore the business – might look like in 20 years' time. "Where one risk ends, another begins – we help our clients see these, mitigate impact when they can and manage it when they can't, because from risk comes reward," says Maplecroft's Laurie.

While political risk can never be avoided – particularly in today's volatile times – those businesses that anticipate risk, and manage it effectively when the political heavens open, will be the ones best able to ride out the storm.

Short term investments, long term thinking – how ESG positively impacts value

Liquidity, yield and capital preservation may have been the only watchwords for investors in money market funds and ultra-short duration bond funds, but times are changing. We now need to understand the positive impact that environmental, social and corporate governance (ESG) factors can have on investment outcomes.

Marte Borhaug
Global Head of ESG
Investment Solutions,
Global Responsible Investment
Aviva Investors

Demi Angelaki
Senior Portfolio Manager –
Liquidity Funds
Aviva Investors

In a recent webinar, Marte Borhaug and Demi Angelaki of Aviva Investors explained the importance of establishing a robust framework to embed ESG considerations into the investment process. They discussed how the principles of responsible investment can positively impact investment outcomes and looked at how the unique challenges faced by portfolio managers are not insurmountable.

They shared examples from France, where principles of socially responsible investing (SRI) are government endorsed and integrated into the French short-term investment market.

According to the US Forum for Sustainable and Responsible Investment, between 2016 and 2018, sustainable, responsible and impact investing grew by more than 38%, rising from US$8.7trn in 2016 to US$12trn in 2018.

Borhaug explained how Aviva has established a Global Responsible Investment (GRI) team, comprising 22 employees, including herself, to ensure material ESG factors are considered when determining the firm's macro investment outlook. Borhaug opened the session by defining what ESG is and explaining the difference between ESG investing and ethical investing.

"E, S and G are often referred to as 'non-financial' factors but they are in fact factors that can have a financial impact on a company," commented Borhaug.

There is a belief that companies that focus on ESG factors will outperform their peers that don't place as much emphasis on it. For money market funds (MMFs) it is about maximising risk adjusted returns.

When polled about what 'ESG adoption by an investment manager is', 83% of the audience thought it was both a means to do good and a way to mitigate risk and enhance returns.

The presentation highlighted the regulatory pressures which are influencing client demand and the impact these pressures have on clients. They are starting to consider embedding ESG into their investment strategies, requiring corporate disclosure and public disclosure – new product needs are driving new product launches.

ESG and investing into MMFs was also discussed in the context of the three key considerations of security of capital, liquidity and yield.

There are ESG risks that may materialise any time and, for this, taking ESG factors into consideration acts as a risk management tool and risk mitigation more so than a return enhancer. There can be a strong correlation between tail risk and ESG metrics.

The second poll during the live event asked 'How important is ESG integration for a MMF?'

Interesting but unlikely to influence the decision – 6%

Likely to be among a number of determinant factors – 61%

Likely to be one of the key determinant factors – 33%

The presentation concluded with a discussion on what investors should look for in a manager and a look to the future. Angelaki highlighted the following attributes in any manager:

- Dedicated research team.
- Integration of ESG team output into investment process.
- Proprietary scores/ESG metrics.
- Qualitative research output.
- Evidence of firm-wide commitment.

"Look for asset managers that categorise their funds and strategies according to the sustainable investing spectrum/ objectives and what applies to each category," commented Angelaki.

It is clear that ESG considerations are rapidly moving up the agenda, particularly where investment strategies are being developed.

Aviva Investors will continue to work tirelessly to help to build capital markets that factor in people and the planet, as well as profit. They are participating in conversations to encourage sponsors of asset-backed commercial paper (ABCP) to research, disclose and standardise the ESG ratings of their programmes.

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

WOMEN IN TREASURY NEW YORK FORUM 2019

Society is moving faster than corporate America – and corporate America needs to catch up.

On 10th October, Treasury Today went to The Roosevelt Hotel in New York for our fourth annual Women in Treasury (WiT) New York Forum. Over 150 guests attended the event, with women and men from a multitude of sectors joined by their banking and technology partners from across the US.

This year's panel, moderated by Sophie Jackson, Publisher & Head of Strategic Content, Treasury Today Group, consisted of:

- **Lynda Johnson** – Assistant Treasurer, Harley-Davidson
- **India Gary-Martin** – Executive Coach, Leadership Expert & Advisor, Leadership for Executives
- **Catherine Portman** – Head of Global Treasury, Uber
- **Laurette DelGuercio** – Director, Global Liquidity and Cash Management, Employee Client Engagement, HSBC
- **Kate Sandman McKinley** – Senior Vice President and General Counsel, State Street Global Advisors

Key themes discussed during the forum included diversity and inclusion, intersectionality, overcoming challenges, mentoring and ally-ship – all of which are also examined in the 2019 Women in Treasury Global Study, sponsored by State Street Global Advisors.

Career paths

Lynda Johnson described her path into treasury as "anything but linear and straight", before revealing that her undergraduate degree is in Chemistry and English. After realising that "finance organisations ruled the world," Lynda earned her MBA and worked for various technology-orientated companies, before moving to Harley-Davidson for a role that

> I'm always looking for continuous improvement opportunities, and I seek to find a path to yes as the answer.
>
> Lynda Johnson, Assistant Treasurer, Harley-Davidson

offered "stability, but also fun". She moved to treasury eight years ago after working in various other roles in a number of different locations – including one international assignment.

India Gary-Martin, in contrast, worked in investment banking for 25 years before starting in executive transformation. She described her role as "helping leaders to be better leaders," and she credited her previous position as Managing Director & Global COO for Investment Banking Technology and Operations at J.P. Morgan as preparing her for being able to help others with self-improvement.

Kate Sandman McKinley told the room of her journey through the legal and financial services sectors, and how as a junior associate she would often be mistaken for the partner's secretary in meetings. She noted that just 15 years ago, incidents like that would simply be laughed off: "wait until they get the bill, then they'll realise you aren't the secretary!", and she often wouldn't even notice that she was the only female in the room. "The difference is that people talk about it now," she stated. But, she added, we need to do more than just be aware; we also need to hold people accountable.

For Catherine Portman, spending 18 years working for one company, Juniper, gave her an "amazing journey" whilst building and leading the treasury organisation. Although she felt fully supported by CFOs, she also felt that she needed to be re-energised. Catherine described how she took on the challenge of joining Uber just five days before the company went public and overcame several personal and professional challenges in doing so. Her achievements were so great that she was awarded Overall Winner in the Woman of the Year category for Treasury Today's 2019 Adam Smith Awards.

Laurette DelGuercio began by explaining that she had been in banking since graduating. It was early in her career that she realised she "wanted to go where there are new things," and has since always looked for positions that enable her to build new businesses products and distribution channels. She described how after working for Citibank, she began consulting and became heavily involved in the start-up ecosystem that then-mayor of New York, Michael Bloomberg, was working on after the financial crisis. Eighteen months ago, Laurette was involved in the formation of a new group in HSBC's Global Liquidity and Cash Management (GLCM) business, the Employee and Client Engagement Team. She noted that by joining on the employee engagement side, her goal is to help all colleagues in GLCM attain their career goals and aspirations on a global scale.

A passion for inclusion

Laurette stated that her passion for inclusive environments began early and throughout high school and college her involvement in championing inclusivity was established, and continues today. When working in New York after the 2008 financial crisis, she quickly realised that there were few women in the start-up ecosystem. In response, she partnered with large corporations and start-up ecosystem leaders – chairmen/women, CEOs, CFOs – and created Women Entrepreneurs and Investors. Her "passion work", she said, is the time she spends supporting women's programmes and coaching female entrepreneurs.

For India, former President of City Women's Network, diversity and inclusion come down to the notions of intersectionality and equity. She noted that firms often begin the diversity discussion, but then only really focus on gender. "I'm not only a woman," said India, "I'm a black woman." She then wondered what the limited scope of the discussion meant for the other large part of her identity. Although diversity and inclusion are hugely important, she feels that equity cannot be ignored, especially not for women with various intersectional points. "Keep an equal focus on the diversity pillars, not just the easy ones," she stated. "Easy doesn't mean right."

Stepping out of the comfort zone

When Lynda joined the treasury department just eight years ago, she started by turning her attention to developing her leadership skills. "I had a great team that knew what they were doing, so I let them focus on that whilst I focussed on being a good leader," she said. With her constant drive for improvement and enthusiasm for a challenge, she implemented SAP treasury workstation globally, and also led her team to becoming Overall Winner in the Best Card Solution category in Treasury Today's 2019 Adam Smith Awards. "I'm always looking for continuous improvement opportunities, and I seek to find a path to yes as the answer," she said.

Much like Lynda, Kate had to step out of her comfort zone to become the COO of State Street Global Advisors' Americas Institutional Client Group a few years ago, after being the Deputy General Counsel for the company. One key fear, she said, came from realising that her predecessor had a vastly different background to her own. "I learned a lot," she said, "I had to learn to manage and lead large teams of people that were subject experts in areas where I had less experience." After moving back to the legal department as General Counsel in January 2019, she said that being in a role on the other side of the table has given her a new perspective that she feels can benefit the legal department as a whole.

Reverse mentoring

Laurette gave an outline of the concept of reverse mentoring – the process of getting younger employees to be mentors to senior leaders. "The millennial generation can teach senior

> Don't sweat the small stuff. You have to move on from small things that you can't change and focus on the positives in your career.
>
> Catherine Portman, Head of Global Treasury, Uber

leaders how to use tech," she gave as an example, noting that this understanding can put leaders in a better position to lead the business in an increasingly digital world. And the same principles can be applied beyond technology. The concept is still relatively new, so there isn't yet the data to demonstrate whether it's making a change, explained Laurette. But as she said, "Exposure is the first step, and I would like to think senior leaders are listening, and that this can help to eliminate unconscious bias."

Being overlooked

Catherine gave a personal example from a long time ago, where she was overlooked for a promotion for a year because the promoting manager knew that she would react to the rejection better than her male counterpart. In her experience, "it comes down to having either an official or unofficial mentor or advocate." She recommends building trust across certain teams of leaders who understand your strengths.

Laurette, meanwhile, encourages women to "open the dialogue" about their achievements. "When it's clear what you've achieved and what you've delivered, and you know what it is that you want, you need to speak up for it and let people know what that is," she said. Laurette spoke of an idea publicised by HSBC's Global Head of GLCM, Diane S Reyes, that every woman should have an 'elevator pitch' ready. The idea is that an individual should be able to say exactly what they want in the time it takes for an elevator journey, should they bump into a senior executive. She also seconded Catherine's advice and recommended that women get themselves a sponsor.

Lynda said she talks not only about things she has done in her company, but also about the sponsoring she does and the boards she's on. "I share that I'm a broad thinker and contributor," she added. With regards to an elevator pitch, she noted that the best thing to do is "know your pitch and keep it succinct", and recommended thinking of it as a performance assessment.

India remarked on how "women second guess themselves about being ready," whereas male peers tend to approach new opportunities whenever they can. "If there's a job that you want and you know you pretty much tick most of the boxes, then go for it. What do you have to lose?" she asked. India also commented on the difference between core skills and behaviours, and how women shouldn't be put off by these requirements for jobs. "You can learn skills and change behaviours," she said.

Ally-ship

For Laurette, "Ally-ship is about supporting people who are marginalised," and requires a large focus on relationships. The purpose, she thinks "is to give them a hand up, or even just help." As she said, "I'd rather teach someone to fish than serve them a fish dinner."

India expanded on this, stating "I believe in teaching people to fish, as long as the pole is the same length." For her, it's a "humanity issue", and about "basic human behaviour". She has found that "there is absolute value in supporting people, and it takes brave voices for people to stand up and support marginalised people." She also said a key question people should be asking is: "do I need allies or do I need people to behave like humans and do the right thing?"

"Ally-ship is interesting as a concept, but the reality is that it's about shifting your behaviour, looking at how people are impacted in your organisation, what you want your business to look like, what you want your life to be like and how to get the best out of people. The demographic of the population is changing and we have to ensure there are equal levels of representation across all sectors of business, government and education," India said.

As Lynda stated, "we are the current and future leaders of our organisations." By opening up the dialogue around all intersectional points at events like the WiT forums and roundtables, and by utilising concepts like reverse mentoring, "we can take this cause even further along in elevating women to the next levels in the organisation," she added.

Flexible working

With the steady increase in the number of companies offering flexible working, Kate explained that "this is an area in which we've seen very strong improvement over the past ten years." She described it as an "invaluable tool" for both managers and employees, drawing on her personal experience as a parent. When she worked from home for one day a week after the birth of her first child, she said, she worked harder and longer on those days because she was so grateful for the opportunity. She credited technology for enabling the ease of a flexible working arrangement and removing some of the challenges and stigma that used to exist around it.

For Laurette, flexible working is a necessity at HSBC. Working in a global role, they meet with colleagues all hours to accommodate varying time zones, she stated that in these instances "the only way for staff to fully do their job is to work from home." She added that "the lack of stigma is making all the difference in the world, for men and women."

Like Kate, India found that when she began working from home, she worked a lot longer and harder, "largely because I wanted people to know I was still working hard." However, she stated, this isn't necessarily a good thing – and corporate culture needs to shift so that employees don't feel that need to prove their dedication.

Words of wisdom

When asked what they've learnt along their journeys, and what they can do in positions of leadership to open access and encourage inclusivity, the speakers had plenty of insights to share. Kate noted the importance of small gestures, like "scheduling meetings for times that work for families, people with religious obligations, people in different time zones," as well as undertaking things like unconscious bias training.

Lynda stated that she found the most important thing to be achieving a good work-life balance. "I felt I couldn't do anything but work, and I realised I didn't have a life," she said. After finding things to do outside of work, she realised she actually felt more productive when she had a fuller life, which in turn led to her giving more back into work.

"Don't sweat the small stuff," is what Catherine had to offer. "You have to move on from small things that you can't change and focus on the positives in your career." She also recommended finding a network and "someone that you connect with and can talk about challenges with," highlighting the importance of these actions from a career perspective.

For India, authenticity is the most important thing when building the groundwork for progressing in a career. "Be who you are," she said. "It's clichéd but true." She adds that while it may be easy to adopt other characteristics to try and succeed – "like those of the people above you" – being "authentic and comfortable in your own skin" is one of the most important things an individual can do.

Echoing India's thoughts on authenticity, Laurette has found that "you don't have to bring your whole self to work, but you do have to bring your authentic self." From the increase in flexible working and awareness of unconscious bias, she said it is clear that "the call to action is here and organisations are answering."

Getting involved

We'd like to offer our thanks to all who took part in, attended, and supported our Women in Treasury New York Forum, and encourage anyone who is interested to get involved.

There are a number of ways you can do this, including attending our global forums, taking part in the 2020 Women in Treasury Global Study, joining our dedicated WiT network on LinkedIn, or by nominating yourself or a team member in the Adam Smith Awards Woman of the Year category – submissions open on 31st January 2020.

For any enquiries regarding the Women in Treasury initiative, or to receive a full copy of our 2019 study results, please contact **Lisa Bigley, Global Head of Events, Treasury Today Group – lisa.bigley@treasurytoday.com**

treasurytoday
Adam Smith Awards

Determination deserves recognition

Nominations open 31st January

The highly acclaimed Adam Smith Awards programme is now in its 13th year. This globally renowned platform showcases the very best and brightest in corporate treasury across the industry.

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

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2020 award categories

Treasury Today's Top Treasury Team 2020
Best Cash Management Solution
Best WCM, AP/AR Solution
Best Card Solution
Best Trade/Supply Chain Finance Solution
Best Funding Solution
Best ESG 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 2020
A Rising Star 2020

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 Tuesday 14th 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 Wednesday 17th June at Plaisterers' Hall in the City of London.

For full details on all categories, please visit **treasurytoday.com/adam-smith-awards**

Save the date

Wednesday 17th June | Plaisterers' Hall | City of London

All award winners attend the Adam Smith Awards Gala Presentation Lunch on Wednesday 17th 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 2020 award winners!

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

All winning solutions are profiled in case studies which appear in our Adam Smith Awards Yearbook. The case studies are based on the winning nominations and are written by our editorial team. The text is submitted to the winners for their approval prior to publication. 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.

Treasury transformers: APIs taking corporate banking to the next level

APIs are transforming treasury. By providing a cost-effective, frictionless technology experience across the piece, they can remove barriers to automation, solve common pain points and potentially deliver levels of system flexibility, agility and scalability that few thus far have imagined.

Nadya Hijazi
Global Head of Digital,
Global Liquidity and Cash Management
and Business Banking
HSBC

Lance Kawaguchi
Managing Director,
Global Head – Corporates,
Global Liquidity and Cash Management
HSBC

There can't be many treasurers who are yet to notice the arrival of the application programming interface (API) in this space. There is good reason to be au fait with this technology phenomenon. As a means of allowing two or more software applications to interact seamlessly, APIs are not just convenient; they open up a whole new world of real-time-enabled possibilities to which every stakeholder in progress can apply their imagination.

Saving time and money

In delivering real-time connectivity between bank and corporate, APIs offer the opportunity to capture data around transactions, almost as they happen. Data flow with unprecedented speed, transparency and seamlessness heralds the evolution of most day-to-day treasury activities. But APIs can also deliver transactional data, enriched above and beyond traditional SWIFT messaging content.

With more information, something as fundamental as reconciliations and payments exceptions management can be enhanced, saving time and money. Indeed, as the seamless and transparent banking experience is rolled out through APIs, it progressively removes treasury's reliance on end-of-day batch processing and host-to-host connection with each bank, says Nadya Hijazi, Global Head of Digital, Global Liquidity and Cash Management and Business Banking, HSBC.

Without APIs, integration of the corporate TMS or ERP with a bank, supplier or other third party can require a heavy lift of technology, almost certainly demanding access to IT resources. Once that integration has been built, there is usually very little re-usability of those connections. For Hijazi, APIs offer a release from these chains, believing they give treasurers "an easier means of creating a much broader ecosystem".

Leveraging connections

Published APIs can be consumed at will, enabling other services, even outside of treasury's traditional sphere of reference, to be leveraged. Connecting services in this way delivers all kinds of capabilities that previously would have been costly and, in some cases, impossible. The idea that treasurers can re-use connections to create entirely new services is ground-breaking, says Hijazi. "When we talk to clients about different API use cases and opportunities, it's a discussion always powered by how APIs can help them leverage new internal and external connections."

The power of APIs is clearly demonstrated in the consumer space, where commercial apps are allowing users to easily find, order and pay for goods and services, providing order confirmations and delivery tracking, all in one place. Many of these apps are based on an underlying web of APIs, the app acting as the 'one-stop' aggregation of many different services, delivering a seamless service to the user. "In much the same way, we can help treasurers take advantage of this technology, reimagining their ecosystems, moving away from end-of-day processing towards real-time decisioning," Hijazi explains.

Risk management

The highly sensitive nature of treasury data could be seen as a roadblock. It's true that APIs are data-driven and create links to certain underlying systems. Hijazi is candid in her assessment: the technology itself is no guarantee of risk reduction. "Security is only achieved by understanding what risks those technologies are subject to, and then putting appropriate controls around those technologies."

The immediate nature of API connectivity demands monitoring and response capabilities to match. Of course, help in creating the right security infrastructure should be sought for any new technology, but as Hijazi also points out, since APIs are built on seamless 'open' technology, they can be easily integrated with audit and analytics systems – helping to identify and manage risk exposures.

Implementation, flexibility and scalability

The integration of TMS or ERP platforms to banks' host-to-host environments is complex and usually requires significant support for the treasury teams by the bank. APIs enable developers within the customers' business greater self-service capability through the publication of technical API specification, automated exchange of tokens and the ability to begin the testing of the connectivity before engaging in the pre-production testing. This significantly reduces the implementation times and shifts the control to the corporate customers.

What's more, the level of connectivity enables banks to expose more services and data to their corporate customers than a host-to-host channel which, is not easily consumable within a digital proposition. Of, course, treasury is unlikely to demand constant real-time information, and so the number of customer calls to banks' infrastructure can be kept within "sensible realms" comments Hijazi. This, she says, makes API's an entirely scalable proposition.

Setting standards

Currently, API development is not standardised amongst providers (not even PSD2 was prescriptive at this level). That said, HSBC worked with SWIFT, for example to define common API standards for its Direct Debit Fast payments API in Hong Kong which other providers will adopt. HSBC's response to multiple standards has been to concentrate on the data within the API itself, standardising as much as possible around ISO 20022 XML v3.

Enhanced viewpoint

APIs for transaction reporting can give treasurers enterprise-wide visibility across their accounts. Real-time data opens up the prospect of enriched reporting; with beneficiary bank processing status and SWIFT unique end-to-end transaction references (UETRs), treasury can achieve higher reconciliation rates, says Lance Kawaguchi, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management, HSBC.

Indeed, at the highest level, because APIs can help treasury monitor and maintain cash and liquidity positions across multiple accounts and banks, Kawaguchi believes that it really can position the treasury to be able to make more informed and timely decisions on its cash.

Essentially, APIs mean that information becomes available when treasury requires it, he explains. By allowing real-time information to be integrated into treasury processes, through the TMS or ERP, he notes that instead of waiting for periodic data flows from the bank, treasurers can request real-time information such as statements, transaction statuses or balances. "Having real-time data enables further automation and the removal of risk-laden manual and paper-based process. But it also establishes the structure necessary for on-demand instant payment initiation."

Added-value

What's more, Kawaguchi feels that the prospect of real-time API-driven information raises the possibility of treasuries more easily deploying and benefiting from value-added services provided by banking partners.

As an example, when HSBC US Commercial Banking launched its Digital Partner Platform in early 2019, the aim was to deploy a series of APIs across an ecosystem that would make it easier for clients and third parties (such as fintechs) to access to HSBC's products and services. One of the first offerings under this programme digitises commercial onboarding so that companies can directly apply for commercial banking accounts online. The aim is to begin rolling this out for cross-border account opening in select international markets.

With APIs allowing seamless integration between applications from different vendors, the notion of exchanging data directly – without the need for human interaction – is all part of creating a digital ecosystem that Kawaguchi says "will enable businesses to start building and delivering customer-centric propositions for their own customers".

Enhancing relationships

By providing real-time control over the treasury data flow, and payments and reconciliation processes, APIs will also enhance the overall banking experience. As Kawaguchi notes, "just receiving an instant response when transferring money between accounts or sending payments to suppliers and partners would be a significant improvement for many treasurers."

With APIs simplifying the connectivity between a bank and the corporate client's TMS or ERP system, once integrated, real-time data flow will lead to fewer instances of ad hoc requests for information from the corporate to the bank. As Kawaguchi comments, where these requests have previously been made via email or phone (and this is still a common occurrence), it can sometimes create "unnecessary delays". For corporates to be able to track their payments, and perform reconciliations, without having to wait for batch runs or contact the banks, it is a major benefit.

Treasury next steps

With APIs now at least on the radar of most treasurers, Kawaguchi believes that it is a good time to start talking to banking partners about their API roadmap. "APIs are here to stay, and treasurers must ensure that their banking partners have a strategy in place to optimise the opportunities available to them," he advises. Of course, to be truly effective, that banking partner's API strategy must match its own footprint, he adds. "Only that way will clients gain a consistent experience, regardless of geography."

Besides gaining a deeper appreciation of current treasury processes, through mapping and analysis, he urges corporate treasurers to begin exploring the processes and drivers within other functions within the business. By doing so, it will ensure an understanding of where bank-hosted APIs can streamline transaction flows between the corporate and its own customers. With scope for re-usability of connections at almost every turn, the limit of possibilities stops only with the imagination.

From our correspondent: making cross-border payments work

Correspondent banking is the means by which a corporate's payments can reach the wider world, beyond the scope of their regular banking partners. Is this practice still fit for purpose?

The old notion that 'if it ain't broke, don't fix it' sometimes needs revisiting, just to see if things really are as good as they could be. One long-standing aspect of corporate treasury that has come under pressure on a number of fronts in recent times is that of cross-border payments.

The ability to make payments between domestic systems is still commonly facilitated through the correspondent banking network. This requires banks to set up accounts with selected counterparty banks (a nostro/vostro arrangement). It seems to be a simple ask.

Yet the correspondent banking world appears to be in a bit of a crisis, according to some high profile commentators. "The correspondent banking model is antiquated and inefficient, often resulting in high costs, payments not being delivered on time and illicit activity," says the latest AFP Payments Guide, 'The Advent of New Cross-Border Payments Systems'. Or how about this rather anxious extract from none other than BIS: "The continuing decline in the number of correspondent banking relationships in many countries around the world remains a source of concern."

Whilst most treasurers will be interested more in the timeliness and cost of their payments than how the bank executes them, if correspondent banking is showing its age, it may be time to explore other options, and that may mean stepping beyond the banking realm.

Cut-backs

"It's logical that banks have reduced their numbers of correspondent banks; they simply had too many when reciprocity was a bit too easy going," comments Marcus Hughes, Director of Business Development at Bottomline. "Now the banks recognise the need to better understand every transaction, from a KYC and money-laundering perspective, many are de-risking their network of correspondents."

It's a logical step that has led to murmurings as to whether certain countries have been sidelined by the global banking community, simply because it is not prepared to be involved in those jurisdictions: BIS's concern may be well-founded.

"I wouldn't call it industry retrenchment," notes Karin Flinspach, European Regional Head of Transaction Banking at Standard Chartered. "But some banks have looked at the high-risk jurisdictions and asked if the business is worth all the due diligence." Indeed, she believes that as banks with large correspondent networks re-assess the value of managing such large networks, some have chosen to focus on their core markets.

But Shahrokh Moinian, Head of Wholesale Payments – EMEA, J.P. Morgan (the world's largest clearing bank, moving around US$6trn daily) believes that the issue has been transcended – and that the banks involved in these networks have been able to upgrade their controls and systems "to get to the next level needed by the regulators". With large banks able to work with smaller players in countries far beyond the financial hubs, he argues that "this is not a major issue from a corporate perspective".

By and large, most jurisdictions are still reachable via the correspondent banking network, Moinian describing today's network as "a well-oiled engine that still allows banks to connect with each other".

Flinspach, who similarly describes these networks as the "lubricant of international trade", raises a valuable point in that tier one banks have an unwritten duty to help raise the standards of banking governance in the developing regions. Educational programmes can advise the smaller institutions as to how business needs to be conducted to maintain access to the international banking network, promoting models of due diligence, transparency and efficiency around payments. This, she suggests, is in the interests of all stakeholders.

Mega-trends

In the absence of a global clearing system, correspondent banking has, for many decades, been the only option. It is now a US$200bn business in itself. But that may be about to change, the rise of technology driving rapid progress in most areas of business. Hughes points to the success of relatively recent entrants to the payments arena, such as the niche cross-border FX platforms (such as Moneycorp, Western Union and the API-based Currencycloud), some of which meet a need by focusing on transacting exotic currencies.

Another new alternative channel Hughes cites is Visa's B2B Connect. This is intended to help financial institutions process cross-border payments globally on behalf of corporate clients. It offers no direct corporate access – transactions by businesses being sent directly from their bank to the beneficiary bank – but it does take care of KYC, settlement and FX elements in one place. "It's early days," he comments, "but it has potential to be an interesting alternative." Mastercard Track is a similar platform "with great ambition and potential".

There are also now a number of blockchain-based currency initiatives which could resolve access issues. However, the volatility of cryptocurrencies, with the furore around Bitcoin, and now Facebook's Libra currency, still raging, has served to increase the need for proper regulation in this space, especially around money laundering. Amongst much high-level criticism, former ECB president, Mario Draghi, has said that Bitcoin and crypto "are not designed in ways that make them suitable substitutes for money". Crypto is unlikely to be on the treasurer's agenda anytime soon.

Overall, some of the new alternative providers (the cross-border FX platforms in particular) "have taken market share from the banks," admits Flinspach. Arguably though, the most significant change she sees is one of 'attitude', and this may stoke up the market more than any single innovation.

From B2C to B2B

The change is being driven by rapid progress in B2C payments, where the sharp uptick in e-commerce has seen consumers rapidly getting used to shopping and paying on their smartphones, and tracking delivery, in almost real-time. The slickness of operation, delivered in the main by fintech disruptors, has created great expectations, notes Moinian.

"Some of these consumers go to the office in the morning and become treasurers, and they are starting to anticipate the same experience from their cross-border payments," he says. The expectation around digital is also pushing many firms – even those in traditional sectors such as FMCG and automotive – into adding direct sales, using online channels to reach end-users. This generates a subsequent need to offer the new (and often geographically disparate) customer base many more payments options.

There is another key trend to observe, says Moinian. With increasingly stringent rules around anti-money laundering, cybercrime, fraud, sanctions and embargos, although for the authorities "it's about controlling the flow of movement", ultimately it means that there are increased barriers to entry into the correspondent space for banks.

With intensified regulatory pressure, and with speed-to-market of the essence for those in the new 'challenger bank' space, some players will be looking seriously at by-passing correspondent relationships, perhaps instead connecting with FX cross-border payment providers. It's all indicative of the changing face of the cross-border payments landscape – but does this mean the end for correspondent banking?

Work together

In the past few years, the industry has seen the international payments space evolve. SWIFT's gpi has arrived, giving cross-border payments more speed and considerably more transparency, both in terms of the actual whereabouts of a given transaction, and the charges and deductions that each bank levies on it.

Every day, more than US$300bn in messages is being sent via gpi (with about 2,000 active corporates on board). Currently offering bank-only direct access, gpi is now being piloted at the corporate access level, aiming to give treasury more control over payments. With error investigations and case resolution functionality being tested, and more ideas in the pipeline, Hughes declares that it is "the best thing SWIFT has done in the last 20 years".

Another welcome – and complementary – advance has been the introduction of the blockchain-based Interbank Information Network (IIN). This started as a J.P. Morgan platform for exchanging payments information with its clients; it has now been joined by more than 360 banks (Deutsche Bank being the most recent) with more than 65 now live since launching in 2018.

The associated information that goes onto the network is whatever the different parties decide to upload, says Moinian. In practice, it means, for example, that for a payment that raises a sanctions or fraud issue, where it used to take up to two weeks to resolve, it can now be fixed in minutes. With other banks free to develop their own solutions on the platform and roll them out to the wider industry, he believes it is on the way to becoming “a new standard in the correspondent sector”.

Collaboration and interoperability

With the higher cost of entry having seen some banks slow down on investment in this space, Moinian believes that the changing nature of correspondent banking has seen the spirit of collaboration extending “because banks now understand the need to encourage the network effect”.

Indeed, the more banks join and share data in projects such as IIN, the more the resolution of payments issues is expedited, and thus the more other banks will see the benefits and join. It’s something that Flinspach also observes, suggesting that “it’s now all about bringing together different partners – financial institutions, fintechs and corporates – to create and build new networks”. But alongside collaboration she says there must be the desire to offer interoperability.

Many fintechs started on the back of the B2C e-commerce explosion, and the sector is still driven by consumer demand for digital wallets and other means of making electronic transactions. But the fintechs need the banks to clear their transactions in the countries in which they operate. Between bank and fintech, it now shows every sign of being a symbiotic relationship, where once it was purely competitive. As Moinian also notes, for the whole piece to work optimally, “it’s increasingly important for us to have interoperability between the different payments rails”.

Currently, through SWIFT, traditional banking offers one rail for large B2B transactions. But as many corporates start selling directly to consumers, cross-border solutions for smaller payments will be needed. To make these viable, they need to be cheaper for the banks to run and for the end-user to use. Solutions such as J.P. Morgan’s cross-border ACH-style platform for corporates can enable, for example, a wire that starts in the US to find its way unhindered to an e-wallet in China.

Partnerships

This is why, in the same way that there is bank-to-bank collaboration in this space, so the fintech community is forging partnerships with banks. Both parties are now fully cognisant of what each brings to the arrangement: teaming up enables customers to use the fintech front-end of their choice, but supported by solid banking payments rails.

The advent in the payments space of bank-issued APIs – where third parties (Payments Service Providers or PSPs) are able to access basic account information – is a good demonstration of the willingness to achieve this outcome.

Banks continue to spend a lot of money publishing APIs, especially in the EU where PSD2 has forced through the concept of open banking as a means of levelling the playing field. But without proper standardisation of APIs, there is still a way to go. It might be perceived an issue that although SWIFT presents as the formal bank-to-bank arrangement on connectivity, as yet there is no such formal agreement between the bank and fintech communities.

But serious attempts have been made by a number of bodies, including the Berlin Group (almost 40 banks, associations and PSPs from across the EU which is working on ‘NextGenPSD2’) to reach a standard. And Moinian comments that connectivity so far has not been an issue. “The fintechs are very agile developers, and the lack of a standard does not seem to be a problem for them.”

Asking questions

Notwithstanding the positive effects of change in the correspondent banking space, as BIS notes, some banks have reduced their global reach. “It’s as good a time as any for corporates to review their bank relationships, asking questions about reach, pricing, service and delivery times,” says Hughes. “With banks having de-globalised, it may mean corporates now need more relationships to get the reach they need.”

Obviously, treasurers should clarify the service offered by their existing panel of banks, and how this might fit with corporate strategy, mindful of current market volatilities. It is also important to gather information on the latest technologies before deciding which payments partners (and it may not be a bank) fit their future planning.

With collaboration and interoperability as guiding criteria, treasurers should seek reassurance from its providers that each is investing at the right level and in the right technology. Every bank’s API offering must be investigated too: although Hughes sees their development as “a bit chaotic”, the whole process lacking standardisation (SWIFT is talking about stepping in), APIs could be the means of opening up new payments front-ends that corporate customers wish to use. In this increasingly multi-channel world, where direct sales is on the rise, the more payments tools a corporate offers its customers, the greater the chance it has of retaining their business.

Of course, banks don’t have to work with fintechs if they believe they have the solutions that their clients want. But it is worthwhile for treasury to probe the bank’s development skills and agility because this is essential for a rapid response to a changing market.

At a purely practical level, bank membership of initiatives such as IIN and gpi matter because it shows the degree by which that institution is prepared to collaborate to expedite cross-border payments and solve issues for its corporate clients.

New world order

It may once have been true that treasurers were not overly bothered by the machinations of the correspondent banking network, as long as their payments were successful. However, in a changing world of increased risk and demanding customers, treasurers need a forward-looking approach.

“It’s not just the correspondent banking network that is changing; with all the political changes that we are seeing today, there may be certain banks that treasurers will no longer be able to work with, and others that they now can,” notes Flinspach. “Treasurers must set themselves up to be a lot more agile, and a lot more inquisitive about how banks operate and how political actions such as sanctions impact them.”

With similar pressures bearing down upon them, banks and fintechs are under no illusion that they must collaborate to ensure cross-border payments interoperability. Correspondent banking may now be just one rail amongst many in this new environment, but reports of its demise are, it seems, greatly exaggerated.

Small World, big ambition

Julia Fordham
Group Head of Treasury

When Julia Fordham started her career as a banker at Barclays in the early 90s, moving into treasury was not something on her mind – let alone spending the next 23 years in the profession. With her many years of experience, it's no surprise that Small World Financial Services invited her to become its first Group Head of Treasury.

Small World Financial Services is a regulated global money transfer company with the sole aim of making the world a smaller place for its 15 million customers. With over 250,000 cash pick-up locations in over 90 countries, Small World's money transfer options are secure, and either instant or within 24 hours. Money can be transferred either online, via mobile app or mobile wallet or at one of their affiliated agent locations.

With such a wide financial remit, the responsibility for keeping the company's treasury operations running as smoothly as possible rests on the shoulders of Julia Fordham – who was appointed as Small World's first Group Head of Treasury in February last year. Based in central London, Fordham is in charge of Small World's two treasury teams – one in Europe (Madrid and London), and one in New York.

Soon after joining Small World, Fordham had to hit the ground running. "When I was appointed at Small World the company wanted to ensure that the treasury model was fit for purpose, as the business has grown extremely quickly through a combination of acquisitions and organic growth in recent years," she says. "So my primary focus has been looking at the treasury operations to ensure they are scalable as

> The sheer fact of life for most treasurers is they are in a constant fight to get budget, to get not only the headcount but the systems to start implementing and leveraging those new opportunities.

volumes grow, and to really make sure we are doing the best we possibly can for our customers."

Back to the beginning

So how did Fordham get to where she is now? "Do you want the long or the short answer?" she jokes. "I started life as a banker back in the early 1990s, following my early training as a graduate entrant at Barclays Bank on its management development programme." She was there for seven years in total, undertaking several managerial positions, with her last job being in a team covering the securities and broker dealer industry.

"I was in the team that covered Barclays' relationships with US and Japanese securities houses, when suddenly I was approached by Morgan Stanley (our client) and asked if I would consider moving into treasury," she recalls. "If you can believe this, I said I wasn't interested because at that time I was thinking of moving out of banking for something completely different, possibly in marketing or publishing – but they assured me that the role was not just 'more of the same', but rather it was in their corporate treasury function, and they wanted me to come and check it out."

Fordham liked what she saw and took Morgan Stanley up on its offer. She immediately had no regrets, liking the switch from being on the sell side of the desk to the buy side. "Having been a lending banker really did equip me with the knowledge of how to evaluate bank services – I started out in the bank relations team, then sat my ACT exams and broadened out into different roles, to make sure I made the most of it as a career opportunity."

Fordham says that in her 14 years at Morgan Stanley no two days were ever the same, taking up different jobs every couple of years. "I started out heading the bank relations team in the days before the euro, so we had to maintain lots of different bank relationships in order to fund many different currencies – same day deutschmark, same day guilder, same day French franc, so it was a really interesting change for me," she says.

But after Morgan Stanley was rescued during the financial crisis in 2008, Fordham believed it was time for her to move on, joining Old Mutual plc's group treasury function in late 2009 as Head of Funding & Risk. For Fordham, this new role was vastly different from what she had been doing, as Old Mutual was a diversified financial conglomerate, regulated by the PRA as an insurance company and subject to Solvency 2 regulations. The treasury department at holding company level was therefore somewhat more 'corporate' in focus. Being based in its London head office, for the first time she was involved in bond issuance and liability management which made it "a real kind of intellectual challenge". She was also in charge of the middle office function, monitoring daily treasury activities from a risk perspective.

Regulation and the need for technology

"At Old Mutual it was a 'treasury in a box' set up, and by that I mean it was a more full-service operation," she says. "From a treasury theory point of view, there was more opportunity to put my knowledge into practice, and develop new expertise." Fordham reaffirms the point that she got into treasury to diversify away from banking, and is still glad she did – not least because of the current regulatory climate.

"When I speak to former banking colleagues of mine they say: 'If you thought regulation was tough in the banking world ten years ago it has exploded since then'," she says. "The Basel III liquidity risk framework was just starting to come in then, and headcounts have had to go up to deal with those regulatory hurdles, which absorb an enormous amount of their time. Although of course that was a necessary development following the financial crisis."

But has treasury changed to the same extent? Fordham points out that technology has certainly shifted up a gear with the rise of artificial intelligence (AI), robotics and machine learning. "But the sheer fact of life for most treasurers is they are in a constant fight to get budget, to get not only the headcount but the systems to start implementing and leveraging those new opportunities," she says.

It is this situation for treasurers that she can find daunting sometimes. "I think the challenge for many treasurers today is still the need actually to get treasury issues in front of the board," she claims. "It's not unusual for companies to function adequately for many years without a treasurer, but then by the time they need one, they really need one – meaning projects need to be implemented in a hurry – so I truly wish that treasury was a better understood profession than it currently is." Fordham points out that there are some big companies listed in the FTSE 250 that either don't have a proper treasury department, or have got by on the fact that the business is so cash rich it hasn't had to look at the need for treasury very carefully.

She states that one key challenge for many treasurers is about continuing to show senior management the benefits of treasury management systems (TMS). She raises a pertinent point, asked in many boardrooms across the globe: "Everyone thinks that they want a TMS and thinks they want straight through processing, but when it comes to the cost, which can add up to six figures in the first year of implementation, treasury systems can still end up taking a back seat compared with other initiatives."

Secondly, the pace of change in technology development in this market is as much of a challenge as an opportunity; not least because of the risk of ending up with technology which quickly becomes out of date. The key, Fordham believes, is to keep listening, and to stay connected to your treasury network because the market, particularly in payments and cash management, is moving so quickly it is hard to stay abreast of what the best solution is. She highlights the fact that making these sorts of decisions is a pain point for treasury, especially when most treasury teams are already fully engaged in managing 'business as usual' and when the environment may be completely different in six months' time. "I think that's why you see so many companies go to consultancies," she says.

> "I think we are in for a bit of a difficult time economically but, even if there is no global recession, companies are definitely cautious.

Moving forward

But whatever systems are in place, the world of payments technology will continue to change. Fordham believes that banks, to some extent, have been slow to provide real-time payment solutions. She explains why: "By definition, ultimately real-time payments would mean the mechanisms of value transfer being available 24 hours a day, seven days a week, 365 days a year, and if there is a reluctance by banks to implement this availability then maybe it's because they struggle with the same sort of issues that everyone else is dealing with – round-the-clock availability of staff and, crucially, of liquidity and collateral."

So, with technology being a pain point for treasury, is the current economic landscape helping matters? Fordham doesn't think so: "I think we are in for a bit of a difficult time economically but, even if there is no global recession, companies are definitely cautious. If this sentiment continues in the long term then to me it only exacerbates the need to get treasury better understood and 'out there' as a profession."

She believes that lots of things happen in economic good times, such as the promotion of flexible working and other staff retention initiatives, as well as a willingness to invest in new technology such as AI, machine learning or a TMS. "However, in cautious times, sadly investment can get pushed to the back burner, whether that is people or systems," she warns. "A recession would put many companies into survival mode."

So how does this sentiment affect Small World, and what plans has the company had to put in place? "Like all companies, we have had to do a lot of planning around a possible hard Brexit, in particular around our legal entity and bank account structures – and if that is what we have had to do, I can only imagine just how much more than us other organisations have had to deal with," she wonders. "But in the long term, people will always need to send money home to friends and family, and I don't see the global trend towards a more mobile workforce changing anytime soon."

Learning to switch off

An important aspect of working in treasury for Fordham is the real need to switch off – quite literally. "I do feel quite strongly about the right to switch off – France for example has enshrined it in law that employees have the right to disconnect after work," she says. "I try really hard not to read emails in the evening and at weekends, and that's particularly hard in the job that I do currently because we are in a payment services environment where the world never sleeps!"

She continues: "If there is a legitimate reason for being connected that's a different thing – I have a team in New York and it's important that I'm available to them. But I must say that I really don't miss the 'face time' culture that was prevalent in banking a few years ago." She backs up this statement: "We should all have lives like one of my contemporaries – who is now chief executive of a FTSE 100 company – who makes no secret of the fact that they are in their driveway at 5pm every Friday, no ifs, no buts!"

Fordham is also a firm supporter in the right to allow staff to take proper breaks. "You have to accept that people have the right to disappear for two weeks, firstly for reasons of personal welfare, but it's also good risk management practice," she says. "An interesting study a few years ago showed that all the big rogue trader incidents over the past 20 plus years have had certain common factors – one of which is that the people involved never took holidays, or if they did, they could always access the company's systems. The scandals all happened within a corporate atmosphere where the attitude of 'nobody else knows how to do this but person X' was commonplace."

Music to her ears

So given the amount of responsibility on her shoulders, what does she do to switch off? "I'm a musician actually and love to play the saxophone, having started learning in 2010, and now I play in two or three bands in my home city of Cambridge," she says. "Sometimes it feels a bit much, as I've got three children aged 20, 18 and 14 – they now have very busy and active lives of their own, so when I'm not performing they take up a lot of my time."

Being a working parent, Fordham also has strong views about women in the treasury profession. "I think the role of women in treasury has changed over time and I am glad to be able to say that now," she says. "I used to work part-time when my children were small and it was really tough for me, both culturally and financially, but collectively I think the industry has come together and learned we needed to challenge that."

However, she still thinks that there is a long way to go, especially with regard to pay disparity between men and women. That's why she admires people like Helena Morrisey (DBE) who openly challenges the idea that in order to be successful you have to adopt the 'traditional' working pattern of long hours and not having a life outside work, whilst being supported by a stay-at-home partner. "I admire Helena as she is not afraid to speak out about it," she says.

It seems that when all is said and done, and given her love of the saxophone, one thing is clear for Fordham. If treasury can define its existence and prove its worth to senior management in this ever-changing, volatile and digital world, it will be music to her ears.

Making the most of low or below zero rates

When it comes to short-term investing, the phrase 'lower for longer' is a part of the treasurer's vernacular that looks like holding its currency for some time to come. But can anything be done to optimise corporate cash without increasing risk?

Will Goldthwait
Vice President,
Portfolio Strategist
State Street Global Advisors

About 20 years ago, Bank of Japan (BoJ) slashed its interest rate to 0% in an attempt to avoid deflation and to try to stabilise its fragile economy. For similar reasons, the so-called Zero Interest Rate Policy – or ZIRP – was adopted about ten years later by central banks in the US, the UK and Europe. In fact, the ECB went further and, as rates sank below zero (currently minus 0.5%), the acronym NIRP – for Negative Interest Rate Policy – surfaced.

In all these territories, it's been this way ever since, and is likely to remain so until inflation starts hitting the 'Goldilocks' zone of 2% to 2.5%. In the key economies of the US, Japan, the UK and Europe, this looks like being some way off.

> Its ageing population is more conservative in its spending habits, and the cost of living is expensive, so it's harder to see growth pushing interest rates higher.

So is the best investment policy just to accept the status quo, riding it out for however long it takes? Or is there a better way to optimise company cash that does not involve chasing yield regardless of risk?

Will Goldthwait, Vice President, Portfolio Strategist at State Street Global Advisors, believes that treasurers can build strategies capable of deflecting the impact of an ongoing ZIRP/NIRP environment.

Reducing rates

For central banks like the Fed, BoJ, BoE and ECB, the notions of ZIRP and NIRP have been part of theoretical economic discussion for many years; they are not new phenomena. The objective of a central bank – and that might be managing inflation for the ECB, or employment and inflation for the Fed – will see the adoption of monetary policy tools such as these to try to boost their objectives.

Whether these policy tools work as well as expected is, to a degree, debateable says Goldthwait. With ZIRP/NIRP having been in situ for many years now, and counting, his inference is that they are not working. Central banks are still trying to stimulate their respective economies and all have at various points taken to using quantitative easing (QE) to direct-inject liquidity into the markets, using massive asset-buying programmes to try to stimulate that growth.

In the US, Goldthwait says this has worked to an extent, achieving low to zero rather than the ECB's step beyond into negative rates. But then could it have been Fed intervention or a host of other variables that created this effect? It is, he notes, hard to say categorically if these specific rate policies work or not because, ultimately, there will be forces other than monetary policy impacting growth or inflation within an economy.

In Europe, the ECB has seen fit to revive QE, reinstating it in October 2019, after a ten-month gap, albeit at a slower pace than at its 2016-2017 peak. Others may follow, but can it really be sustained for long periods if all who are likely to will already have leveraged it? After all, Japan is a good example of QE longevity, its central bank having taken upwards of 50% of all Japanese Government Bonds (JGB)s out of the market, and even buying up certain equities.

But with Basel III's post-2008 regulation on capital adequacy removing the concept of 'too-big-to-fail' for financial institutions (essentially, banks can more easily unwind instruments if they become stressed), Goldthwait sees central banks using QE to buoy-up a lot of debt in the market, potentially creating a new and unintended form of systemic risk.

When the Fed first tried to unwind QE, it created something of a repo market funding challenge back in September 2019. Its remedy was to implement a new purchase programme (it was not referred to as QE) to bring liquidity back to the market. Risk is evident if central banks want to unwind QE, notes

Goldthwait. But, he adds, perhaps it is the new normal where central banks are "forced into being asset owners" because they cannot afford, when unwinding QE, to create another supply and demand mismatch.

Investor challenge

The continuation of the ZIRP/NIRP environment creates difficulties for investors. This is especially the case for those seeking some sort of return; chasing yield attracts extra risk. There is evidence of investors putting "just a little bit more risk in their portfolios" to try to mitigate negative rates or add a bit more yield. This, says Goldthwait, creates a knock-on effect.

Investors who previously stuck by money market instruments have been seen heading into the short-term bond space, those already there are looking at slightly longer durations, and those in fixed income are now looking to the equity market and so on up the scale of risk.

"Within all of these different asset classes, there are stories of how investors are awash in cash and have money to put to work," he notes. This is perhaps unhealthy in the circumstances. Indeed, with the investors chasing some of the so-called 'Unicorns' (private start-ups valued at over US$1bn), he says it is revealing how certain valuations are being distorted to justify investment in these firms. "From that standpoint, QE is having an effect, but it is adding risk to a system where investors are chasing returns."

Looking ahead

Planning by treasurers operating in a ZIRP/NIRP environment is obviously challenging. 'Lower for longer' may not continue ad infinitum, but then in Europe for example, it's unlikely at this juncture that the ECB is about to spot inflation and raise rates. It's unlikely too that it will suddenly see NIRP causing more harm than good. These matters will be answered at some point, but it's going to take a while, says Goldthwait.

Meanwhile, whilst BoJ will maintain NIRP in the near-term, given how much and how hard it has tried to stimulate growth and inflation, he sees the demographics in Japan as more of a leading indicator. "Its ageing population is more conservative in its spending habits, and the cost of living is expensive, so it's harder to see growth pushing interest rates higher," he argues.

And the US has just concluded an easing cycle as an insurance against any downturn in economic growth. It cut rates three times by 25 basis points with the last cut happening in October. It also added liquidity to the money markets in order to stabilise repo funding yields. For Goldthwait, the chance of the four major central banks (Fed, BoJ, ECB, BoE) making any adjustment to monetary policy in the near term is low.

"I don't think we are going to see any change in monetary policy from these institutions that will have any meaningful impact on negative interest rates in the near (one year) and medium (one-three years) term," he comments.

The UK is slightly different. "It has done a good job in correcting some leverage issues in the market, and is balancing its budget better than some other developed markets," notes Goldthwait. "If it wasn't for the Brexit negotiations, I think interest rates there would be much higher."

> There's a lot of disruption in the market right now and there can never be too much investment in technology; you just have to be careful about how that spend is allocated.

Taking action

Brexit imponderables aside, the first and most important action treasurers can take is to look at what their cash flows are, and then segment that cash, suggests Goldthwait. So instead of investing all cash in same-day liquidity funds or vehicles, it may be beneficial to separate what is truly needed as liquid cash from what could work a little harder but would be slightly less liquid. "It's all about looking at the cash flows and risks in your investments and then potentially bifurcating that investment pool."

Of course, the idea of cash segmentation has been around for several decades, but Goldthwait detects a "new energy" around it in the current environment. He notes, "when cash was earning 4%, 5%, 6% there wasn't the urgency to pick up an additional 20-50 basis points. Now 20 basis points can be the difference between a negative or positive yield". Indeed, amidst this environment, certainly in Europe, treasurers should be exploring all opportunities to try to mitigate negative yields, reviewing ultra-short strategies, and stress-testing these to determine the degree to which their current draw-down (change in NAV or negative impact to return) is sustainable.

Another element that treasurers must be keeping an eye on, says Goldthwait, is innovation in cash management. He feels that there is a need to stay ahead of technologies that can, for example, help the business manage certain deadlines, settlement restrictions or currency challenges.

"When I think about some of the new technology that's coming out, especially blockchain or DLT-based, I can see this space becoming a lot more interesting over the next couple of years as fund managers and cash managers seek ways to use these tools," he predicts. "There's a lot of disruption in the market right now and there can never be too much investment in technology; you just have to be careful about how that spend is allocated."

With ZIPR/NIRP likely bedfellows with most investors for some time to come, it is clear that treasurers have options open to them that do not significantly extend their risk. It just requires a bit of extra effort. As Goldthwait says, "where it used to be a straightforward decision to invest in short-term instruments, as yields have gone negative, so investors have to look a little harder".

To hear the full podcast, visit **treasurytoday.com/podcasts**

Takin' it to the street – the corporate roadshow

The corporate roadshow is a key part of building relationships with individual investors when going for an IPO, issuing bonds or seeking direct investment. We explore best practice for treasurers.

It doesn't matter if it's a relatively modest sum involved or a potential record-breaker, if a business is going public, issuing a bond or seeking direct investment, it ought to be aiming high. It should also know that there are ways and means of raising the stakes, and that one of the best tools available to ratchet up the excitement is the corporate roadshow.

When China-based diversified multinational conglomerate Alibaba Group Holding Limited debuted on NYSE in 2014, it earnt the as-yet unsurpassed record for the largest ever IPO at US$25bn (this may be surpassed by the planned US$25.6bn Saudi Aramco IPO). In November 2019 the firm was seeking a US$13bn secondary listing in Hong Kong. Roadshows were very much part of its monumental funding effort, with the secondary listing roadshow reported by the FT as being a "week-long" effort.

Whilst the numbers may vary considerably from company to company, the process of meeting potential investors to explain what the business is about and what investment in it could mean, is all about generating excitement and building rapport. As such, every successful roadshow starts with strong stage management and a deep understanding of investor expectations.

Deal or no deal?

Roadshows can take various forms and can typically be divided into two strands: deal-related, and non-deal related. A deal-related approach announces the intention of a business to come to market or secure further funding. A non-deal approach is intended to offer existing investors a progress update (serving to consolidate the relationship), or perhaps signal future issuance. Whether going public, issuing a bond or seeking direct investment, most firms will appoint an underwriter – usually one of its core banks – to help develop the documentation, work with ratings agencies, and advise on the creation of investor presentations for the roadshow.

When an announcement for a bond or IPO is to be made, the news will typically be spread by the underwriting bank's sales force to its institutional investor client base. Announcements tend to be picked up quickly by various investor-specific news channels (such as Bond Radar), financial media outlets (such as Bloomberg) and trade press. Depending on the size of the company and the proposed deal, it may also be picked up by mainstream financial media (such as WSJ and FT).

Timing

Where once a roadshow could cover both new issuance and investor updates, more established borrowers tend to divide their roadshow efforts, notes Mark Kitchen, Head of Northern Europe DCM, Bank of America. This means more are now engaging with investors on a non-deal basis by way of a regular (often annual) update, purposefully keeping this at arms-length from any issuance plans. "The rationale for this separation is that when the firm does want to issue, it enables a more nimble and flexible window of activity, helping to minimise market risk," he says.

Announcing a deal-specific roadshow will be underpinned by some demanding logistics. It will take a few days to set up the meetings, and there will be a few days seeing investors and gathering feedback, after which the company is clear to issue. A minimum of a week will have passed between announcing and being able to execute in the market, notes Kitchen. In a volatile world, over that time, a lot can happen (maybe a provocative tweet from a US President) and the global markets can change quickly; this is a major source of risk for an issuer.

If, however, the investor work has been carried out upfront, for example, around results time, it allows the company to monitor the market closely and pick the day it wishes to issue.

With that timing choice open to it, the company can announce actual issuance on the day, do the book-building in the morning, and pricing that afternoon; its market risk is thus only intra-day. "The nature of some of the macro-economic risks in the current market means that, from a corporate perspective, there will be a preference to try to minimise that risk with intra-day execution," explains Kitchen. "Issuing without marketing is a risk in itself, but doing it away from a specific trade makes sense."

Telling the story

Although different companies will have different views on who precisely gets involved, a debt roadshow is generally orchestrated by the treasurer, usually bringing in the investor relations (IR) team to help pull together a slide-based presentation for potential investors. The underwriting bank will often counsel on the most effective areas of focus for the presentation.

When it comes to meetings, the treasurer will always be part of the process, often with an IR team representative. A smaller company may also call upon the CFO (although some CFOs of larger firms are quite hands-on in this respect too). The aim is to deliver the company story in the most appealing light. The CFO and IR rep will concentrate on the broader strategy of the company and its position in the market, with treasury picking up on treasury policy and core financial metrics such as cash flow.

The meetings will normally be set up by the underwriting bank. It depends on the target area as to how long the roadshow will last; a European event will typically cover three days, visiting London, Paris, Amsterdam and Frankfurt/Munich as part of a well-trodden path. Driven by the issuer's objectives, there is a decision to be made as to whether the meetings are kept under the radar, with one-to-one (or one-to-two) meetings (usually for the largest institutional investors), versus a more public event where group meetings of up to 20 potential investors are held.

To help tell the best possible company story, companies will need to create a deck of between 25 to 35 slides. At the highest level will be a summary of the company, diving down into more detail about the business units and the markets in which they operate. An explanation of company strategy, and a broad view of company financials, including credit profile, will also be included.

"One area that is gaining a lot more focus, and something we now advise clients to include in a couple of slides, is sustainability," says Kitchen. "A lot of investors, when looking at credits, will apply an ESG lens to their investment decisions. When telling the company story, it's important to explain what is being achieved from a sustainability perspective and how ESG elements are impacting strategy."

What to expect

To an extent, it depends on how well known the company is as to what happens at the meeting. Broadly, the presentation team must prepare for anything, from getting into the very basics of 'who we are and what we do', to some highly detailed questioning on financial metrics by investors.

Where potential investors are up to speed on the business and sector in front of them the meeting will often head straight into a Q&A session. "They often know what they want and what to ask and sometimes the presenting team does not even need to open its presentation pack," notes Kitchen. Conversely, investors new to the sector and the business may require more background before asking questions.

"The message to treasurers," says Kitchen, "is to be prepared for both ends of the spectrum: from an investor who has never looked at your name or sector before, to the seasoned analyst who already knows you but has some very detailed questions about the deal." This means not only getting all the relevant information together but also drafting and rehearsing potential Q&As in advance, covering every potential question. "You get one shot at this in the meeting, if you come across as ill-prepared, it will reflect badly on the company," he warns.

All aspects of the preparation should bear in mind that different investors have different needs; re-using slides from previous roadshows is not always possible. For example, bond investors will likely focus on mitigating any downside risks. They may seek reassurance that the business can

Suzanne Perry, Assistant Group Treasurer and leader of debt IR programme at RELX offers a treasury-eye view of the roadshow

Why do roadshows matter? "Roadshows allow direct communication between investors and the corporate to the benefit of both. Investors can expect the corporate to spend the meeting time concentrating on the issues which matter to that investor and it is an opportunity for the corporate to receive direct feedback from the investor on their concerns and investment appetite."

Who should get involved? "IR is a delicate area and should be restricted to key team members to ensure an accurate and consistent message is presented. At RELX the CFO, CEO, IR team and certain members of the corporate treasury team are authorised to provide information and present to investors either on roadshows or otherwise."

What are the preliminary steps for preparing the roadshow, especially for the treasury? "The roadshow should be designed so as to achieve maximum impact with the amount of management time available. Likely there will be key investors and locations to target, and these meetings should be the keystones around which the itinerary is put together. Obviously blackout periods prior to results or other announcements should be avoided. It is often helpful to have a hard copy of the investor presentation, although legal advice should be taken as to whether it is appropriate to allow investors to keep the presentation. Legal advice should also be taken to ensure any presentation disclaimers are appropriate."

What type and level of information should be offered in a pack – and how should it be presented? "Unless the roadshow is to address one specific area, the pack should start at a high level – outlining corporate strategy, financial highlights and so on – before going into more detail in areas that the investors are focused on. This is particularly so if these areas are not usually addressed in routine corporate presentations such as the results announcements. There is a benefit to liaising internally to keep content consistent and at RELX there is a lot of overlap between the equity investor presentations and the debt investor presentations."

What should treasurers expect at a meeting, and what happens after? "Treasurers should generally check at the start of the meeting how much knowledge of the corporate an investor has. Some investors will need a reminder as to what the company does and why they should invest; some investors will have been investing long-term and have a detailed knowledge and may just want to use the meeting time on Q&A. Investors are generally keen to learn and to make the most of the meeting time, and it is also an opportunity for them to give feedback. There is often no ongoing communication after the meeting unless there is a trigger event, such as a bond issuance."

protect its balance sheet to ensure sufficient cash flow is available to pay the coupon and redeem the bond. This is a very different investment proposition to an equity investor who is buying into a growth story and is hoping for a share price that will appreciate over time and who may therefore focus on the upside of entering new markets and major transformation projects.

Feedback

For a non-deal meeting, it is always a good idea to try to get some feedback, to help shape the next presentation more to the investors' liking, in terms of, for example, content and frequency. The most honest feedback tends to follow post-event, notes Kitchen, making its way to the corporate via its underwriting bank.

On a deal-related roadshow, the focus will be on the likelihood of a transaction and therefore the bank should be far more proactive in following up with potential investors. This should seek to uncover any concerns or issues. Often investors will solicit or provide thoughts around value and pricing, helping to shape the starting point on the book-building phase of a new issue (where pricing is honed progressively until the end-price is agreed).

Overall, investors offering feedback will take a range of approaches, notes Kitchen. "Some offer fulsome feedback early in the process, providing a very tight and aggressive approach that could be construed as forming part of an anchor order," he comments. Indeed, for a potentially popular issue, he says some investors believe being ultra-helpful may mean receiving a better allocation of the bond if the book is over-subscribed. At the other end of the spectrum, some will wait until they know exactly what the end price is, refraining from offering positive feedback – and thus any indication of interest – so as not to influence pricing (probably in the hope that they get it cheaper).

Roadshow takeaways

What would a 'best practice guide to roadshows' look like? RELX's Perry offers her top tips for success:

- Plan well in advance. It is critical to time a roadshow so that as many investors as possible will attend, so picking the right dates is key.
- If you are not sure who or where to target, speak to a third party, such as a bank, who understands both your business, and the investors they would expect to see investing, based on their wider market knowledge.
- Have at least two people presenting so that whilst one is talking the other can take notes and pick up on any points which they might want to expand on.
- Ensure that everyone presenting is giving a consistent message and understands what areas they should be taking questions on.
- Be open to any feedback from investors, even if it is not what you were expecting.

Sanctions screening: are you compliant?

Recently it seems to be the case that sanctions are being handed out like presents in the holidays – except they're far less pleasant than a new pair of socks. As of November 2019, the US Office of Foreign Assets Control (OFAC)'s consolidated sanctions list included over 8,900 entities – more than four times the number of any other sanctioning body. But what does this mean for treasurers?

There's a common misconception that sanctions are only an issue for terrorists or dictator-run countries. The reality is that sanctions are a very real threat to both banks and corporations across the globe. However, corporate awareness of this issue is somewhat patchy: data analysed during a webinar hosted by Bottomline, Break the Chain of Financial Crime, showed that only 30% of respondents believe that the responsibility for implementing sanctions screening rests not just with the banks, but corporates as well. Meanwhile, 71% believe that the entities most impacted by anti-money laundering regulations are banks, not corporates.

The 9/11 attacks had an enormous impact on the global financial regulatory environment, reshaping it in such a way that raised the risk for banks and other institutions 'engaged in suspicious activity' – unknowingly or not. Designed to reduce the risk of terrorist financing, suspicion – not necessarily any evidence – was all that was required for the US Treasury to designate foreign jurisdictions and institutions as "primary money laundering concerns" under the Patriot Act. The global reliance on the US dollar meant that these changes were felt far and wide.

While countries are imposing sanctions at increasing rates, they rarely align with each other. The main example of this is the US re-imposing sanctions on Iran after withdrawal from the Joint Comprehensive Plan of Action (JCPOA). In response, the Instrument in Support of Trade Exchanges (INSTEX) was created: a special purpose vehicle to facilitate non-USD and non-SWIFT transactions to allow EU member states to trade with Iran without breaking US sanctions. As a result of this increase in sanctions, as well as the focus on ultimate beneficial owners (UBOs), there is a mounting risk of falling foul of them somewhere in the world – even accidentally.

Treasury and sanctions

The role of treasury in sanctions screening has become more important as it has become evident that companies can no longer rely solely on banks' screening technology to manage their sanctions risk. Just in November 2018, French bank Societe Generale agreed to pay US$1.34bn in fines to the US federal and state authorities for handling USD transfers in OFAC-sanctioned countries. Organisations therefore need to be proactive in their own checks as well.

As the people responsible for issuing payments, treasurers must have an active role in sanctions screening, deciding what exactly to screen – be it customers, vendors or partners. Companies must also be aware of other regulations, for example the OFAC/EU 50% rule – if more than 50% of a company or entity is owned by sanctioned individuals (eg it can be three sanctioned persons who each own 20%) it becomes a sanctioned entity itself. In addition, Pierrot Christophe, Treasury Controller Global Business Services, General Electric, notes that companies must also ensure they are continually screening their current customers, as sanctions lists change almost daily.

For Christophe, a major help was integrating the sanctions screening tools into the company's treasury management system (TMS). "To be effective, everything has to be properly automated as much as it can," he says. By embedding any sanctions frameworks into the TMS – which has the capability to send and receive funding payments – any suspicious transactions can be flagged immediately, "whether it's the beneficiary, the country, or any other screening processes that we're doing on an automated basis." Similarly, he adds, it is helpful to have the capability to enter into the system that no payments are to be made to, say, North Korea – meaning that if someone tried to enter a customer from North Korea, the system would automatically reject it.

Other companies rely on third-party screening programmes instead of integrating screening into a TMS. Toby Shore, Senior Director, Group Treasury, Risk and Insurance at Emirates Global Aluminium (EGA), explains how he uses such a system at EGA for screening companies, as well as using country screening capabilities within the ERP.

The first step for onboarding new customers or vendors, Shore says, is running a compliance check, starting with a know your customer (KYC) or a know your supplier (KYS) form. "These look to identify, amongst others, A) the company name, and B) the ultimate beneficiaries of the company, directors and senior management," he explains.

The cost of getting it wrong

Many know that several banks have recently incurred heavy fines for breaching sanctions. Most recently, Standard Chartered was ordered to pay US$1.1bn by US and UK authorities for breaching sanctions against Iran, Burma, Zimbabwe, Cuba, Sudan, and Syria between 2009 and 2014.

For businesses, says Christophe, the cost of getting it wrong is often dependent on where the company exists and where the breach takes place, but in some places there could be criminal or civil convictions for both the company and the individual responsible. And then of course, there are internal consequences for the individual, including anything up to termination of employment.

"It's not a single point of failure, this is a proper team effort with clients," says Adrian Rigby, Chief Operating Officer, Global Trade Finance, HSBC. "Corporates have their own responsibilities to ensure they deal with known parties and individuals and ensure that they operate within that. Anything routed through our organisation, we have a responsibility to back that up with additional and very robust checks as well."

Of course, it's not just legal ramifications that businesses and banks face, but reputational ones too. There is the risk of losing both current and future business, as customers look to use companies that seem safer. If by chance something does manage to slip through the net, "the best course of action is to disclose and then explain what the circumstances were," says Shore.

Challenges in numbers

For many organisations, the main challenge is the sheer number of sanctions lists. In an ideal world there would be just one list, says Shahrokh Moinian, Head of EMEA Wholesale Payments at J.P. Morgan. Unfortunately, this isn't the case, and with businesses operating all over the world with various subsidiaries, treasurers have to be aware of all lists and the various risks that come with them.

Christophe agrees. "If we are a global corporation and not just running in, say, the US, we have to make sure that we have access to a global list from different countries."

Another challenge with the number of lists, according to Shore, is that they are "not always complimentary to one another, nor do they cover the same sort of things." The number of lists, and the number of names on each list, creates the added challenge of how to handle false positives.

False positive or genuine hit?

According to the 2017 Dow Jones & SWIFT Global Anti-Money Laundering Survey, it takes an average of 16 minutes to clear a false positive. Sixteen minutes isn't an especially long time on its own, but 28% of the respondents said that over 75% of their total alerts were false positives. Now multiply that by the hundreds and thousands of alerts that some companies have per day, and it's easy to see how it can become a full-time job.

An example of one false positive that often crops up is any company name that includes the words "hair and nail" – owing to the existence of the word "Iran" in the middle of it (haIR ANd nail). Whilst it's always better to have a slightly overzealous system to ensure nothing slips through the net, companies must then have a way of resolving the false positives in a timely manner. Moinian believes that artificial intelligence could be utilised to help with this and reduce the number of hours spent investigating false positive hits.

Rigby notes that false positives don't just take a lot of time for the staff investigating them, they also have an impact on customers that have no link to sanctions. "We have a responsibility as a financial institution to screen against sanctions as well as AML and fraud, and we are doing that to protect our customers," Rigby says. He adds that the bank needs to have effective controls in place – but these need to focus on the real risk and not on the false positive activity.

Regionally though, there are other complications that come with false positives. Based in Dubai, Shore states that the spelling of people's names is the biggest challenge that he has found as there are a number of local and regional grammatical nuances. "Either the sanctions lists or our records may not have people's full details, or the details may be very similar – the equivalent of 'John Smith' or 'Peter Adams' – and you get a false positive," he says.

Experts wanted

"The other challenge is you have to have an expert," says Christophe. This could mean using a group of employees, rather than hiring someone specific, but there must be at least one person who understands what they're looking for, who can "read the process, read the false positives and make a decision."

Key to having an expert is of course, to train them and build their confidence. "No one wants to have their name associated to a payment like that," notes Christophe, so training and creating the confidence to make those decisions is an important hurdle to overcome.

How to get it right

It's widely agreed that additional information is required both on sanctions lists and when inputting new customer/client data to help combat the issue of false positives. Additional information allows for more data to be compared against the sanctions lists, meaning any matches will be more likely to be a genuine positive. For example, 'John Smith' could produce hundreds of matches, but inputting John Albert Smith, born on 1st December 1970 in New York, would significantly narrow it down.

The Dow Jones & SWIFT survey found that 71% of respondents reported that their companies include additional names of people, companies and organisations as additional information, 67% used entities controlled/owned by other sanctioned countries, and 66% used entities linked to sanctioned jurisdictions.

Alongside additional information from the screening, companies also need to use secondary identifiers to reduce false positives. In total, 96% of respondents used secondary identifiers, with 80% using date of birth, 59% using country of birth and 48% using gender.

Safety in numbers

A fan of a solid two-step process, Christophe believes that the most effective way to ensure compliance is to have an internal process that is integrated into the TMS, as well as having a third-party programme as a secondary checker. It is essential, he says, that the treasury team works to understand the system and ensures that the user access is there and available. "We have to make sure that there's segregation of duties, there's immediate validation, there's some sort of supervisory process, and so on."

Like Christophe, Rigby's belief that there should be no single point of failure holds true for remaining compliant as well. "You need to have appropriate layers of control," he says. It's a corporate's responsibility to ensure that they deal with appropriate counterparties and locations, and everything else that's within sanctions, he adds. As a bank, "we're there to work with them in terms of what we see."

For Shore, the most effective way to ensure EGA remains compliant is to hold regular information sessions. "Not just with the treasury team, but with our marketing and sales and procurement teams," he says. It's important to reinforce exactly what the ramifications are of breaking a sanctions clause, and educating people on the expected processes. "People have busy jobs and may see this as a 'nice to have' rather than a necessity for doing business and the training and education reinforces the importance of the process," he adds.

With human error one of the most significant risks, it's important that every step possible is taken to reduce it. And that means "putting the responsibility back onto the business, to make sure that they understand what the requirements are, and that they are abiding by them."

Utilising technology

As many treasurers that deal with KYC issues know, a standardised solution would be ideal. Moinian thinks that in the absence of this, technology can play an important role in resolving issues related to payments delayed for sanction screening reasons. He describes the Interbank Information Network (IIN) platform that J.P. Morgan has created, which uses blockchain technology to enable member banks to exchange information in real-time and reduce friction in the payments process. Moinian notes that with a network of more than 380 banks, IIN continues to grow and evolve. More than 80 are now live and the onboarding process for others is happening quickly. There are discussions, Moinian says, of participant banks developing their own solutions for possible use across the network too.

Christophe understands that sanctions screening is an ongoing process, and the automated programmes for sanctions screening are still not perfect and therefore need human supervision. "Are there people reviewing and auditing the process, and spot checking to make sure nothing slips through the cracks?" he says. "Is there a process to review it? When in doubt, are we hiring management not just to make decisions, but to be aware of what's going on? To be aware of if we're running at 90% effective, or are we running at 80% effective? Are we just getting lucky?"

Christophe expects the existing process to improve with time, but also recognises that time will bring new challenges. Treasurers aren't just having to think about how to solve their current problems, but future ones too.

Doing the best you can

Due diligence is something that all can agree is one of the most important factors in remaining compliant with sanctions. Shore notes that having an internal system is important for initial due diligence checks, but that it's also essential to have periodic checks by the compliance team to manually cross-match a company's records with sanctions lists.

Ultimately though, Shore believes that by providing an effective framework and system alongside the necessary training and education for all involved, "then that's as robust a defence as we can reasonably put in place."

Optimising working capital through treasury transformation

Andrew Wild
Head of Commercial Banking Europe, Deputy CEO HSBC France

HSBC

In today's uncertain macroeconomic environment, companies have more reason than ever to focus on optimising working capital. At the same time, treasurers are increasingly focusing on centralisation structures such as in-house banks to achieve working capital improvements. HSBC's Andrew Wild, Head of Commercial Banking Europe, Deputy CEO HSBC France, explains how companies are approaching these challenges – and what steps HSBC is taking to support customers in Europe in the current climate.

How important are working capital improvements to your customers in the current economic climate?

In the current economic climate, issues such as increased trade tensions, low interest rates, social unrest in some countries around the world and continuing uncertainties around Brexit are of particular concern as treasurers look at how they are managing their cash.

Against this backdrop, we are acutely aware that our clients are placing considerable focus on working capital improvements. From airlines to luxury goods companies, many different sectors are having to manage reduced margins while looking for opportunities for greater efficiency within their operations. As such, working capital is increasingly seen as a key indicator of companies' sound management profitability. Certainly when we talk to treasurers, working capital is a topic that is foremost in their minds.

How are companies approaching this task?

Working capital is an area that involves a lot of moving parts. Where treasurers are concerned, the main focus is on reducing days sales outstanding (DSO) and increasing days payable outstanding (DPO) in order to improve the cash conversion cycle without impacting sales growth or disrupting the supply chain.

Corporates can improve working capital in a number of ways. From a DPO point of view, companies might in the past have achieved this by processing payments late, or by negotiating one-sided pricing with some of their smaller suppliers. But today, I think there is a realisation – certainly within the larger corporate space – that this is unsustainable. Companies are therefore looking for innovative solutions to increase DPO, while at the same time supporting their supplier bases.

Some companies achieve this by adopting supplier financing, but what we are also now seeing is an increased focus on corporate card programmes. Many companies that are talking to their suppliers about offering earlier payment than they would normally receive are looking into the use of purchase card schemes, as these enable buyers to pay suppliers immediately while extending DPO. Clients are increasingly asking us what terms we offer on our card programme and how far out we can go to help them manage their working capital more effectively.

Companies are also looking at opportunities to reduce DSO, which is the time taken to convert sales orders into cash. In the past, treasury teams focused on the balances of accounts in order to manage their cash flow. But increasingly, with better data from payment systems and a greater understanding from banks that data is a key driver for corporates, we are seeing more focus on segmentation – in other words, products that can segment customer receivables in different ways.

With virtual accounts, for example, specific customers are allocated a dedicated bank account number. This means that any cash that goes into the virtual account can be posted automatically into the accounts receivable ledger. As a result, credit control teams no longer need to spend hours of their time trying to match outstanding invoices to payments received, but can focus on more value added tasks such as managing slow payers.

Indeed, one of our clients was able to reduce DSO from 60 days to 48 days by implementing such a solution. This freed up a significant amount of capital, and also meant they could carry out better investigations and credit checks on new customers, as well as more effectively chase slow payers.

Should companies be looking at both sides of this equation at the same time?

Absolutely. When companies are looking at working capital, DSO, DPO and other activities that are all happening at the same time, there is no point in focusing only on purchases if your sales organisation isn't also focusing on collecting the cash as it comes in.

Another important consideration is the need to improve visibility on cash balances. Real-time balance information can enable treasury teams to focus on where they are right now, how they can invest surplus cash, and whether or not they have short-term borrowing requirements that need to be met. This might mean using banks' liquidity management portals that can drill down into cash concentration structures. Or it might mean taking advantage of automated investment solutions, whereby surplus cash can be automatically invested and taken off the balance sheet to reduce counterparty risk, while also maximising returns.

Treasury transformation is often positioned as a means of improving a corporate's working capital. To what extent are your corporate customers engaged in this journey, and what are they looking to achieve?

Centralisation via treasury transformation is still the most prevalent topic for the clients I speak to in Europe. Even big multinationals often feel that there is still scope for them to achieve a greater level of centralisation. We're also seeing considerable focus on this topic from our large corporate and middle market customers, whether they are regional or have disparate business units within a particular country. These companies are now looking to centralise – whether that means putting in place a cash overlay solution to minimise idle cash, or setting up a full-blown in-house bank solution along the lines of the structures used by very large corporations.

The centralisation process allows companies to review their own internal systems and processes. They then look to the banks to complete this process, in some cases by achieving greater integration through their payments or receivables. The main objectives are really to enhance visibility, streamline processes and build efficiencies within the working capital cycle. That is really what the focus tends to be on this centralisation journey.

While it feels like this topic has been around for quite some time, the level of maturity within conversations with our clients is very striking. Some clients have carried out a lot of work over the last five years and have moved to a highly centralised regional or global treasury centre arrangement with an in-house bank.

These companies may have very sophisticated setups, but at the other end of the spectrum there are those that are just starting out on this journey. For these companies, there are plenty of challenges to consider – not least of all the need to get the whole company behind them for what really is quite a fundamental business change. This isn't just a change to the treasury system, which might be contained to treasury, and perhaps the finance department. It is something that affects the whole company, including business heads, treasury, finance, procurement, operations, sales and distribution functions. So the topic is broad and there is a lot to consider – but there is also a lot of opportunity for companies to get started on that journey.

Do companies tend to work their way up the centralisation ladder one step at a time, or do some set their sights on implementing an in-house bank from the outset?

We see examples of both approaches. A lot of it is down to the appetite within the broader leadership structure and the level of risk that the company is willing to take at the time. I was speaking to a client a few weeks ago, and they wanted to focus on basic connectivity in the first instance before looking into a payment factory solution – they were not ready to look at other parts of the puzzle yet.

They may equally look to tackle their risk management by centralising their FX exposure and no longer have their business units managing foreign currency transactions at the local level. Even if they are not putting in place an in-house bank, companies may centralise their liquidity in order to have better visibility and access over cash. As a result, they can manage their liquidity more effectively. This might mean using solutions such as notional pooling, which enable companies to offset short-term working capital deficiencies within a certain currency against long positions in other currencies, rather than having to do costly foreign exchange swaps and hedging processes.

Generally companies that do want to aim for a highly centralised structure in the longer term may engage in a phased approach defining intermediary milestones. The question is how much treasuries can afford to do at this point in time and how much they are willing to disrupt in one go, particularly given the continuing uncertainties in today's macroeconomic environment. This level of uncertainty and volatility has to be factored in when companies are looking at making significant changes to how they receive or make payments.

How can companies use these types of centralisation structures to support their working capital initiatives?

Bringing all these things in-house, reducing the number of bank partners and potentially reducing the number of accounts, without necessarily adopting a full payments on behalf of (POBO)/receivables on behalf of (ROBO) virtual accounts structure, really does help treasury teams manage their working capital more effectively. As a result, they may be able to fund legal entities that would otherwise require expensive overdraft solutions with a non-core bank.

Bringing all of that into play also adds to a company's purchasing power. If you have one or two regional or global banks, your purchasing power with those core banks will be much better than if you have 56 banks and 300 accounts.

Typically with treasury transformation, companies will also see a level of IT change, which may bring opportunities to drive further efficiencies, increase automation and move away from spreadsheets. All of these factors can help you gain better visibility over where you are in your working capital cycle, where your stock is and who your debtors are.

So the IT change that goes along with treasury transformation is one component. Another is functional change, which may include procurement and finance as well as treasury. It is not just treasury that is centralising – it is often a lot of the processes that are driven or supported by other functions. The end result is a better line of sight over what is going on.

What challenges do your corporate customers face in implementing efficient working capital solutions?

Most important is the need for senior management alignment. There is no point in a treasury team coming up with a fantastic procure-to-pay project, only to realise that IT doesn't have the necessary resources for the next two years. Likewise, it's easy to assume that companies will have a defined vision of where they want to be – but in reality, different functions may have different ideas about what they want to be doing in two years' time.

Strong senior management alignment/sponsorship can certainly help that. Some companies now have working capital committees that can look both at the indicators and at the underlying business below those indicators. We are also seeing a big inflection point for some companies that are growing either through acquisition or through organic growth. These companies may have reached a certain point in terms of their growth and revenue, but in order to grow to the next level they will require further budget and resources, to streamline their organisation and create efficiencies This is where that senior management drive is needed to get the whole organisation pulling in the same direction.

What approach is HSBC taking to support corporate customers in Europe and how are customers benefiting from your investments in European hubs?

For one thing, we have looked to ensure that our clients are given Brexit-proof solutions. While many of our clients have historically been headquartered out of London, in the last few years we have seen a number looking to move their treasury centres out of London as well. We have therefore built out our hubs in the locations these treasury centres are moving to, including France, Ireland and the Netherlands. We have made sure clients can have the same experience in those markets by investing in technology, solutions and talent.

There is no point in having different solutions in different markets, so we have also focused on standardised connectivity. This includes the ability to produce XML files through host-to-host connectivity or through SWIFT. Another area that is getting more and more interest from corporates is the use of APIs – which comes back to the observation that corporates don't always want to do everything in one go. Some are dipping their toes into being able to access real-time information through their treasury management solutions. Online banking portals can also now provide real-time data that is crucial when it comes to driving decision-making at the tactical and strategic level.

Likewise, SWIFT gpi is making it possible for customers to find out the status of where a particular payment is. We are building that out so that clients can see this information through our digital channels. At this stage, SWIFT gpi is predominantly for outbound payments – but in the future, SWIFT is planning to add information about receivables, which is something that will be of real benefit for treasurers. Knowing when high value payments are likely to hit their accounts will make it easier for treasurers to use those funds effectively. So gpi is definitely going to be a key driver for our treasury teams going forward.

Efficient liquidity management will also impact effective working capital management and is within the bailiwick of treasurers. The ability to manage short-term FX flows can be managed actively or passively within our hubs. We have standardised cut off times and also worked to ensure that liquidity is available for FX settlements and processes. Treasurers are also reviewing passive management by reviewing notional pooling options which again we have made available in most of our hubs.

Last but not least when it comes to working capital optimisation, we have implemented a state-of-the-art Corporate Cards proposition and will continue to invest in the coming months to bring our customers more features and functionalities.

Effective commodity risk management in a volatile economic climate

Commodity prices can be subject to extreme volatility – as has been demonstrated in recent years. As a result, managing commodity risk has become an increasingly important area of responsibility for many corporate treasuries across different sectors. In the current economic climate, where security, liquidity and efficiency are key, having an effective commodity risk management framework in place is essential.

Commodity prices are often characterised by a high degree of volatility, and any fluctuation in the price of a commodity has the potential to affect a business's production costs, its pricing and its earnings – not to mention the availability of credit.

There are a number of inherent risks for any business operating in today's commodity markets. For both producers and consumers, the most important is price risk – the uncertainty which surrounds future commodity prices.

Recent research by United Nations Conference on Trade and Development (UNCTAD) found that, between September 2008 and September 2018, the average spot price of Brent crude oil fluctuated between US$125 and US$31 per barrel. In the same period, the average monthly price of copper at the London Metal Exchange fluctuated between US$9,900 and US$3,000 per ton.

Price isn't the only risk associated with commodities. Agricultural yields, for example, are subject to production risk, whilst the delivery of commodities from producers to traders, and then on to consumers, is associated with transportation risk. Throw in counterparty risk of a supplier's creditworthiness, currency risk and climate-related risk, and the task of managing commodity risk is anything but straightforward.

"The impact that this can have can be very dramatic – particularly in terms of credit risk," says Ian Tobin, Head of Credit Risk at Brady plc. "Apart from settlement risk, the real concern is replacement cost – the loss associated with replacing the transaction with another counterparty at a worse price if the original counterpart defaults."

Any volatility in commodity prices means that it is essential for any business reliant on a specific product to manage the impact of potential price fluctuations across its entire value chain. Having an effective commodity risk management process in place is therefore the only way for a business to manage both its financial performance and its overall profitability.

FX and commodity risk

But commodity price volatility can impact different businesses in different ways, depending on where they lie on the value chain. A UK airline dependent on the daily price of oil, for example, could be more impacted than a business in the same country that produces products reliant on commodities which aren't typically as volatile, such as wheat or sugar.

This is because there is an underlying link between commodity and FX price risk. As the US dollar is the worldwide pricing mechanism for most raw materials, any changes in the dollar's value against any other currencies often translates into buying or selling pressure in commodity prices.

Should the price of a commodity fall, it could decrease sales revenue for producers. This, in turn, will impact profitability, and production levels may be altered in response to lower prices. For businesses that consume such a commodity, this could potentially increase profitability and thereby increase the value of the business.

On the other hand, if the price of a specific commodity rises, it will increase the sales revenue for producers, thereby increasing the value of the business. As producers start to see the benefits of the price increase, competition in the space may intensify as new entrants seek to take advantage of the higher prices. Furthermore, the profitability of consumers of the commodity could reduce, which could potentially have a negative impact on the value of the business.

For David Daniels, Group Treasurer at National Express, commodity risk and FX risk can be managed separately or together – it all depends on a number of factors such as organisation policy, the size of exposure to a commodity and the capability of the organisation.

"You can hedge your commodity risk in USD and enter into a separate contract to cover resulting transactional FX exposure – which may result in double spread," he says. "Any organisation should have systems and processes in place to identify other activities which can also offset the exposures."

Yet for David Stebbings, Director, Treasury Advisory at PwC, there remains an inherent problem in the management of both commodity risk and FX risk, in that in the past they may have typically been managed independently within many organisations. But this is changing. "Previously, the price of a commodity was typically a procurement issue rather than one for treasury except in the most obvious cases such as airlines. Treasury may previously have only hedged the FX risk, but now they are getting much more involved in commodity price hedging decisions," he says.

However, he notes that this has brought internal challenges for some organisations. "Some procurement departments believe that price is their domain because treasury may not understand the key determinants of price such as the quality of the commodity – particularly soft commodities such as corn or grain," Stebbings says.

"What treasury must do is work with procurement to determine a strategy as to what and how to hedge and which financial instruments to use. A lot of companies have struggled with commodity risk, simply because they do not have a strategy in place that is joined up between procurement and treasury."

Commodity hedging instruments

There are various financial instruments that can be used to manage commodity risk. Known as derivatives, these instruments include futures, forward contracts, options and swaps. Over the past few years their complexity has steadily increased. The main ones used in this arena are:

Commodity futures

Futures are essentially contracts to buy or sell a commodity at a specified future date. They are typically cash settled and rarely end in physical delivery. Futures are not typically contracts between producers or buyers looking to hedge price risk, but are used more by investors from outside the commodity space who aim to make a profit from movements in commodity price volatility. They are traded on numerous exchanges across the world, such as the London Metal Exchange (LME) and the Chicago Mercantile Exchange (CME).

Forward contracts

Although forward contracts share many similarities with commodity futures, the main difference is that they are not traded on exchanges, but are traded 'over the counter' (OTC) – in other words, negotiated between two parties. With no clearing house involved, forward contracts carry the risk of default by one of the contract parties. Unlike commodity futures, forward contracts are often used by physical commodity traders to hedge price risk.

Options

As the name suggests, options are instruments which give buyers the option of buying or selling a commodity at a designated price until a designated date. Traded on both exchanges and the OTC market, the buyer pays the counterparty a premium for the right to buy or sell the underlying commodity.

Commodity swaps

This is a contract where two parties agree to exchange cash flows which are dependent on the price of an underlying commodity. They are typically used by commodity consumers and traded OTC in order to lock in commodity prices over the medium to long term.

For an airline company, for example, a commodity swap would allow it to hedge the risk of rising oil prices. Should the price of oil rise beyond the pre-specified price, then the company would receive payment equivalent to the price difference.

"The management of commodity exposure using any of these instruments would largely be dependent on the company risk

"Don't go about it the wrong way"

Andy Hartree, Senior Adviser at Gneiss Energy, believes that too many treasurers go about managing commodity risk in the wrong way. He explains:

"The corporate treasurer is in no better position than anybody else in trying to anticipate commodity price movements.

"What I have seen in over 20 years of watching people trying to anticipate market fluctuations is that far too many of them don't follow the first golden rule in managing commodity risk: focus on your business. Treasurers need to look at the business and think:

- What are the objectives of my business?
- How do potential market movements threaten my ability to achieve my objectives?
- How do I mitigate those threats?

"Once treasury has identified what puts the business at risk, it's vital to analyse how big a particular commodity risk is: whether it's existential, or whether it is just a mild irritant. Only then can treasurers judge it accordingly and come up with ways of how best to manage it.

"It is far too common to find companies that almost go around managing commodity risk the wrong way. They start with a 'we need to do some hedging' attitude, and don't come at it from actually working out what they are trying to achieve with the hedging process – proving the adage that 'hedging is not risk management!' Only if you do the work to understand the impact of price (or any risk factor) on your business, can you devise a risk management strategy with clear objectives. Then, when you hedge as part of that policy, you can objectively assess the effectiveness of your actions to achieve those objectives."

The insurance benefit

Commodity price risk insurance can be a useful tool in the treasurer's armoury.

For Keith Flury, Chief Analyst at Stable, which is a price insurance company for food and farming businesses dealing in commodities, price risk insurance is a no-brainer. "What we do at Stable is offer a more democratic way to deal with commodity price risk," he says. "We offer a product that can give treasurers piece of mind and offer a risk management tool for a commodity price, be it anything from eggs to walnuts."

What Stable aims to do is allow treasury to peg a price risk to a specific index – anything from those published by the US Department of Agriculture (USDA), to an egg index offered by a local municipality in the Netherlands or a grain index offered by a price reporting service such as Reuters or Bloomberg.

Because these indexes give a very good indication of local regional prices, and often do so in a local currency, treasury has the opportunity to take out a price insurance policy to put a limit on exposure to price risk. "If you were a buyer of walnuts in the UK or the US for example, commodity price risk insurance can resolve worries such as a major drought, weather issues or geopolitical tensions," says Flury.

management policy and would vary by sector," says Daniels. "A major oil producer might use options to reduce earning volatilities, while end users like airlines might use a swap to hedge the risk of rising fuel and fix procurement costs."

There are a number of benefits of hedging commodity price risk, and top of the pile are the cash flow benefits it brings, because when commodity prices fluctuate, so does a business's cash flow. The task of forecasting and protecting future cash flows is therefore paramount. Any difficulty in liquidity means that a business may have to undertake a short-term financing arrangement to deal with the deficit, and this could impact the bottom line.

In essence, hedging can shield a business from any volatile price movement, whilst stabilising cash flow volatility through offsetting the risk.

Measure for peace of mind

Aligning any hedging strategy with the overall business strategy requires ongoing and close cooperation with senior management. Communication and integration of hedging is crucial, and doing so will improve the business's ability to respond to changes in commodity prices, whilst ensuring a shared sense of responsibility for results.

However, businesses should not be complacent. "A business should be able to identify their exposure to commodity risk before being able to reasonably measure the risk," says Daniels. "This requires a holistic review of operations and key business areas that are impacted by commodity price movements – and this is a good place to start. A business must also have tools to provide appropriate and timely data in order to measure the risk."

For Andy Hartree, Senior Adviser at Gneiss Energy, the first step in this analytical framework should be to embed commodity price projections. In doing this, there are two important elements: first, to make objective price assumptions. The only thing we all know about price forecasts is that they will always be wrong, but more seriously, they are inevitably biased. This raises the risk that not all scenarios are properly considered. Secondly, the business should be reviewed across a price range. By using even a simple model based on an objective understanding of how prices move (regardless of market drivers), this can throw enormous light on a business's sensitivity to different price environments. And this leads to a much better understanding of the business's real exposure to commodity price. Then you can devise an appropriate strategy to mitigate that exposure.

Hartree says that the second step is to work closely with senior management to agree risk management policy. Treasurers are in a key position, because they 'have all the right information to be able to do the analysis at their fingertips'. "They can say to the board 'this is what the risk profile looks like' and make a sensible policy proposal about how commodity price risk should be managed," he says. "The more self-evidently aligned that policy proposal is with the core business objectives, the easier it becomes to secure the all-important senior management buy-in – because it will be obvious it is what needs to be done."

Brady plc's Tobin, agrees – but adds that managing commodity risk comes down to not only having effective tools that can predict future commodity prices, but being able to react faster to adverse credit events and mitigate exposure increases.

For example, if a ratings agency issues an outlook that is deteriorating for a particular counterparty, the credit team can quickly place trading restrictions or request some form of credit mitigation, such as a letter of credit or guarantee. "This means that traders will instantly know what the restrictions are for this particular counterparty," says Tobin. "It's really about speed when it comes to reacting to market events."

Align to thrive

Regardless of how a business chooses to manage commodity risk, tackling this area successfully can be a significant game changer when it comes to maximising business performance for those that are involved in trading commodities. Companies involved in this ever-changing marketplace, particularly within consumer and industrial products, have to be active in their management of risk.

When it comes to managing commodity risk, one thing is clear – it is imperative to align all areas of the business, from the board to finance, and from treasury to procurement. Only then can commodity risk be successfully managed.

Doing 'more with less'

In a world of financial uncertainty, cost-cutting is essential. How can treasury help?

Kevin Daly

Assistant Treasurer

James Hardie Industries plc,
President of the Irish Association
of Corporate Treasures (IACT)

It is essential that treasury operates within a strong environment of process, control and reporting; if you can't measure it, you can't manage it.

1. Capital management

Funding: treasurers raise capital from debt and equity arkets. Once this capital is drawn down, the treasurer can influence the cost of utilising this capital on a day-to-day basis. There will be fixed costs associated with raising capital but there are variable costs in utilising certain debt capital, especially revolving facilities. Take the case of a USD revolving credit facility: the spread between one-week and three-month USD LIBOR is currently 37bps or US$38,000 on US$10m per annuum. Managing this debt on a more frequent basis is time consuming but you can offset this by implementing an efficient process and utilising your TMS.

Cash flow forecasting: consistent, complete and accurate short-term cash flow forecasting cannot be understated in terms of the savings that can be achieved by treasury managing available cash, utilisation of loan facilities and ability to place cash in fixed term deposits. This includes the ability of treasury to have accurate forecasts by currency so that a long position in one currency can be utilised to fund a short position via the treasury function.

Working capital management: I also call out management of working capital as an area that can generate significant cost savings. The three elements of working capital – receivables, payables and inventory – all have an impact on the group's cash/capital, and on the cost paid for that capital. It is quite a complex area because it requires interaction and buy-in across business operations, with multiple stakeholders with competing demands.

2. Transactions

Cash management/bank accounts: treasury has direct control over its bank account and cash management structures, and can influence how other parts of the business manage their cash. This requires consistent and ongoing reporting, analysis and ownership. Ownership is key to ensure areas identified in reporting are actioned.

Foreign exchange: foreign exchange (FX) trading platforms enable full visibility on 'best price' execution which can be linked to the TMS for straight through processing. This also enables reporting and analysis to ensure that treasury has visibility on share of wallet which can be leveraged for pricing on other services with banks.

3. Services

Treasury needs to ensure that it is only paying for services it requires and is achieving competitive pricing for these services. Treasury is a dynamic function, and requirements will change year-on-year. An annual review of services can identify opportunities for cost saving.

4. Reporting, communication and technology

The key to achieving cost savings and efficiencies is consistent reporting on activities, communication to those who can action change, and explaining the rationale. Technology should be utilised to support an efficient process and enable identification of costs by developing and continuously enhancing your reporting. The management methodology, 'Plan-Do-Check-Adjust', is a great continuous improvement tool that will facilitate cost saving within any treasury function.

Claudio Delgado

CTP, Manager Treasury &
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Actualize Consulting

The treasury team has many ways to approach growing cash flow demands while reducing their costs. A few of the most common practices we see many of our clients engage in are interdependent, such that they must be executed in parallel. Here are a few steps to begin the transformation journey.

Standardise and streamline the treasury processes

Firstly, the treasury team must understand where the company's treasury function is today. A clear understanding of each treasury process, and who is executing them, will provide the baseline for all future efforts. The next step is to evaluate each process, and redesign them, such that they are standardised and more efficient across the organisation. This analysis will uncover potential overlap or duplication of efforts in multiple areas within the organisation. By eliminating non value-added activities and avoiding duplication of efforts, treasury is helping to cut costs.

Obtain cash visibility to optimise liquidity

One guaranteed strategy to reduce costs is to have accurate visibility of available cash on a daily basis across all or most bank accounts. This transparency will uncover trapped cash within the organisation that will allow treasury to concentrate all excess cash in order to reduce debt (in leveraged organisations) or to optimise investments (in cash-rich organisations). In the former case, treasury is reducing interest costs, and in the latter, treasury is increasing interest profits.

Transform the treasury organisation to a more centralised model

A natural consequence of standardisation across treasury processes is the ability to execute them with an optimised number of resources. Avoiding duplication of efforts will release resource time across the organisation, so they can focus on other value-added activities while at the same time reducing the labour cost of treasury resources to execute the essential treasury tasks.

Leverage treasury technology to make it all work

Treasury technology is evolving constantly. We are seeing the integration of artificial intelligence, business intelligence, blockchain and API into treasury applications. Treasury teams must make it a mandate to evaluate and implement the appropriate technologies into the day-to-day operations. Treasury management systems allow for the automation of standard treasury processes, the connectivity to financial institutions to provide cash visibility and optimise liquidity, and straight through processing from internal systems (ERPs) to the financial institutions with security and speed. Technology enables small treasury teams to execute a broad range of treasury processes across multiple geographies.

By no means is this an exhaustive list of treasury initiatives to help reduce costs. There are other opportunities such as bank relationships, currency risk management, debt management, investment management, payments and fraud control that must be explored as part of the overall treasury assessment. Treasury must continue to be in an innovating mindset in order to continue cost-cutting efforts while remaining relevant to the organisation.

Anita Bubna

Senior Director, Treasury

Flex

If you are looking to find ways to optimise costs, why not look at the following categories and see if there are opportunities for you to explore further?

Bank fees: do you understand the different items for which banks are charging you? Account analysis statements can be cryptic and can run into several pages. Ask your banks if they can provide an Excel version of the fees so that you can analyse the 20% of categories that typically contribute to 80% of costs. Also, ensure you have reporting in place to provide analysis of fee trends and to automatically flag any increase beyond a certain threshold.

Do you earn an earnings credit rate (ECR) from banks to help offset fees? When was the last time you analysed whether you have sufficient fees to offset ECR credits fully? Converting accounts to an interest-bearing account may be more beneficial.

In the US, some banks charge Federal Deposit Insurance Corporation (FDIC) fees on balances. It may seem like these are fees that go to the government but actually these are regulatory costs that the banks are trying to pass on to customers. This item can mask the true interest you earn from the bank.

Do you have bank accounts that have not seen transactions for several months and could be closed? Are there lockboxes open which see a minimal number of cheques? Could virtual accounts make sense for your organisation as a way of consolidating the number of bank accounts you have? Do you have a large proportion of payments via wire, when ACH or SEPA could be used?

Interest costs: there are many ways to evaluate and optimise the interest cost expense and income for treasury:

- How does the current provider of interest income or expense compare to others in the market? When was the last time you did a comparison?
- Where there have been changes in the interest rates in the market, does your pricing reflect this?
- Can you work with procurement to standardise payment terms or extend terms? For suppliers who struggle, you may be able to offer supplier financing.
- If you are a net investor and have excess cash, have you looked at dynamic discounting for your suppliers? It could earn more interest income than might be available through banks, ECR or mutual funds.
- Have you looked at receivables financing through securitisation/asset backed securities (ABS) to get cheaper financing, especially in cases where your customers' credit is better than your own?

Transaction costs: do you have a high volume of transactions? Treasury management systems can help reduce manual work, streamlining compliance activities, and managing communication across multiple subsidiaries. Where automation is not possible because of complexity or limitations in your business model, it's worth exploring shared services centres.

Software subscriptions: are you still paying for software subscriptions for systems that you no longer use? Have you looked at competitor systems to compare the value being delivered by your current systems? Some companies with robust IT support dedicated to finance may be able to build simple in-house systems that are more customised to your business needs but without annual subscription and maintenance costs.

Next question:

"Despite much talk of AI and blockchain, many people still argue that it is not possible to have paper-free trade documentation. Are they right?"

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

What will 2020 bring?

We have studied the economic forecasts of the major banks and multinational institutions such as the IMF and OECD. Generally, the analyses come down to the following.

The US quietly moves ahead

The US economy will continue to grow by roughly 2%. That is, growth has been below this level in recent quarters, but it is expected to receive a slight boost from the monetary stimulus measures in 2019 – not just in the US but worldwide – stockpiling and not too many setbacks in (global) trade.

After 11 years of growth, there is not much reason to anticipate considerably more. However, a recession is also unlikely. Most recessions occur because central banks apply forceful monetary deceleration, but this prospect is non-existent at this point. Indeed, inflation will remain very low because the forecast is persistent low growth.

However, there is a political risk. Elizabeth Warren could become the next US president. Many of her policies are harmful to (present-day) business. However, the markets are not overly concerned about this. Indeed, the US will not choose a(n) (ultra) left-wing president any time soon. Should this happen, many of Warren's plans will be watered down considerably by Congress.

Most analysts anticipate that, in view of the above, US economic growth will be at around 2% for the time being, inflation and interest rates will stay at low levels, and the Fed will continue to pursue a loose monetary policy. This is favourable for share prices and negative for the dollar.

Europe is vulnerable

Growth forecasts for Europe do not far exceed 1%. Although the trade war will not escalate, it will continue to have a negative impact on global trade. The European economy is very sensitive to this. Furthermore, Brexit stays a fairly uncertain factor. Prolonged uncertainty surrounding Brexit is negative for economic growth of Europe as a whole. However, the biggest problem lies with the banks. European banks generally have a shortage of equity capital and do not earn much from credit supply with the current interest rates. This restricts credit supply considerably, especially because roughly 80% of credit supply in Europe is operated by the banks (while roughly 80% of US credit supply is operated by the capital market).

The current excessively low inflation rate will decline rather than rise, due to the combination of 1% growth (just below potential) and the still available reserve capacity. This is why the European Central Bank (ECB) is pulling out all the stops, purchasing €20bn a month in bonds and creating surplus money. Using forward guidance, the central bank also indicates that it will not raise its short-term interest rates for the time being. The problem is that the ECB has been pursuing a very loose monetary policy for some time, but so far this has not pushed up growth and inflation to any significant extent.

This renders the situation in Europe fairly vulnerable, as the slightest shock could trigger a recession and deflation. This could rapidly turn into a self-sustaining negative deflationary spiral in view of the high debt levels.

Finally, it also plays a role in the background that the European population is going to age fairly quickly – more so than in the US – which means that more and more non-working people will have to be sustained by working people. This is certainly not conducive to growth.

Japan and China are also unlikely to take the lead

The situation in Japan can be compared to that in Europe, but it is more acute. Growth and inflation expectations are slightly lower than those for Europe. The same applies to inflation. Japan is therefore very vulnerable to a negative shock. This is a particular cause for concern, as Japan is basically powerless in terms of fiscal and monetary stimulus. Public deficits and debts have soared to exceedingly high levels, while the central bank has lowered its rates to the greatest possible extent – even lower interest rates will limit credit supply – and is purchasing bonds and shares on a large scale. It is therefore a miracle that this combination has not yet led to far higher inflation and/or a currency crisis. However, a further deterioration in public finances and/or an even looser monetary policy could bring this about.

Everything is tightly controlled from above in China. The expectation is that Beijing wants to and is able to prevent a considerable slowdown in growth. Nevertheless, the Chinese economy is suffering a great deal from the trade war. In addition, China is unable to apply fiscal and monetary stimulus on a large scale without raising debt to excessively high levels. This is why Chinese economic growth is generally expected to be slightly below 6% next year.

A recession is unlikely, but the scenario is not exactly favourable

This situation has two important consequences for the rest of the world.

- Increasing overcapacity is evident worldwide in more and more parts of the economy – due to low growth in the industrialised countries, stagnating global trade as a result of the trade war and the slowdown in Chinese growth.

ecr research

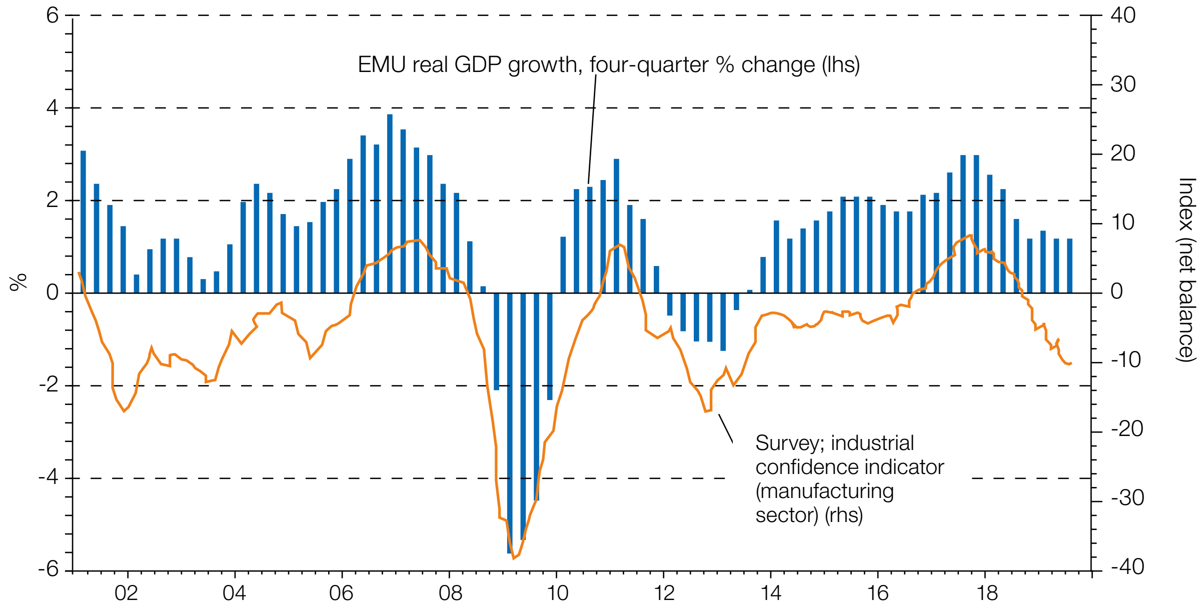
This, in turn, exerts downward pressure on wage increases and inflation almost everywhere.

- Low growth and the trade war are depressing the rate of the Chinese yuan. This also reduces the exchange rates of the relevant currencies in most Asian and other emerging markets. This is basically favourable for their competitiveness, but it does not lead to far more exports as growth is very low everywhere. However, it causes the high dollar debts – which exist in most emerging markets – to increasingly bear down on the relevant economies. This therefore prevents the relevant markets from providing their economies with more monetary stimulus. Many emerging markets therefore hope that the Fed's loose monetary policy will soon lead to a lower dollar exchange rate. However, this is a slow process because a very loose monetary policy is being pursued everywhere, and US interest rates are still positive.

At this point, the general expectation is that the global economy will avoid a recession in 2020, although growth and inflation will stay at low levels. It is therefore also likely that central banks will continue to pursue a very loose monetary policy. The central banks themselves indicate that this might not be enough to prevent the economy from sliding down after all, and they are therefore increasingly calling on the fiscal authorities to come to the rescue. However, policymakers find it very difficult to accommodate this request, as long as the economies continue to grow.

For many years, they have announced that public deficits should be reduced rather than the other way around. This cannot simply be turned upside down now – without a crisis. In view of the above, it is not surprising that interest rates are at very low levels everywhere and will, on balance, likely remain low in 2020 (but we expect a great deal more volatility in the currency markets).

EMU economic data remains rather downbeat



Source: Refinitiv Datastream/ECR Research

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INSIGHT & ANALYSIS

Treasury outsourcing returns

In these 'do more with less' times, is it time to reconsider the treasury outsourcing model? Although there are certain areas that remain far too sensitive to even consider this approach, there are other, more operational activities that might benefit from specialist attention. We explore the pros and cons of treasury outsourcing and find out what's on offer today.

INVESTING

Going it alone: separately managed accounts

Given the 'lower for longer' rate environment looks set to continue into 2020, investors seeking optimisation should be taking a dynamic approach. If a bespoke investment policy is desired, how about separately managed accounts? We look at their capacity to deliver the right results for treasurers.

RISK MANAGEMENT

Do I know you? Authentication and identification

With billions of dollars of transactions passing through the world's corporate treasuries every day, the function is potentially high risk in terms of financial crime. With fraudsters attempting evermore audacious ways of stealing corporate cash and data, what measures can be taken to keep treasury safe?

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

Nadya Hijazi, Global Head of Digital, Global Liquidity and Cash Management and Business Banking, HSBC; Lance Kawaguchi, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management, HSBC; Ian Tobin, Head of Credit Risk, Brady plc; David Daniels, Group Treasurer, National Express; David Stebbings, Director, Treasury Advisory, PwC; Keith Flury, Chief Analyst, Stable; Andy Hartree, Senior Adviser, Gneiss Energy; Marcus Hughes, Director of Business Development, Bottomline; Karin Flinspach, European Regional Head of Transaction Banking, Standard Chartered; Shahrokh Moinian, Head of Wholesale Payments – EMEA, J.P. Morgan; Andrew Wild, Head of Commercial Banking Europe, Deputy CEO, HSBC France; Lynda Johnson, Assistant Treasurer, Harley-Davidson; India Gary-Martin, Executive Coach, Leadership Expert & Advisor, Leadership for Executives; Catherine Portman, Head of Global Treasury, Uber; Laurette DelGuercio, Director, Global Liquidity and Cash Management, Employee Client Engagement, HSBC; Kate Sandman McKinley, Senior Vice President and General Counsel, State Street Global Advisors; Julia Fordham, Group Head of Treasury, Small World Financial Services; Mark Kitchen, Head of Northern Europe DCM, Bank of America; Suzanne Perry, Assistant Group Treasurer, RELX; Charles Laurie, Head of Country Risk, Verisk Maplecroft; Nicholas Fitzroy, Director of Risk Briefing and Middle East, The Economist Intelligence Unit; Honnus Cheung, CFO, Asia and GM, China, Travelzoo; Kevin Daly, Assistant Treasurer, James Hardie Industries plc, President of the Irish Association of Corporate Treasures; Anita Bubna, Senior Director, Treasury, Flex; Claudio Delgado, CTP, Manager Treasury & Capital Markets, Actualize Consulting; Pierrot Christophe, Treasury Controller Global Business Services, General Electric; Adrian Rigby, Chief Operating Officer, Global Trade Finance, HSBC; Toby Shore, Senior Director, Group Treasury, Risk and Insurance, Emirates Global Aluminium; Maarten Spek, Senior Financial Markets Analyst, ECR Research; Will Goldthwait, Vice President, Portfolio Strategist, State Street Global Advisors.


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