treasurytoday

research | insight | analysis

January 2013

Beyond the brink

Predicting the future is never an easy task, but 2013 has begun with a sliver of optimism as the US averts an economic implosion. As cash-rich corporates look to expand their operations, the scalability of multinationals' treasury operations in emerging markets will be important this year.

Women in Treasury

Marie-Astrid Dubois

Assistant Treasurer EMEA and Asia

Honeywell

Bank Interview

Robert Hare

Director of Specialist Banking

Lloyds Bank Commercial Banking

Sustainability

Corporate social responsibility

Reputational risk

Preserving the corporate brand

South-South trade

The rising East

Technology

The spreadsheet issue

Mandate Management
Compliance
SaaS
Feature rich products
Dublin
Sentenial
XML
Amsterdam
Electronic archiving
Life Cycle Management
eMandate
Partner Programmes
Dedication to SEPA
Proven
Trusted
Supplier
SEPA B2B
Conversion of existing mandates
End to End
SEPA
Mandate Migration
Conversion
Pan-European
Mandate
Origix
Legacy Conversion
SCT
SEPA Core
Readiness
End-Date
Euro Payments
ISO
SDD
London
Brussels
Enrichment
Award winning
R-messages
BIC/IBAN conversion
Proven Solution

SEPA – Are you ready?

Sentenial SEPA solutions are the number one choice of Europe's leading banks and large corporates. Sentenial offers customers an abundance of proven firsthand SEPA experience, pan European presence and an Award-winning active payment suite that will enable the processing of SEPA transactions utilising existing back-end systems.

The end-date has been fixed, by February 2014 all payment traffic will be switched to SEPA.

Are you ready to process SEPA transactions?

Contact Sentenial for expert advice, solutions and SEPA knowledge...
www.sentenial.com sales@sentenial.com

Audited member of BPA Worldwide

treasurytoday

treasurytoday.com
Volume 15 / Issue 1
January 2013

Publisher
Angela Berry

Executive Assistant to the Publisher
Samantha Cowling

Editorial Director
Joy Macknight

Editorial
Tom Alford
Chris Davis

Senior Relationship Manager
Shona Hannah

Relationship Manager
Sophie Jackson

Business Development Director
John Nicholas

Business Proposition Manager
Colin Jones

Operations Manager
Lisa Bigley

Head of Circulation
Sarah Arter

Subscriber Services
Megan Coates

Production Manager
Dawn Ingram

Website Manager
Luke Scammell

Apprentices
Joanna Smith-Burchnell
Joshua Thompson
Robert Murray

Managing Director
Richard Parkinson

Switchboard	+44 (0)13 0462 9000
Publisher	+44 (0)13 0462 9012
Subscriptions	+44 (0)13 0462 9002
Advertising	+44 (0)13 0462 9018
Editorial	+44 (0)13 0462 9004
Production	+44 (0)13 0462 9013
Fax	+44 (0)13 0462 9010

Annual Subscription Rate £285

subscriberservices@treasurytoday.com

© Treasury Today ISSN 1466-4224

Treasury Today is published monthly (10 issues) by Treasury Today Limited
Courtyard Offices • Harnet Street
Sandwich • CT13 9ES • UK

The entire content of this publication is protected by copyright. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means mechanical, electronic, photocopying, recording or otherwise, without the prior written consent of the copyright holders. Every effort has been made to ensure the accuracy of the information contained in this publication, Treasury Today Limited cannot accept liability for inaccuracies that may occur. Where opinion is expressed it is that of the authors and does not necessarily coincide with the editorial views of the publisher or Treasury Today. All information in this magazine is verified to the best of the author's and the publisher's ability. However, Treasury Today does not accept responsibility for any loss arising from reliance on it. No statement is to be considered as a recommendation or solicitation to buy or sell securities or other instruments, or to provide investment, tax or legal advice. Readers should be aware that this publication is not intended to replace the need to obtain professional advice in relation to any topic discussed. Printed by: Buckland Press.

Treasury Today USPS: (USPS 023-387) is published monthly except August and December by Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

The 2012 US annual subscription price is $588.00. Airfreight and mailing in the USA by agent named Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Periodicals postage paid at Jamaica NY 11431.

US Postmaster: Send address changes to Treasury Today, Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Subscription records are maintained at Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

Air Business Ltd is acting as our mailing agent.

Onward and upward

As a new calendar year starts we all have plans for 2013. Treasury Today continues to expand and we are working on three new initiatives this year:

1. We are launching Treasury Today Asia; thus responding to the many requests we have received to broaden the coverage of Treasury Today in China to include the rest of Asia.
2. We are developing our web content to provide more tools and practical information to corporate treasurers and CFOs/FDs.
3. We are beginning to offer customised research to banks and other vendors by undertaking specific market surveys and using our extensive benchmarking survey data.

We have served the treasury community for over 14 years and we remain committed to providing high-quality, independent insight and analysis on all aspects of treasury and finance. We will be developing our flagship publication Treasury Today, our Handbooks and other publications as we do this.

Our awards programme – Treasury Today Adam Smith Awards 2013 – will recognise leading solutions and best practice whilst our new Women in Treasury programme will recognise outstanding female treasury practitioners.

We look forward to serving you in the year ahead and are always keen to hear what else you want us to be doing.

Richard Parkinson, Managing Director
richard.parkinson@treasurytoday.com

Angela Berry, Publisher
angela.berry@treasurytoday.com

Cheaters not allowed.

Adam Smith Awards 2013

in association with

INSIGHT & ANALYSIS 18

Calculated prophecies

As a result of the continuing economic uncertainty, the treasurer's strategic role within the organisation will strengthen in 2013. Risk management, improved working capital efficiency and greater use of technology are key treasury trends this year. However, incoming regulatory requirements are never far from the treasurer's mind.

WOMEN IN TREASURY 6

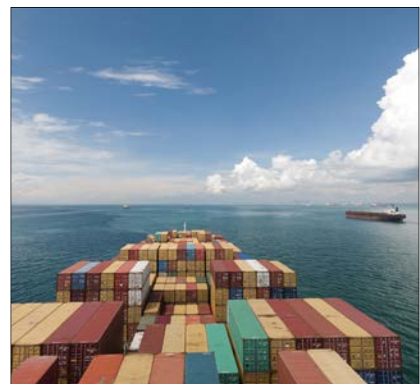
Marie-Astrid Dubois

Assistant Treasurer EMEA and Asia

Honeywell

Marie-Astrid Dubois shares her professional path, career-defining moments and passion for treasury.

TREASURY PRACTICE 22



South-South trade: opportunity shifts east

Asia accounts for over 80% of all South-South exports, and nearly three-quarters of this figure can be attributed to Asian countries trading with each other. China is acting as the centre of gravity for a new pattern of commerce stimulated by rapid urbanisation rates and infrastructural developments.

SUSTAINABILITY 36

Sustainability: it's the business

Today corporates are paying greater attention to the 'three Ps' – profits, people and the planet – as embracing corporate sustainability can benefit the bottom line. How does a company put a workable sustainability programme in place?

PROBLEM SOLVED 21

Dmitriy Shamraev

Director for Russia and CIS

International Air Transport Association

IN THIS ISSUE

TECHNOLOGY 27

The right tool for the job

Pervasive yet highly risky, most treasury professionals are acutely aware of the advantages and pitfalls of spreadsheet usage. What is the solution to this persistent problem?

RISK MANAGEMENT 33

Safeguarding your reputation

Not all publicity is good publicity and protecting your company's brand can be a bit like fighting fires on all sides. But treasury has a central role to play in bringing together an enterprise-wide risk response plan that can be put into action.

TREASURY ESSENTIALS

Question Answered	14
Market View	16
The Bigger Picture	25
Back to Basics	42

30 The Corporate View

Gary Williams
General Manager Treasury

London-based Mitsubishi Corporation International (Europe) Plc, a wholly-owned subsidiary of Mitsubishi Corporation (MC), focuses on a traditional import/export commodities trading role. In this interview, General Manager Treasury Gary Williams speaks about his role running MCIE's treasury centre and in-house banking team, as well as some of the unique challenges he faces pushing forward positive changes in both treasury policy and technology.

THE BANK INTERVIEW 39

Robert Hare
Director of Specialist Banking at Lloyds Bank Commercial Banking

Many corporates have been concentrating on two things over the past 12 months: cutting costs and keeping cash. Robert Hare explains the importance of developing a liquidity strategy that covers the immediate, the short-term and the longer-term needs of the business.

Client commitment.

Global solutions.

Total connectivity.

Taking your opportunity further.

That’s return on relationship.

Bank of America

Merrill Lynch

“Bank of America Merrill Lynch” is the marketing name for the global banking and global markets businesses of Bank of America Corporation. Lending, derivatives, and other commercial banking activities are performed globally by banking affiliates of Bank of America Corporation, including Bank of America, N.A., member FDIC. Securities, strategic advisory, and other investment banking activities are performed globally by investment banking affiliates of Bank of America Corporation (“Investment Banking Affiliates”), including, in the United States, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Merrill Lynch Professional Clearing Corp., all of which are registered broker-dealers and members of FINRA and SIPC, and, in other jurisdictions, by locally registered entities. Investment products offered by Investment Banking Affiliates: Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed. ©2013 Bank of America Corporation

Blazing a diversity trail

Whilst the treasury profession remains largely male-dominated, there are remarkable women enjoying remarkable careers. The Women in Treasury series will recognise female innovators in the corporate treasury profession. The initiative aims to bring women together to share their experiences, challenges, successes and failures, as an inspiration for all operating in this field.

The press is rife with articles outlining how the treasurer has a new and important role within an organisation. But it is not the traditional treasurer who can fulfil these demands, argues Carole Berndt, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch. "The new treasurer has to be able to manage this environment where crisis is business as usual. They will need to have an extreme attention to detail and the things they must manage, such as operational, liquidity and market risk, need to be married with the ability to think strategically and creatively."

The new treasurer will also need to be a good communicator, effectively co-ordinating the different business lines and functions and promoting collaboration and co-operation across the company. Although not risk-averse, the new treasurer must have a level-head and appropriately weight risk versus opportunity. They must also have the ability to listen and understand the business, and create tailor-made solutions to meet those business needs.

Many of these traits are more commonly associated with women than with men, yet it is shocking to see how few women there are in treasury. A female Director of Corporate Treasury, who asked not to be named, recounted her disappointment with the gender composition at industry conferences. Not only are there only a few female treasurers on the conference floor, but there are next to none participating on the panels or leading the smaller workshops.

Yet the role treasury plays in an organisation makes it a very dynamic space for women to work in, according to Eileen Zicchino, Managing Director and Chief Marketing Officer (CMO), J.P. Morgan Treasury Services. "The treasury function is at the heart of every organisation – wise decisions made there have dramatic and positive impacts on the health of the entire company, and consequently on all the people of that company."

The Director of Corporate Treasury believes that women need to be much more visible in their roles, both inside and outside of their organisation. While women are notoriously bad at promoting themselves, the Women in Treasury series in Treasury Today and Treasury Today Asia aims to help bridge this gap by profiling female trendsetters on a bi-monthly basis. Each article will look at professional development and career-defining moments, as well as providing advice to those just starting out in the profession.

"Women in all industries and professions can benefit from obtaining insight into other female professionals – on a personal and professional level," says Christina Easton, Principal at Treasury Dynamics LLC, based in Clyde Hill, WA. "The opportunity to read profiles of women in similar positions, industries or perhaps in more senior positions than your own, provides the practitioner with 'a-ha' moments, ideas, courage and inspiration for change."

Julia Persson, Deputy Head of Corporate Treasury, A.P. Moller–Maersk Group, is enthusiastic about the initiative because "it is good to know that other women have succeeded in the same field and the series identifies role models to look up to". She is particularly interested in the problem-solving aspect of the profiles. "Most of the issues are probably not gender-specific, but this series could illustrate a different approach to solutions."

Gender challenges

It is evident that women still face specific challenges at work. The pay gap is a stubbornly pervasive problem. A recent Chartered Management Institute (CMI) survey showed that the average gender pay gap for executive level positions is more than £10,000 a year, while women receive less than half what men are given in bonus payments. CMI estimates that the average female executive suffers a lifetime earnings gap of £423,390 when compared to a male worker with an identical career path.

Climbing the corporate ladder is a challenge for many women as they become parents or need to care for their ageing parents or other loved ones. Women are still the primary parent responsible for childcare, although social norms are slowly shifting. A tri-regional survey predicting gender composition in 50 years' time, conducted by HSBC on the 100th anniversary of International Women's Day (8th March 2011), found that 60% of the respondents globally think that childcare will be split 50/50 between men and women by 2060. The regional variation was illuminating: 70% believed this in Asia, while just over half thought this was possible in the US and the UK.

Many women are successful in managing the demands of a family and a successful career, and others want to learn from their experience. "I find it inspiring to hear from others as to how they balance work/life requirements and still enjoy a stimulating career," says Easton. Marie-Astrid Dubois, Assistant Treasurer EMEA and Asia, Honeywell, holds Christine Lagarde, Managing Director of the IMF, in high esteem for exactly this reason.

But many women, whether they are mothers or not, are frequently overlooked for promotion opportunities. According to a 2012 Catalyst report, women get fewer of the high visibility, mission-critical roles and international experiences – the so-called 'hot jobs' – that are key to getting ahead at global companies and may be an underlying cause of the persistent gender gap at senior levels.

Diversity: the new status quo

The concept of setting a quota for women in executive positions has been hotly debated for a number of decades. Former banker Mervyn Davies brought it back into the spotlight in March 2011, when he called on FTSE 100 companies to increase the percentage of females at Board level from 12.5% to 25% by 2015. More recently, EU Justice Commissioner Viviane Reding brought a proposal to the European Commission (EC) in October 2012 to impose a 40% quota for women non-executive directors on the Boards of listed companies by 2020, but this was opposed by several countries.

The attempt to legislate change is a response to the fact that the number of women in senior positions remains persistently low. The Cranfield School of Management's 2012 Female FTSE Report shows that the overall percentage of FTSE-100 directors who are female is 15% – and this is an increase of 2.5% on the past three years.

Interestingly, the debate has shifted from an issue of equality to a question of better performance. Bank of America Merrill Lynch's Berndt argues that companies perform better when they include the best people from a range of perspectives and backgrounds. "A greater propensity to find new solutions is the key advantage of diversity," she explains. "Having a range of people, whether gender, cultural or nationality, generates fresh ideas, different perspectives and promotes much more innovation and creativity than a uniform group."

A number of studies support Berndt's argument and have found a correlation between high-performing companies and those with strong female representation at the top. According to McKinsey, the findings were startlingly consistent: for companies ranking in the top quartile of executive-board diversity, ROEs were 53% higher, on average, than they were for those in the bottom quartile.

Research by the Credit Suisse Research Institute found that shares of companies with a market capitalisation of more than $10 billion and with women Board members outperformed comparable businesses with all-male Boards by 26% worldwide over a period of six years. The report identified six key reasons why greater gender diversity could be correlated with stronger corporate performance, including a better mix of leadership skills, access to a wider talent pool and improved corporate governance.

Talent pipeline

The debate is not just about getting more women onto the Board but making it possible for women to reach their full potential within an organisation, instead of knocking up against a glass ceiling or being pushed off a glass cliff. As Ann Francke, CMI CEO, said: "Women make up almost three out of four at the bottom of the ladder but only one out of four at the top. This lack of a strong talent pipeline has to change, and fast."

McKinsey reports that of the 235 European companies it surveyed, more than 60% said that they have at least 20 gender diversity initiatives in place. It singled out adidas as a success story, a company that ranked in its top quartile in diversity and performance. Senior leaders have designated diversity as a strategic goal and started building it into the 'guts of the organisation', setting a goal of 35% of all managers by 2015. The effort is supported by numerous policies, including gender-balanced recruiting, childcare assistance, and flexi- and part-time work opportunities.

The Cranfield School of Management's report also highlighted a few outstanding corporate initiatives. Diageo, which has the highest percentage of women on its Board (44.4%), including the CFO, encourages "flexibility of career paths, with the ability to step on and off the fast track, and multiple opportunities to connect with diverse role models". It also has an internal networking and affinity group, Spirited Women, which connects women across the globe.

In 2011 Rolls-Royce implemented a 'reverse mentoring' programme, whereby senior executives were mentored by a junior colleague. The aim is to give senior executives a different perspective, sharing diverse experiences and ideas whilst increasing the visibility of diverse talent. Twelve of the 17 reverse mentors are female. Software firm Sage undertook an annual gender diversity review in June 2011; today it proactively encourages coaching and mentoring of female executives to aspire to top leadership roles and insists on a diverse slate of candidates from head hunters for all senior executive appointments.

Many trade and professional associations are also walking the walk. For example, the Institute of Chartered Accountants in England and Wales (ICAEW) has launched Narrowing the Gap, an initiative aimed at retaining women in accountancy, and boasts a 66% female workforce, double that of the industry average.

Role models

A growing number of women, both in senior roles and among the rank and file, are finding their voices and inspiring others to achieve progress, reports McKinsey in 'The Global Gender Agenda'. It is this advice and willingness to share that will make all the difference to a new generation of treasurers.

When asked what advice she would give to other women in treasury, Easton focused on mentoring. "The mentor can be in your industry, within treasury or outside of treasury, a man or woman. Clearly identify what you want to achieve with this relationship, create a profile of the best mentor for you, find the right person, and identify reasonable goals for meetings, including frequency," she says.

Persson believes that effectively managing your manager, promoting your achievements and building a strong network, both within the organisation and externally, are key elements. "Having good relationships with colleagues is essential and helps when one needs help," she says. She adds that although these points are not gender-specific, "my impression is that men are generally better at them, when for me it took time and many mistakes to conclude that".

Berndt also says her advice works just as well for men. "My strongest advice is to trust your intuition, be authentic and true to yourself, and have confidence in your abilities. Quite often we know what needs to be done but we allow ourselves to be talked out of it because it is different to the way things have been done before. Be an advocate for change." ■

This much I know

Marie-Astrid Dubois

Assistant Treasurer EMEA and Asia

Honeywell

What is your career-defining moment?

Despite always wanting to stay in Europe, my career-defining moment was when I accepted a job at the Dexter Corporation in Connecticut, US. I discovered a company culture that is better suited to my personality and since then I have only worked for US multinationals.

Which woman in business most inspires you and why?

Christine Lagarde because she has an impressive career, as the first female Chairman of the international law firm Baker & McKenzie, then as Minister of Finance for France and finally as Managing Director of the IMF. She successfully manages the demands of a family and such a successful career.

What is the biggest challenge you are facing just now?

It is important to be a catalyst for change. I strive to add value by finding the most efficient way to support the businesses lines and encourage my team to connect with the business lines in their locations. I also need to manage constrained resources in the most appropriate way.

What couldn't you manage without?

I couldn't manage without my Executive Assistant, who knows how to manage me. In addition, I would be lost without my passion to constantly challenge the status quo. I need to know that each team member is evolving – if I wasn't seeing positive change, I would find it quite difficult.

What is your next major objective?

Honeywell is working towards a SWIFT implementation and we are looking at setting up a payment-on-behalf-of factory. My objective is to successfully drive that forward by working with people in different functions and business units.

What advice would you give to other women in treasury?

The importance of networking should be part of any advice. It is also important to publicise your achievements, both internally and externally through treasury awards, for example. Women are less vocal about their achievements than men – an area we need to improve upon.

If there is one thing you could have done differently in your career path so far, what would that be?

I can't think of anything that I would have done differently. I love treasury, even though I came to it by chance. I don't really believe in planning a career because you should be on the lookout for new opportunities when they appear.

"I would be lost without my passion to constantly challenge the status quo."

Like many others in the treasury field, Marie-Astrid Dubois says that she fell into the profession "by chance". She started her career at Arthur Andersen in France and worked on a special mandate for US clients which involved the Dexter Corporation. After completing the assignment successfully, Dexter offered her a job in the US as part of a management development programme. Through the programme, the company identified and hired bright people to serve as a reserve army for special projects. Dubois was the first non-Anglophone to be hired as part of the programme.

"When you are the only employee that is non-Anglophone – and also a woman – then you can feel a bit isolated, but at the same time that is what makes you special," she says. In what she describes as a career-defining moment, the move internationalised her career and she found a US multinational that best fit her personality. "My boss believed in talented people and wanted to give them every opportunity to shine," she says. "That sponsorship helped to build up my self-confidence." It also provided her with different opportunities, which in turn allowed Dubois to have the type of career she wanted.

Although she was offered a number of domestic jobs, Dubois was keen to move back to Europe. When Dexter's CFO decided to start up its international treasury operations by opening a treasury centre in Brussels, Belgium, this was her opportunity to return and also move into treasury. Although not a planned career move, she thoroughly enjoys treasury and has made it her career. In 1997, she moved to ACNielsen and was responsible for Europe, Middle East and Africa (EMEA) treasury. She joined Honeywell in 2002 as Director Europe Treasury and was promoted to Assistant Treasurer EMEA and Asia in 2006.

"Part of the challenge, in an environment where resources are very constrained, is how to allocate the right level of resources and determine which area has priority."

Dubois' day-to-day job is to stay abreast of everything that is happening in the market. At the same time, she is focused on moving her team up the ladder. "My team are my ears and eyes around the world," she says. Honeywell's international treasury covers more than 60 countries. In Europe the team is located in four different countries: Germany, UK, France and Belgium, where Honeywell's in-house bank is located. In Asia the team is based in Singapore and Shanghai.

"An important aspect of my job is to stay connected with the business leaders to ensure that we are supporting their needs and develop solutions for them. Part of the challenge, in an environment where resources are very constrained, is how to allocate the right level of resources and determine which area has priority. In addition, I need to ensure that my team is where I want them, to be able to add value to the business," she says. Networking – with banks, vendors, consultants and other treasury professionals – is another important part of her job.

With regard to education and development, Dubois places more emphasis on hands on experience rather than a formal certification programme. After receiving an MBA from IESE, University of Navarra, Spain, her career has mainly been driven by her insatiable curiosity and she looks for that characteristic in other people. "I don't require my team to have a treasury certificate per se, but I do push them to understand the technicalities of the job," she says. She emphasises building up expertise and sharing best practice within the team. For example, recently she brought two members of the team in Asia to Europe for two weeks of intense training.

Dubois values the level of support that her boss and the CFO give her at Honeywell, as well as other mentors along the way. Honeywell has a mentoring programme that targets top talent in the finance department and she is committed to mentoring across the organisation, as well as her own team through actively managing them. "It has become more difficult to attract good individuals, so we need to ensure that we develop, coach, train and mentor them," she says. ■

Marie-Astrid Dubois joined Honeywell in 2002 as Director Europe Treasury. She was appointed Assistant Treasurer EMEA and Asia in 2006. In this role, she leads all operational and strategic treasury activities, spanning from cash and liquidity management, trade finance, euro commercial paper (ECP) and risk management to strategic projects for these two regions, in which Honeywell is present in about 60 countries. Dubois has been involved with numerous merger and acquisition (M&A) and divestment projects, as well as their funding structure and smooth integration in Honeywell's treasury operations. During her tenure, her team won the Alexander Hamilton Gold Award for Cash Management two years in a row, one for Asia and the other for EMEA, as well as a number of other treasury awards both in Asia and Europe. Prior to joining Honeywell, Dubois worked for ACNielsen, the Dexter Corporation and Arthur Andersen. She has more than 20 years of experience in treasury and risk management.

Nordea

The world is yours to explore
Let us help you navigate

A Great European Bank

Nordea is the largest financial group in Northern Europe and with AA credit ratings* one of the world's most stable banks. With nearly 200 years of experience behind us, and the most extensive network across the Nordic and Baltic Sea region – we know our home market like no other bank.

We are proud to be a bank built on values and cross-border diversity, where relationships are valued and great customer experiences are delivered.

*rated by both Moody's and Standard & Poor's

nordea.com

"We are proud to support the 2013 Treasury Today Adam Smith Awards as they share our ambition to recognise outstanding performance across the treasury industry. Over the past five years, these Awards have grown to become a globally-recognised standard for excellence and we are delighted to be working with the Treasury Today team."
Carole Berndt, Head of Global Transaction Services for Europe, the Middle East and Africa at Bank of America Merrill Lynch.
Adam Smith Awards
in assocation with
Bank of America
Merrill Lynch

Adam Smith Awards

in association with Bank of America Merrill Lynch

Getting ready for the Adam Smith Awards 2013

Treasury Today is delighted to announce that Bank of America Merrill Lynch is sponsor of the 2013 Adam Smith Awards. Now entering their sixth year, the Adam Smith Awards have gained recognition globally as the ultimate industry benchmark, bringing much deserved accolades to corporates demonstrating best practice and innovation, regardless of company size, geographical location and industry sector.

ENTER FROM 31ST JANUARY

The Adam Smith Awards are open to all corporates. Competition for these coveted Awards increases every year and 2013 promises to be the most exciting yet. As well as being presented with a stunning crystal Award at a prestigious Awards Lunch in London, this is your opportunity to significantly raise the profile of you and your team, portray how you have demonstrated thought leadership and innovation and showcase your achievements to Treasury Today's global audience as well as to your colleagues, clients, investors and peers.

Nominations open on 31st January and will close on 30th April 2013. Full details can be found on **treasurytoday.com/adamsmith**. The short nomination form should take no more than 15 minutes of your time to complete. There is no limit to the number of solutions that can be entered and a single project can be entered under more than one category. A full list of Award categories appears below.

Nominations can be made by any corporate. Banks and service providers can assist their clients in completing the nomination form. Banks and service providers are also allowed to submit nominations on behalf of their corporate clients (with their approval).

Award categories

- Treasury Today's Top Treasury Team 2013
- 'First Class' Bank Relationship Management
- Best Cash/Liquidity Management Solution
- Best Short-Term Investment Strategy
- Best Working Capital Management/Financial Supply Chain/AP/AR Solution
- Best Card Solution
- Best Financing Solution
- Best Risk Management Solution
- Best Process Re-engineering Solution
- Best MME/SME Treasury Solution
- One to Watch
- Best in Class Benchmarking

As well as our established Award categories, we have added three new categories for 2013:

- Best Foreign Exchange Solution
- Asia Pacific Regional Award for Best Practice
- Treasury Today Woman of the Year

Cash management: pooling

> *What is an overlay cash pool and how is this different from a notional cash pool or a conventional target or zero balancing cash pool?*

Eric Mueller, Head of Cash Management Corporates EMEA and Head of Global Network Banking EMEA, Deutsche Bank, responded:

An overlay cash pool connects local cash pools/bank accounts held at various banks to a cross-border cash pool provided by a single regional bank. Credit (debit) balances with each local (cash pool) bank are then automatically or manually swept/funded each day with one regional cash pool bank in order to achieve a regional central cash position.

Key differences and challenges of an overlay cash pool in comparison to a local and regional cash pool (notional pool, target or zero balancing (ZBA) with just one bank partner (locally and regionally) are the following:

- The sweeping/funding of balances between various local banks and the overlay bank, which may require manual transfer efforts and includes risk of missing the final end of day balance after clearing cut off.
- There is no transfer of back and future value days.

While overlay cash pools were rather popular in the last century, the introduction of the euro in 1999 has strongly accelerated the migration from the use of overlay cash pools to the use of one regional cash pool partner, which also provides local cash management services.

The single euro payments area (SEPA) enables corporates to further increase regional cash pooling efficiency. Many corporates are currently establishing central account solutions by moving the vast majority of payments and collections to one account per legal entity per region – ring-fenced within a domestic cash pool. Benchmark corporate treasuries – those with integrated in-house bank solutions, such as the SAP In-house Cash centre application – are going a step further by running a large number of payables and receivables of various group entities through a single account solution within transparent payments and collections 'on behalf of'.

This means that cash pools, at least for euro within SEPA, will become history in the medium term.

Suzanne Barry, Head of Liquidity and Investments EMEA, Bank of America Merrill Lynch, responded:

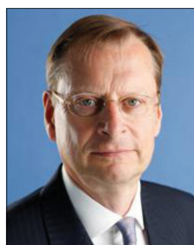
Cash pooling is an essential liquidity management technique. It brings together a number of individual bank accounts to pool balances, optimise interest and improve an organisation's liquidity management – across multiple jurisdictions, currencies and entities depending on the type of cash pool in place. Cash pooling falls into two main types:

1. Physical pooling.
2. Notional pooling.

Physical pooling is often referred to as physical cash concentration, target or zero balancing (ZBA) or sweeping. Balances are physically swept to a header or master account on a periodic basis and may have certain parameters, for example a minimum or maximum balance, a percentage sweep, target balance and a variety of other parameters depending on the provider capabilities. Physical pooling is available on a domestic, cross-border, cross-region and multi-bank basis and is also dependant on the provider capabilities.

Notional pooling is a tool for interest enhancement whereby debit and credit balances on a series of accounts owned by the same or different entities and domiciled in the same country are notionally netted for interest calculation purposes, without a physical movement of cash. Multicurrency notional pooling offers the ability to achieve a net notional position in a single currency without the need to perform traditional FX or swaps, and extends the benefit of further interest savings as a result of compensating balances in different currencies.

An overlay cash pool is provided by an international bank offering physical or notional pooling on a multinational, multi-entity company-level in country, in region or globally. Overlay cash pools allow changes to existing bank relationships when necessary without disrupting the operation of the cash pool and allows changes to the cash pool to take place without disrupting the underlying banking structure.



Richard Jaggard, Head of Transaction Banking, Europe, Standard Chartered, responded:

To start with let's recap on the principal structures used in cash management structures: zero balancing (ZBA) and notional pooling.

1. ZBA requires the physical movement of funds from, or to operating accounts to achieve a single net cash position in a single, central account.

2. Notional pooling does not require the physical movement of balances between accounts.

These structures are used both domestically and regionally/globally. Arguably to maximise the structure's efficiency it would be good to have all cash managed with one entity. However, treasurers are increasingly dividing the cash position either by nominating regional cash management banks that can manage cash for a part of their portfolio across multiple countries in a geographic region, or they are recognising that they separate cash management into in-country banks for their operational requirements and regional/global banks for liquidity management – the latter is an overlay structure.

With an overlay the treasurer has a couple of structures which deliver similar benefits to ZBA and notional pooling but with somewhat more complexity. They can move the funds in local currency to the liquidity bank and then use a bank's automated FX rate engine to swap into a single currency. With the increased transparency of FX rates, this model is becoming more acceptable as it reduces the time and cost of treasury having to transact on positions itself. Another option is a multicurrency pool where the funds remain in local currency but the bank notionally recalculates all balances to a base currency for balance offset and interest calculation purposes.

There are challenges with these structures and the complexity rises with the geographical scope of the overlay. Regulations are a major determinant. For example, company law in some countries restricts inter-company loan structures and prevents the use of a ZBA structure. In other countries the balance sheet reporting required by central banks may not allow banks to offset onto their balance sheet the company's accounts, which often reduces the benefit of a pooling structure. However regulations are constantly changing, particularly in fast-developing economies where often the changes favour what the treasurer is looking to achieve. If you are operating in these economies, selecting a banking partner that has extensive presence in these markets is extremely important to ensure you can benefit from the changes.

Hugo Parry-Wingfield, EMEA Head of Market Management for Liquidity and Investments, Citi Transaction Services, responded:

An overlay cash pool isn't necessarily distinct from a notional, conventional target or zero balancing (ZBA) cash pool, but could contain components of all three. It is a cash management service that facilitates the aggregation of liquidity from a series of multiple underlying banks or accounts into a single bank or banking structure. This could be within a single bank, but typically an overlay structure refers to a multi-bank structure. By pooling its cash, a company benefits from improved control and cash visibility. It can improve financial efficiency by reducing interest costs and time and effort, if this process if being done manually.

If these balances are held at two different banks, then the cash has to physically move from the local bank to the overlay bank. This can be done by the corporate instructing its local bank to push the funds to the overlay bank – ie every day at a particular time the bank pushes excess cash into the overlay bank account structure. The other alternative is for the overlay bank to pull the cash from the local bank at a predefined time and within certain parameters.

A corporate has to consider the structure they have before the cash moves to an overlay structure, as well as after it is moved. For example, a corporate could have a euro cash pool in France before the cash is subsequently moved into the overlay structure. That cash pool is independent of the overlay structure, and could be a conventional target, ZBA or, depending on the market, notional cash pool.

The same applies to the cash once it is in the overlay bank. Once the cash has come to Citi, for example, it could then be part of a much broader cash pool which could have elements of physical or notional pooling. That is why an overlay cash pool could be all of these things at once. ■

The next question:

"What is the best way to fund growth in the emerging markets?"

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

ecr research

Central banks don't 'control' EUR/USD

The fact that the euro is well above purchasing power parity with the US dollar can be explained by the fact the Fed is following a more aggressive monetary policy than the ECB, while Europe is in a recession and the US is not. Moreover, fiscal policy is being tightened less in the US than in Europe.

The fact that EUR/USD is, at the time of writing this Market View, still in the 1.30 region is remarkable. After all, purchasing power parity (a yardstick many economists use to determine the equilibrium level for exchange rates) is normally estimated to be in the region of 1.10, so the euro is well above that level. How can that be if there are even doubts as to the survival of the European currency and the European economy is in a recession, while the US economy is growing?

Naturally, the US has a fairly high deficit on the current account, even if it is rather smaller than before. In the past that was often overshadowed by capital influx from abroad, which is something one would expect now, in view of the improved outlook for the US economy. Moreover, the US has the great advantage of:

- A far more flexible labour market and economy, as well as a more favourable business climate.
- The prospect of oil and gas production increasing enormously in the coming years.
- Far less of a rise in unit labour costs over the past decade than in Europe.

The central bank's approach

Taking all this into account, EUR/USD should logically be below, rather than above, 1.10. However, there appears to be one factor that is overshadowing all this: the central bank's approach.

When the credit crisis broke out, Ben Bernanke, Chairman of the Federal Reserve, immediately realised that, without large-scale government and central bank intervention, the US economy would fall into a deep depression. The Fed therefore initially lowered short-term interest rates to 0%, but when that failed to help sufficiently, it also actively suppressed long-term interest rates.

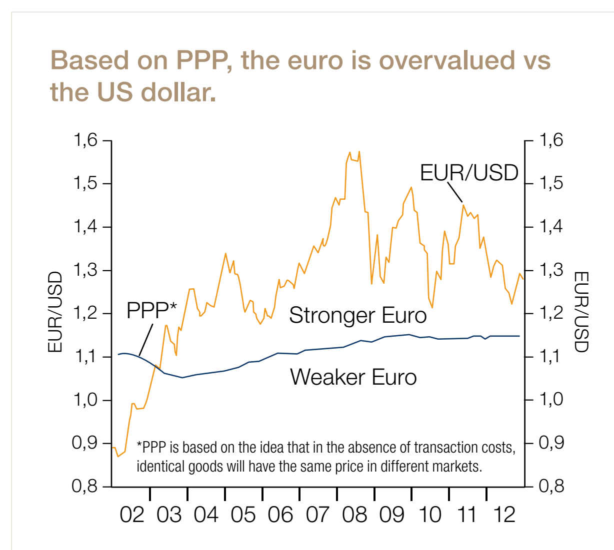
The central bank had already lowered interest rates so far, however, that investors could only earn a reasonable return by taking increasing risks. That resulted in narrowing credit spreads and rising stock prices. The Fed is now also attempting to boost the housing market and housing prices by lowering mortgage interest rates as far as possible.

The advantage of all this is that consumer balance sheets improve, so consumers can start borrowing more again. However, in view of the enormous debt mountain accumulated in the past, this is proving to be a slow process, particularly now that the government has to reduce budget deficits even before debts in the private sector have been reduced to any great degree. (Moreover, much of the reduction that has taken place so far is the result of bankruptcies. Many of those involved will therefore be unable to borrow any more for the time being.)

Inflation threatens

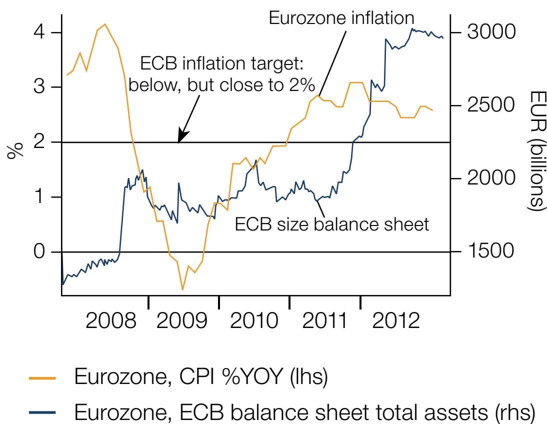
The great risk of this monetary tactic is that the enormous quantity of extra money will cause a high inflation risk as soon as credit activity picks up. That can only be avoided by promptly withdrawing the extra money from the system.

Central banks often have the greatest difficulty in doing this in time, however, but they are also faced with the problem that once they remove money from the system, asset prices start falling. Losses on loans extended in the past then immediately mount, so banks start lending less and growth slows again. In other words: what this tactic amounts to is postponing the problems to the future. There is no point in doing that unless the government uses the time 'bought' to take structural measures for increasing the economy's growth potential. The Fed views this fairly optimistically, though.



Source: Thomson Reuters Datastream/ECR

Much looser monetary policy ECB does not match Germany's anti-inflation stance.



Eurozone, CPI %YOY (lhs)

Eurozone, ECB balance sheet total assets (rhs)

Source: Thomson Reuters Datastream/ECR

Most Fed members feel that if they are too late in withdrawing the money from the system and inflation rises, they are quite capable of fighting inflation. They are far more confident in doing that than in fighting deflation. They are not so concerned about the resulting fall in asset prices.

The European Central Bank (ECB) has other views – particularly when it comes to Germany. The Germans are terrified that once inflation starts rising, it will be almost impossible to stop.

They believe that this will hit asset prices – and therefore the economy – so hard that the central bank will not even begin to fight inflation. This has created the strange situation where, although the US economy is growing more rapidly and is in a better position than the economy in Europe, the Fed is prepared to loosen monetary policy much further than the ECB. The ECB is also far more concerned that if it opens the liquidity taps even further, politicians will only use that as an opportunity to postpone further structural measures that are generally unpopular. The net effect of further monetary loosening then becomes entirely negative. Finally, the fact that governments in Europe are more inclined than the US government to reduce budget deficits by hiking excise and consumer taxes also plays a role – they (temporarily) increase inflation.

Aggressive Fed policy

A situation has therefore arisen in which the Fed is following a more aggressive monetary policy than the ECB, while Europe is in a recession and the US is not. Moreover, fiscal policy is being tightened less in the US than in Europe.

That is the main reason why EUR/USD is at around 1.30 rather than below 1.10. It looks as if this situation will continue for the time being. There is one snag, though: if the Fed loosens monetary policy further – and therefore creates more money – that does not necessarily mean that the total money supply in the US will grow more rapidly.

After all, the extra money the central bank creates only represents a small percentage of the total money supply. The rest is created through credit activity. If credit activity declines, then the total money supply can still shrink or grow considerably more slowly despite the fact that the central bank is creating a great deal more money.

This is extremely important, as it is the difference between the growth of the total money supply in the US and Europe, in particular, that affects EUR/USD. In other words, if EUR/USD is still far above its purchasing power parity while the situation is worse in Europe, then that is chiefly because the total money supply is growing more rapidly in the US than in Europe. However, this is only possible when the US economy is picking up and borrowing increases.

There remain a number of major obstacles for US credit activity to expand more rapidly. The effects of ageing, uncertainty regarding future fiscal policy, stagnating real incomes and high unemployment will limit consumers' and companies' willingness to borrow more and therefore will remain subdued. If this will be the case and consumers even continue deleveraging, then the central bank can create as much money as its likes, but there will be little or no increase in the total money supply (the central bank cannot continue creating money indefinitely, either, due to the future inflation threat). The economy then remains weak and sentiment is therefore risk off. Stocks and EUR/USD will then fall, something we expect to happen in the course of this year. ■

Unique approach for time pressed decision makers

ECR's unbiased and thought provoking research on the major currency and interest rate markets is subscribed by thousands of CFOs and treasurers globally. Get your complimentary trial on www.ecrresearch.com and experience your new web based research solution!

Calculated prophecies

Predicting what will happen is never easy and preparing for all eventualities is impossible for many corporates, especially with tight budgets and strained resources. Without a crystal ball to rely on, market experts draw from current trends to allow us to form a picture of what to expect in the coming year.

The past decade has seen the evolution of the role of the treasurer from an almost administrative position towards more of a coordinator role, that is expected today. "In the past few years, treasurers have played the role of coordinator, particularly with areas like finance, tax and IT. They have been the centre of expertise and connect back to the lifeblood of the company, which is cash flow and managing liquidity," says Steve Dwyre, Managing Director, Industrials and TMT at Lloyds Banking Group.

Yet now treasurers are making another transition. From this coordinator stance, the treasurer is being drawn on to play a much more strategic part in the firm – the heart of the business so to speak – deferred to by the CFO and participating in Board meetings more than they have ever done before. As the profile of the treasurer continues to grow, the number of talented professionals from a banking background who are choosing corporate treasury as a career choice is also rising, according to Stuart Ridley, Manager – Treasury at Robert Walters Recruitment.

As a senior figure, and an expert across many fields, the objectives of the treasurer are therefore shaping many of the trends that we can see coming down the road in 2013. As they juggle many balls of responsibility, the treasurer must respond to economic developments and regulatory changes, while also grabbing growth opportunities with both hands. The decisions they make are driving the industry forward.

A game of risk

Risk management is one of the areas in which treasurers have recently proved to be strong coordinators. Now often part of the risk committee, the treasurer may assist the banking partner with stress scenarios and management planning, taking the treasury function to the next strategic level. In this

new, more involved approach, treasurers are being asked to present the Board with innovative solutions for counterparty risk analysis that goes beyond credit default swap (CDS) spreads and public ratings.

As they're the ones liaising with the banks, treasurers understand the ratings and counterparty analysis processes, affirms Rajesh Mehta, EMEA Head of Treasury and Trade Solutions, Citi Transaction Services. "They are increasingly being seen as 'the risk manager', which in many corporate organisations is not a designated function per se. Whether it is with bank counterparty risk, credit ratings or potential sovereign default – treasurers get involved in all key stages of the risk management process. And investment committees are looking to treasurers to meet their risk management threshold."

Naturally, scenario planning amid the Eurozone crisis has been employed and analysed on all fronts as market participants look to protect their capital, but Mehta believes that there is also a focus on guaranteeing business continuity. "The more evolved participants are taking prudential measures to ensure there are contingency measures in place – how ready is your bank to provide the necessary service if there's a disruption?"

From a risk perspective, the way the treasury operates and how it is managed will only continue to rise in importance. This is currently reflected in the upgrade of the risk management capabilities of treasury departments – in both financial institutions and in the larger corporates, according to Rohan Douglas, CEO at Quantifi. "Given the turmoil in the financial marketplace, institutions are subject to a lot more volatility which is driving an increased focus on more accurate valuations and more comprehensive risk management."

Supply chain support

In these uncertain times, corporates can face difficulties as regards credit lines and liquidity that they rely upon for the operation of their business. Treasurers, therefore, are aware of the importance of working capital and maximising the internal working capital resources. Treasurers are now much more the arbiters of working capital across the firm, says Mehta. "Most treasurers tend to act as the bank relationship arm of finance within the firm and are now preaching the value and importance of working capital and optimising internal capital."

As for where the specific impact of working capital can be seen, the corporate treasurer is getting involved with their supply chain on a much more strategic level. "Treasurers know that companies, especially those who are focusing on emerging markets growth, have to optimise their supply chain in order to successfully grow, otherwise any weak link or potential disruption could become a constraining factor," he says.

But for those corporates that may only have had lukewarm interest in supply chain finance (SCF) programmes previously, Lloyd's Dwyre reports that the UK government in particular has been 'encouraging' companies to employ better strategies which will benefit suppliers and bolster the economy at large. "A lot of CEOs and chairmen are being pressured – especially if they have a portion of sales to the government – to go to their supply chain and help them. This has encouraged a tremendous upsurge in interest in SCF," he says.

Show me the money

It's no revelation that the interest rate environment for treasurers at the moment is extremely low. But the operational benefits of the investment and management of their respective funds is starting to become a challenge, according to Simon Jones, Head of Corporate Sales for Treasury Services EMEA at J.P. Morgan. "Corporates are beginning to wonder if having all their money with different banks, in addition to using money market funds (MMFs), is actually worth the amount of effort they put in, bearing in mind the poor returns. Considering the number of complex instruments employed, not to mention the regulatory changes in the MMF arena too, they are looking for efficiency and yield. This is driving innovation for simple deposit products that generate returns comparable to placing funds out on term deposit on a regular basis."

Another theme that will continue to be high on the agenda next year, in this instance as a result of pressure under stringent Basel III criteria, is intraday liquidity, according to Ruth Wandhöfer, Head of Regulatory and Market Strategy at Citi Transaction Services. "Solutions to improve corporates' use of liquidity will help in this respect, but banks themselves will need to find ways to better monitor and allocate liquidity usage. Pricing of intraday liquidity will become a more prominent area of discussion given the fact that liquidity constitutes an increasing cost to banks. This is further accentuated by the fact that Basel aims to discourage access to intraday wholesale liquidity and instead more liquidity is expected to be held by banks at all times."

Banks are looking at the implications these regulations will have for corporates as regards investment and interest rates, says J.P. Morgan's Jones. "Operating liquidity balances are becoming more appealing to banks as they are reflected more favourably in their liquidity ratios from a Basel III perspective. This again is really driving banks to look at new products for corporates. The aim is to simplify products for corporates and achieve high yields for them where their balances are operating balances – that is to say daily debits and credits."

Technology rules

Treasurers' objectives – driving efficiency in working capital and managing risk – are also driving the technology agenda. The challenge for banks in the current environment therefore, according to Citi's Mehta, is satisfying this demand for innovation while also adhering to the mandatory regulatory demands, such as SEPA, Dodd-Frank, Basel, reporting, etc.

J.P. Morgan is upgrading all of its wholesale clients globally to the next generation of ACCESS Online, its electronic banking portal for treasury operations. The new platform includes integrated payment and reporting capabilities and user administration that will save treasurers' time, while simultaneously improving their control environment, according to the bank. It will also include a new online user community where corporate clients can interact with their peers to acquire knowledge and leverage their experiences.

Mobile is one area that seems to be going from strength to strength in the corporate arena. Since Citi launched CitiDirect® BE mobile, the mobile extension of its electronic banking system, last year, it has implemented the solution in 87 countries and accumulatively completed $10 billion in transaction value through the mobile channel. The advantage of mobile as an efficiency enabler for treasurers needing to conduct business while on the road is widely known, but there is now a more basic demographic trend that the banks must cater for. Mehta says: "We are seeing a convergence between

SEPA is coming

According to Wandhöfer, "the single euro payments area (SEPA) will need to be progressed towards compliance (end-date for migration in Eurozone is February 2014) and corporates are encouraged to get SEPA-ready with their respective banking partners. The Payment Services Directive (PSD) in Europe will be reviewed and a sequel is expected to be proposed by the EU Commission in April 2013."

Next year is really going to be a critical year for corporates to decide what they are going to do to make the changes in order to be SEPA-compliant. Jones believes that corporates are starting to realise savings already, with pricing changes acknowledged thus far in markets like France, Italy and Spain with the existing legacy systems. Corporates are wondering how to become fully SEPA-compliant in order to realise the full extent of the benefits and cost savings on a pan-European basis before the 2014 deadline. But while a considerable portion of corporates are compliant with the payables side (SEPA Credit Transfers take up is currently at approximately 30%), much of the receivables side has not been converted (SEPA Direct Debit is at approximately 1%). "The biggest challenge to SEPA compliance is that the finance and treasury departments have not fully tackled the receivables side, as this conversion project requires a lot of time and strategy planning. It requires the involvement of the broader business and a change of management process across the entire organisation – a huge task for any business."

"More and more clients therefore are actually moving towards a payment factory model – centralising all their payables and receivables in one place, so that they adopt a SEPA-compliant process through the one entity."

the personal technology that is used by the average consumer and the expectation that corporate interaction shouldn't be any less convenient. Treasurers are now expecting the same digital interface in their working environment."

Corporates are looking for more flexible software that provides high performance and the development of technologies including multicore architectures are helping provide this. According to Quantifi's Douglas, leveraging Intel's multicores CPUs allows software to run much faster on what is now industry standard hardware. "To further simplify their IT infrastructure, more companies are also looking to introduce a hosting model and cloud computing. The ability to leverage computational power on demand and rent hardware on an as-needed basis, in addition to running calculations out on a cloud, has a lot of interesting applications in the financial arena where often computational requirements peak during certain times of the day."

But the world of technology is fast paced. According to Dwyre, the industry has moved on from simply having a web and a cloud into a new world of 'sensors', which are becoming smaller and more ubiquitous in everyday life. "Linked to the cloud, sensory data that exists in the real world suddenly becomes available to the consumer and the business world. How sensors react to all the data that is being collected and how that data is used is the important part." A concrete example of this is Lloyds Bank's creation of the Arena platform, from which a treasurer can see every balance in every bank account and can even transact its foreign exchange (FX) across this one system that connects everything – no longer do they need to rely on a system that only the bank can access.

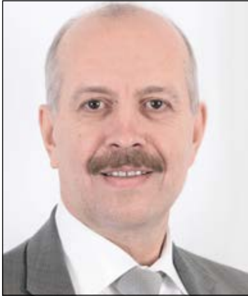
Many companies over the past few years have spent vast quantities of money on a treasury management system (TMS) or an enterprise resource planning system (ERP), but this buoyant market naturally tailed off when budgets were cut. Although a corporate might need a TMS or ERP, they could be holding out on implementation until they can spare the funds. But new providers are coming to the market who can actually offer the required system on a bit-by-bit basis, according to Robert Walters' Ridley. "Two or three segments from the entire system might be absolutely essential to you, and you can pick and choose these to your specification. This is much more attractive to cash-strapped corporates than paying for an all singing, all dancing system that you are only using a fraction of."

Opportunities and optimism?

For many corporates, the challenges of expansion into emerging markets can be daunting but the opportunities for growth are significant. Not a decision to be broached lightly because it has fundamental implications for the company's business strategy and operating model, and risk management capabilities need to be assessed. Firms are nonetheless looking for advice on how best to make this move. Says J.P. Morgan's Jones: "The scale and growth that corporates are seeing in markets such as China, India, Russia, Brazil, South Africa and Saudi Arabia means that an increasing number of expansion projects are going to be completed by European corporates. Naturally these ambitious firms will require the appropriate assistance as they make this transition, but the scalability of multinationals' treasury operations in these regions is going to be very important in 2013."

This invites another trend in the way of recruitment as treasurers for those multinationals will be spending a good deal of time on talent and staffing, according to Citi's Mehta. While the focus is very much on efficiency and productivity, these companies also need to concentrate on growing their treasury teams. "This agenda can be a bit of a struggle. There are people who understand the corporate philosophy at head office but not the emerging markets, and vice versa. There is a huge amount of connectivity that's required between the two worlds. And the numbers of candidates that can bridge the two worlds effectively are few."

Despite the relatively stagnant treasury recruitment market as many professionals prepare to ride out the economic storm before making any sort of move, Ridley believes that many senior treasury professionals are now open to opportunities in the emerging markets and are looking for a new challenge. "Because the exposures in these regions are significant and the potential for market growth is so huge, treasurers are attracted by these potential opportunities. Businesses in these emerging markets will receive the most investment and their treasury teams will expand, which will further entice people to move." ■



Dmitriy Shamraev

Director for Russia and CIS

Created over 60 years ago by a group of airlines, the International Air Transport Association (IATA) is now an international industry trade group with 60 offices worldwide covering more than 150 countries. It represents 240 of the world's leading passenger and cargo airlines which together account for 84% of all air traffic. IATA's focus is on making air transport safer, more secure, efficient and sustainable, both environmentally and economically.

Problem…

Among many of IATA's initiatives for its members is its billing and settlement plan (BSP). This is a system administered worldwide that improves financial control and cash flow for airlines by simplifying the selling, reporting and remitting procedures for all IATA accredited ticketing agencies. At the close of 2011, there were 88 BSPs, covering 176 countries and territories, serving around 400 airlines. Gross sales processed amounted to $249 billion.

In Russia, the BSP connects more than 100 airlines and some 500 agents located across the country. Annual throughput exceeds RUB81 billion ($2.56 billion). "The challenge was around the reconciliation of payments," says Dmitriy Shamraev, IATA Director for Russia and CIS. The system must reconcile the billing from each airline with the payments received from the agents, and then reconcile these with the settlement files from IATA, the latter forming the basis of the settlement for the airlines.

The agency remittance cycle takes place three times a month, with IATA having responsibility to the airlines to process the funds as quickly and efficiently as possible, with same-day or next day settlements required. With a global remittance, reconciliation and settlement engine still being developed for IATA, the volumes being processed meant it was not possible to rely upon manual processing; this would have been labour intensive, costly and would potentially expose all parties to error and delay. IATA Russia needed an automated solution and called upon its banking partner, VTB Bank, to help.

…Solved

As IATA Russia's domestic cash management bank, VTB Bank has sight of all the balances and fund movements of the airlines and agents. To be able to complete the loop, it required IATA Russia's files for billing against which the reconciliations are made. Armed with this data, and in partnership with VTB Group's own processing centre, the bank was able to develop a bespoke IT solution for the BSP payments reconciliation and streamlining the settlement process between all parties.

In practice, payments are automatically sorted using a unique IATA code and grouped into payment batches by beneficiary. The subsequent report from VTB Bank allows IATA Russia to see any shortfalls or surplus for each agent or airline and to track changes over time. Once the system has calculated the current balances for each participant and produced payment batches on behalf of IATA Russia, VTB Bank passes the data via its web-banking channel to IATA Russia for verification and approval by an authorised signatory. Payments are then executed by VTB Bank through the Russian domestic payment systems. The whole payment cycle is handled automatically with minimal manual intervention at any point.

This "unique and outstanding" solution from VTB Bank may have started tentatively with low volumes, but since going live with IATA Russia it has required nothing more than "a few fine tunings along the way" and has now been ramped up to cover all activity on the BSP. But this is only part of the story.

Because IATA Russia publishes an operating calendar for its remittance and payments cycle at least 12 months in advance, the huge amount of money that passes rapidly through the BSP account does so on a highly predictable cycle. With this understanding, VTB Bank has been able to deliver a short-term investment solution to enable IATA Russia to really get the most from the solution. As the funds that pass through ultimately belong to the airlines, the investment revenue that is generated is used to reduce the cost of their participation in the BSP system, further adding value for participants.

Shamraev remains enthusiastic about VTB Bank's input to date. Having chosen the bank in part for its "flexibility", and it having delivered and maintained the BSP project in impressive style, he says he is "really looking forward to building the partnership into something bigger". One element of that strategic relationship already in development will use VTB Bank's internet banking channel to enable "more flexibility" for IATA's signatories, giving them the option to authorise settlement whilst on the move. This solution is nearing completion; given the highly mobile nature of IATA's management team and the success of VTB Bank to date, Shamraev naturally hopes delivery will be "as soon as possible". ■

South-South trade: opportunity shifts east

Strong growth and rapid urbanisation rates in developing regions are sparking a revolution in trade patterns. Business opportunities are shifting towards the east, in turn having a formative impact on treasury best practice in FX risk management and supply chain strategy.

Trade flows lie at the heart of the global economic system. Cross-border transactions underpin the prosperity of nations, influencing anything from the current account to inflation rates. For much of the past three centuries, Europe and North America have dominated the patterns of international commerce.

But how long will this last? A surge in inter-regional trade between Asia, the Middle East, Africa and Latin America means that this supremacy may well decline in the long term. These 'South-South' trade flows are directed toward fast-growing emerging markets, side-stepping sluggish economies in the developed world. Moreover, they are already having formative impact on core treasury areas, such as foreign exchange (FX) management and supply chain strategies.

Emerging market exports have rebounded faster than world exports following the global financial crisis, according to a United Nations Conference on Trade and Development (UNCTAD) report in June. South-South exports increased by 30% between 2009 and 2010 alone, compared to 22% for the latter. Economic troubles in the West have spurred developing nations to realign their economic interests towards flourishing regions.

In 2010, for instance, China signed $16 billion worth of trade deals with India during a visit by the Chinese premier, compared to just $10 billion with the US when President Obama arrived in town. Brazil, Myanmar, Iran and Afghanistan all count China as their largest foreign investor,

with much-needed funding ploughed into infrastructural projects that facilitate business and trade.

"The global financial crisis was a watershed moment from the perspective of increased focus and attention to South-South trade flows," says Kah Chye Tan, Global Head of Trade and Working Capital at Barclays. "In many ways, it has been happening for quite some time. We are seeing less trade intermediation traditionally played by the European countries."

Western governments and consumers, for their part, are busy deleveraging. As a result, aggregate demand remains weak and provides little incentive for emerging economies, such as China and Brazil, to devote substantial resources towards building trade relations down the line. Developing countries are understandably looking elsewhere for business opportunities.

"Global economic troubles have yet to subside, and that is evidenced by the challenges in Europe," says Simon Constantinides, HSBC's Regional Head of Global Trade and Receivables Finance, Asia Pacific. "We have started to see a knock on effect on China because of the continued slowdown on the European continent where China has large business interests. However, if you look at Asia you will find that the area is reliant on regional trade as well. Over 50% of China's trade is with other Asian countries, for example."

Asia blooms

In a sense, South-South trade is very much trade with, and within, Asia. UNCTAD figures suggest that Asia accounts for over 80% of all South-South exports; and that nearly three-quarters of this figure can be attributed to Asian countries trading with each other. China acts as the centre of gravity for a new pattern of commerce stimulated by rapid urbanisation rates and infrastructural developments.

Latin America and Africa, on the whole, are marginal actors – though nevertheless important ones. These regions account for 10% and 6% of South-South exports, respectively. An Ernst & Young corporate survey in 2011 pointed out that a significant portion of this inter-regional trade represents flows of goods between and within companies – such as rubber, plastics and metal products – as opposed to finished products for consumers.

"China is operating a two-way trade market with Latin America," observes Constantinides at HSBC. "It is importing iron ore, soy and other commodities and at the same time offering a significant quantity of finished products that aims to satisfy the large consumer base in Latin America. And while there is growing potential for trade between those two regions, we also know that China and Africa have very active trade models, developing and competing with India."

But India is no paper tiger either, argues Barclay's Tan. "As a market, it has transformed quite nicely in the past five to ten years," he notes. "India used to be an exceedingly closed market. There was always a lot of trade, but it was intra-India, things are changing rapidly. Indian trade flow with China has ballooned, and trade with Africa has increased too. The country has a strong competitive edge in manufactured goods and pharmaceutical products."

Indeed, UNCTAD figures put manufactures at 60% of South-South exports. HSBC research in mid-2011 predicted that South-South trade and capital flows will jump by a factor of ten in the next 40 years. And the exact composition of that trade will likely change over time. As demand in developing regions increases, local preferences will figure in on a wider scale. The car industry is a good example. European manufacturers specialise in high-end, bulky automobiles, such as a Mercedes or BMW, that signify status as much as convenience. But Asian producers, such as the Indian firm Tata, have created a niche for themselves by manufacturing cheaper, lighter and durable cars that cater towards the needs of lower middle-class families that prize expediency over style.

With economic barriers still relatively high compared to trade policies in North America and Europe, the room for further improvements in scale and interdependency is huge. Trade is likely to flourish as obstacles to commerce become gradually dismantled.

FX risk goes red

All this is well and good. But what do these developments mean for the corporate treasurer? The revolution in trade is manifesting itself in two core spheres of treasury practice: FX risk management and supply chain management. Taken together, these two trends are influencing key aspects of the international treasury landscape.

Where there are trade flows, there are capital requirements. With the US dollar beset by a troubled North American economy, the surge in South-South trade will be a powerful factor in the continued liberalisation of the Chinese redback. Corporates have become long accustomed to trading with an FX 'triumvirate' of the US dollar, euro and yen. But in the medium to long term, the renminbi (RMB) may well add a new dimension to this framework, particularly given that China will play a central role in future economic growth.

Since the late 1970s, China has become the workshop of the world, producing anything from simple toys to iPods. But underneath its economy lies a paradox. To date, despite the economic and military prowess of the Asian Tiger, its currency has played a minimal role in international financial affairs. A SWIFT paper in mid-2011 highlighted the fact that the yuan made up for just 0.9% of FX trades. This figure pales in comparison to the US dollar's 45.9% and the 16.9% of the euro.

This situation is likely to change. China acts as a magnet that attracts the resources and goods of surrounding regions, a position that affords the country a tremendous bargaining power. It is an influence that feeds into cross-border transactions, too: the RMB is already gaining ground as the currency of choice used to execute trades.

"We know that 10% of China's trade is settled in RMB," says Constantinides. "This illustrates that companies are now becoming more astute, focused and interested in what trading RMB can do on a competitive basis. First, they get pricing visibility, because now they can get a two-way quote in either euro or US dollar (in terms of the RMB). Second, if China's imports are going to grow significantly, Chinese buyers are going to want to use their currency. They don't want to go into the market as much to buy dollars when they are going to get paid in RMB; so they would rather become more comfortable in eliminating the FX risk. We believe that the redback will become more and more significant as a major trade currency."

An HSBC survey last October, for instance, suggested that 71% of Chinese corporates expect one-third of all Chinese trade to be executed in RMB. Moreover, four out of every ten

Chinese businesses were willing to offer discounts of up to 3% on trades in RMB. Treasurers need to get used to the idea that FX risk management will take on an increasingly red hue. Best treasury practice is now likely to be in tune with the latest developments of onshore and offshore RMB markets. More corporates will be using RMB to manage their FX risks, in turn bringing operational and accounting advantages while based in the region. Indeed, key management meetings are now often held in Asia as a signal of the region's importance to some international corporates.

So far, Chinese authorities have been reluctant to ease capital controls by too much. Policymakers in Beijing are all too aware of the example set by the Asian financial crisis in the late 1990s, when neighbouring economies in south-east Asia succumbed to sudden outflows of capital and fell into economic ruin. Countries such as Thailand had liberal capital regimes that allowed investors to exit by the click of a mouse button. The Asian Tiger largely escaped the chaos given its tightly controlled redback. And as a result, Chinese authorities are still cautious about dismantling capital barriers in one fell swoop. A gradual approach to liberalisation is preferred.

Nevertheless, the redback is a currency with a bedrock of confidence. As long as there are business opportunities to be won, international companies will be willing to execute trades in yuan.

But a changed FX risk management arena is not the only symptom of South-South trade flows. Given that the RMB remains a tightly controlled currency, this will have implications for trade finance practice in developing economies. This restriction will inevitably feed into, and limit, the level of trade finance services offered by banks operating in Asia. On the one hand, corporates are lured into the region by strong demand. On the other, however, they face potential bottlenecks when it comes to executing RMB trades via trade finance instruments.

Supply goes South-South

The dynamics of supply chain management are also at the forefront of change. Emerging market prosperity has been coupled with (relatively) low wage growth, affording international corporates more attractive locations to set up shop. The appeal stems from greater political stability and hard-nosed business logic; and is strengthened by rock-bottom transport and transaction costs via air, sea and the electronic ether.

With business opportunities shifting eastward, there is an increasing incentive to shift supply chain towards the regions that matter: Asia and Latin America. This is all the more important for corporates that wish to tap into local demand in these areas. A regional supply chain allows the company to adapt quickly to shifts in the regional economy, or even changes in consumer preferences. And it can deliver large cost savings given the shorter delivery times involved.

Ernst & Young's 2011 corporate survey contended, "the fact that rapid-growth markets, and China in particular, will represent the fastest growing source of final demand over the coming decade, will provide additional impetus for firms to locate production in the destination region to serve emerging markets more responsively." More than two-thirds of the companies surveyed, the report went on to remark, noted that their supply chain is increasingly being developed to service their company's growth in emerging markets.

Strong relationships and trust were found to be the key factors influencing corporate strategies. Increasingly, international corporates are becoming more comfortable with suppliers based in multiple regions as opposed to concentrating all their eggs in one basket.

But this shift, while useful, is certainly not flawless. First, delegating the supply chain to regional actors entails a loss of centralisation and direct control over suppliers and production. And second, the corporate's reputation is at risk in case of local failures to adhere to product quality and labour standards.

On top of these two issues comes the difficulty of establishing a proper foothold into the regions. Entry to South-South trade markets can be an arduous, time-costly process – although one that is alleviated by the fact that the shift in trade patterns is likely to continue into the long run. It is a matter for corporate treasurers to weigh short-term costs against the long-term benefits, a difficult task in the current harsh business environment.

Catching up

"Trade flows are really changing," says Tan at Barclays. "If you go back three or four decades, one leg of the transaction would have always ended up in the Organisation for Economic Co-operation and Development (OECD) market. Today you now find that one leg of the transaction will end up in the Asian market. It is very hard today to find a trade flow where one leg is not in Asia." Many corporates would agree with Tan. Business opportunities are flowing eastwards along with trade. The only question is when corporates decide to tap into these currents.

The world economy is not a zero-sum game; the rise of the East does not necessarily come at the expense of the West. Indeed, the continued development of South-South trade can be beneficial for all parties, argues Tan. With China shifting to a consumer economy from an export-led one, international business can tap into the Asian giant's rising tide of consumer wealth.

Emerging nations, for their part, benefit from a greater degree of economic independence. "Being able to loosen policy at a time of global economic and financial stress is a relatively new phenomenon for emerging market policy makers and it reflects improved external balance sheets, lower inflation and more flexible exchange rate regimes compared to earlier decades," says Brian Coulton, Emerging Market Strategist at Legal and General Investment Management (LGIM).

And there is plenty of room for development. Per capita incomes, a proxy for assessing standards of living, remain rather low in China, Brazil, India and other developing economies. As trade flows persist, they will surely rise towards Western levels.

When viewed historically, South-South trade flows are just another example of an 'economic catch-up' at work. A millennium ago, Asia and Africa dominated the routes of world trade – at a point in time when Europe was still an undeveloped backwater. The US was a small economy in the mid-19th Century, but then went on to assume global leadership within 100 years. For now, it seems, economic affluence is swinging back to the East and it is likely to stay there for some time. Corporates should grab a hold while they can. ■

John Locke

Few individuals in history have had an influence on economics comparable to that of the English empiricist John Locke. However, the contributions that Locke made to economics were primarily of a philosophical nature. He was a firm advocate of what he called 'natural rights'. His contention that all individuals have a right to liberty, labour, and property helped to provide the philosophical foundation upon which capitalism developed in 17th Century England – ideas which would also prove influential in the drafting of the US Constitution nearly a century later. Locke also made several important contributions to the development of the theory of money and interest rates.

The tumultuous age in which John Locke grew up would profoundly shape his thinking on philosophical and, by extension, economic matters. Locke was born in Somerset, England in 1632, the eldest child of a puritan country lawyer who had once served as a cavalry commander on the side of republican forces during the English Civil War. After having attended Westminster School, at that time one of England's most distinguished public schools, in 1652 Locke earned a scholarship to Christ Church College Oxford, where he gained first a Bachelor's followed by a Master's degree in 1659.

Locke then began to develop an interest in medicine which he would study during his spare time. His interest in medical matters led to his appointment as personal physician to Lord Ashley, Chancellor of the Exchequer, a role which would soon develop into that of personal assistant. As Lord Ashley's assistant, Locke was given insight into the prominent financial issues of the day, including issues relating to trade with the British colonies and interest rates. The expertise he gained from this association would eventually be put into practice when he was awarded the post of Secretary to the Council for Trade and Plantations in 1673.

After a two-year spell, Locke retired from government office to focus his time on another passion: his philosophical writings. In the subsequent years Locke worked on two manuscripts which would eventually establish his reputation as a great philosopher – An Essay Concerning Human Understanding and Two Treatises of Government.

But despite his retirement from government office, Locke retained a keen interest in the important economic issues facing the country in the late 17th Century, continuing to involve himself in debates concerning issues of financial policy until his death in 1704.

Locke is recognised as having made four important contributions to the development of economics as a science – two of which are philosophical in nature and two others specific to our understanding of currencies and interest rates.

The right to liberty, labour and property

The principle for which Locke has become known was his assertion, now a central tenet of modern libertarian thought, that "government has no other end but the preservation of private property". Although much less contentious today, Locke's justification of private property was exceptionally radical for the age. In 17th Century England much of Europe remained under the rule of theocratic monarchs, in which the divine right of kings as rulers and owners of all property was the prevailing philosophy, conditions which made it very difficult to justify private ownership.

This feudal social structure was, however, beginning to be supplanted by a new economic system. The capitalist economy, as Locke was writing, was expanding at a rapid pace; an advance which was bringing it into conflict with the traditional feudal economy and the religious institutions upon which feudalism was based.

> "Whenever the legislators endeavour to take away and destroy the property of the people, or reduce them to slavery under arbitrary, they put themselves in a state of war with the people who are thereupon absolved from any further obedience."

In order to make the case for private ownership of property, Locke began by promoting his belief that all men had a right to the fruits of their own labour. Individuals, he argued, were able to obtain land through their own labour, and therefore had an entitlement to ownership of the land. This premise, it is important to note, was on the provision that one man's appropriation of land is not of "any prejudice to any other man" – meaning that there remained enough land for others – and that there was no possibility that the land would 'spoil' before it could be consumed.

Developing this premise into a more comprehensive defence of property rights, Locke argued that money or capital, when looked at in basic terms, could be viewed simply as the product of past labour. Accumulating money could, therefore, be morally justified on the grounds that the principle way of accumulating wealth was through one's own toil. Since money by its very nature cannot spoil before it is consumed, the only limitation that Locke envisaged on the accumulation of capital was that the practise should not infringe on the right of the poorest to income at times when a scarcity of land or jobs produces severe economic hardship.

In his work the Two Treatises of Government, Locke turned his pen to defining a moral argument for the involvement of the state, albeit limited in scope, in the emerging capitalist economy. "Whenever the legislators endeavour to take away and destroy the property of the people, or reduce them to slavery under arbitrary law," he argued, "they put themselves in a state of war with the people who are thereupon absolved from any further obedience." In this statement, echoes of which would be heard in the American Declaration of Independence, Locke is arguing that the ultimate source of political authority in any given society, according to their conception of natural law, is the individual. Government exists in society, Locke believed, purely by the consent of the governed. All citizens in a capitalist society have a common interest in giving their consent to the rule of government – protection of life, liberty and property – and are hence entitled to reject any state which fails to protect – or indeed deliberately contravenes – this fundamental right.

Locke's second philosophical contribution would help to establish economics as a reputable science. At the time in England, the prevailing religious view was of individuals as altruistic souls who acted on either what they saw as the common good or by exclusively following the teachings of the church. Locke came to quite a different conclusion in his writings. Individuals, he argued, were rarely, if ever, motivated by altruism. On the contrary, it was self-interest that counted more when explaining why individuals behaved in certain ways. From this premise – that individuals act on the basis of what they believe to be in their own interests – Locke realised that certain economic laws could be developed. For instance, Locke was the first to observe that as the price of a certain commodity increased consumers would typically respond by purchasing cheaper alternatives. In a similar vein, merchants would, he noted, react to greater scope for profit by increasing production and endeavouring to sell more goods.

Money and interest rates

Much of Locke's best-known economic writings were drafted in response to great political questions of the era. In the late 1660s, Locke came into a conflict of opinion with a group of mercantilists, led by Josiah Child, who introduced a bill to Parliament proposing that the state should limit interest rates to 4%. Their argument, which Locke refuted, was that lower interest rates would be beneficial for all merchants who required credit to put to productive purposes and, by extension, be good for the country as a whole.

In a pamphlet entitled Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money, Locke set out his reasoning for why this strategy would be ineffective, working not for the greater good of the nation and society, since where the borrower gains, the lender loses out. Not only was this redistributive effect contrary to Locke's limited conception of the state's remit, the measure could, he argued, potentially restrict the flow of credit if some people were unwilling to lend money at the lower rate. It would be much preferable, Locke argued, to continue to allow interest rates to be determined by laws of nature, rather than arbitrary dictates from government. Although there is no way of knowing just how decisive Locke's contribution to the parliamentary debates concerning interest rates was, the bill was eventually thrown out by the House of Lords in 1669.

Locke also assumed an important role in the debates concerning the Great Recoinage which were taking place in England as the 17th Century was drawing to a close. His response is credited as being one of the first coherent explanations setting out the relationship between the quantity of money and the price level. In the 1690s, England faced a predicament concerning the value of its currency. Merchants had been deceptively clipping the sterling crowns that were in circulation in order to siphon off the metal to make silver bullion. The diminishing metal content of England's silver currency became a subject of intense anxiety and disagreement in Parliament. One solution put forward at the time was to reduce the weight of silver in all coins – a currency devaluation, in essence.

Locke strongly opposed this solution, instead arguing in favour of recoining the currency to its original metal content. There was little point, Locke argued, in reducing the silver in England's sterling crowns because their value was determined not by government legislation, but by the quantity of precious metal they contained. Debasing the currency, therefore, would only work to push up prices; merchants would inevitably demand increasingly more coins for the same quantity of goods in order to compensate for reduced silver content.

As with the debate concerning whether to lower the rate of interest, Locke's arguments would ultimately prevail and the government took what was a controversial decision: not to devalue and to recoin the currency to the accustomed level of silver.

Conclusion

There is little doubt regarding the profound influence John Locke had as a philosopher. With his philosophical writings Locke laid out the fundamental arguments for the liberal capitalist state. Individuals, he believed, have natural rights that exist prior to the formation of government. The purpose of government is to protect those rights, and should be dissolved if it happens to violate them – an argument that, 300 years on, remains part of libertarian political discourse today.

Locke's reasoning on economic matters can also be said to have stood the test of time. Today we often hear the same objections from economists regarding the control of interest rates as set out in Locke's pamphlet.

Furthermore, the argument he made during the Great Recoinage debates, specifically that reducing the silver content of each coin and producing more coins would lead to price inflation, provided the theoretical groundwork for the quantity theory of money and, later on, the work of the influential 20th Century economist Milton Freidman. ■

Further Reading:

John Locke, *An Essay Concerning Human Understanding (1690)*, OUP, 2008.

John Locke, *Two Treatises of Government 3rd edition*, Cambridge University Press, 1988.

John Dunn, *Locke: A Very Short Introduction*, OUP, 2003.

Roger Woolhouse, *Locke: A Biography*, Cambridge University Press, 2007.

The right tool for the job

Spreadsheets persist in business like no other technology. Why? Because there's no alternative. But before you format another cell, read this.

There is literally nothing like a spreadsheet for its agility and low-cost handling of sometimes complex numerical data. Spreadsheets possess a familiarity and flexibility that have made them de rigueur for many financial professionals. And yet, like fire, spreadsheets are a good servant but a bad master; they harbour the potential for costly mistakes – in both a financial and reputational sense – unless controls are put in place.

Errors of judgement

Looking for evidence of the fallibility of spreadsheets reveals an extensive research base. The European Spreadsheet Risks Interest Group (EuSpRIG) offers a wealth of evidence, advice, comment, and academic papers on the subject and should be a first port of call for anyone interested in the life and times of spreadsheets.

"If the uncontrolled use of spreadsheets continues to occur in highly leveraged markets and companies, it is only a matter of time before another 'Black Swan' event occurs (a major unexpected event), causing catastrophic loss," says Grenville Croll, a specialist in spreadsheets, spreadsheet applications and spreadsheet risk research, and a former Chairman of EuSpRIG.

There is an abundance of academic study placing human error as the major downside of spreadsheet use. EuSpRIG's research suggests that the majority (more than 90%) of spreadsheets contain errors. Research conducted in 2006 by Professor Raymond Panko at the University of Hawaii indicated that spreadsheets are rarely tested and as such these errors remain in circulation.

There are a number of elements that undermine the efficacy of spreadsheets. David Banks and Ann Monday in a 2002 paper highlighted the potential of spreadsheets to facilitate fraud if there are no auditable trails. They also found users exhibited overconfidence in the accuracy of their spreadsheets leading to them not looking for errors and subsequently not finding them. And error of interpretation was also cited, where business

decisions could be based entirely on spreadsheet data even where there was 'evidence to the contrary'.

Acknowledged problems

Most treasury professionals are acutely aware of the advantages and pitfalls of spreadsheet usage. In the two most recent Corporate View articles in Treasury Today, the interviewees (representing very large international corporates) were almost apologetic about using them, but stated, quite rightly, that there was nothing to take their place. Malcolm Cooper, Global Tax and Treasury Director at UK and US energy distributor, National Grid, said: "I do whatever I can to reduce the use of spreadsheets, but I'm afraid it is impossible because they are so useful. So often you need that ad hoc piece of analysis that a TMS or anything else will not do." Similarly, Manish Kapoor, Head of Airtel Centre of Excellence Cash and Bank at Indian mobile telecoms giant, Bharti Airtel, admitted that "the treasury function cannot completely get rid of spreadsheets". He too explained that they enable his team to perform some data analysis functions which he felt could not be performed on any other immediately available technology.

The spreadsheet's capacity as a core treasury tool was investigated in June 2011 in a Treasury Today 'Question Answered' article. Phil John, EMEA Treasury Director of Mars Incorporated referred to spreadsheets as "our flexible friends" and noted that if used properly they were a "tremendous tool". However, he warned that if used inappropriately "they quickly become an Achilles heel".

"The weaknesses", said John, "are many: individual designs are not always transferable; formulae errors are not transparent and can easily be introduced when amendments are made; large designs become clumsy and error-prone; manual data entry frequently leads to error; work is often duplicated; storage is frequently not on shared servers; and there is no audit trail".

It is perhaps unfair to criticise the technology itself: it does what it does perfectly well. But because it responds only to data entered, it would be more appropriate to state that it is only ever as reliable as the people who use it – and when they prove to be confused, inefficient and prone to making errors, so too are the spreadsheets.

One respondent to an article looking at how to minimise spreadsheet error using monitoring technology fired back that it was "patronising to say we all make these big typos everywhere". Professional accountants, he argued, know what results to expect from their spreadsheets. Excel, he continued, "is the only bit of kit we have that provides the flexibility we want".

Official complaint

Notwithstanding the professionalism of most treasurers, the lack of care and attention over spreadsheet control in some organisations has been officially commented on (if not actually legislated against) by regulatory bodies such as the Basel Committee on Banking Supervision and the UK's FSA.

The Basel Committee issued a consultative document in June 2012 – 'Principles for effective risk data aggregation and risk reporting' – in which it warns banks to be 'fully aware of any limitations' that prevent full risk data aggregation. It talks of the need to aggregate data 'on a largely automated basis so as to minimise the probability of errors'.

Automation is recognised as a force for good by the FSA in its September 2012 report on the country's insurance industry, 'Solvency II: internal model approval process data review findings'. It noted that many firms had automated spreadsheets, using macros to reduce manual intervention. Others had taken further steps and had deployed spreadsheet management tools to determine the dependency of interlinked spreadsheets and were able to apply controls such as audit trail and version management.

The FSA accepted that automation of spreadsheets reduces the risk of manual error, but warned that it can also 'introduce different problems such as reduced oversight, inadequate transparency about the extent of linking and proliferation of nested linked spreadsheets'. Linked spreadsheets, it added, 'typically pass only single numerical values, without an indication of the date of their last update, creating the risk of passing stale data around the system'.

> In May 2012, Oracle and Accenture issued a report which claimed that 67% of companies still use spreadsheets – and 8% use spreadsheets and nothing else – to assist with tasks in financial close, reporting and filing.

These are fair points that concur largely with the academic views presented above: although targeted at the insurance industry, the FSA's report could easily stand for most verticals in that it describes the use of "often uncontrolled" spreadsheets as "pervasive" and that "nearly all the data reviews identified issues with them". The FSA in particular reserved criticism for firms that did not have an inventory of critical spreadsheets, "classified by use, by the impact on the internal model, and by complexity".

Mind the gap

Whatever systems treasurers use – whether they are built in-house or bought in – the capabilities of those systems will have been defined by specifications that were written "at best" two or three years ago, claims Ralph Baxter, CEO of spreadsheet and data management software vendor, ClusterSeven. "And most technology-refreshes in big organisations are considerably slower than that."

The gap between what corporate systems (a TMS or ERP, for example) can do and what the business needs is entirely understandable because few IT budgets can keep pace with all the requirements for change, especially those forced upon organisations at great speed by the regulators. Baxter believes that every regulatory report required by Dodd-Frank, for example, will be prepared in a spreadsheet "because there is no other way of compiling the information from all the different sources in the time that's required".

In May 2012, Oracle and Accenture issued a report which claimed that 67% of companies still use spreadsheets – and 8% use spreadsheets and nothing else – to assist with tasks in financial close, reporting and filing. The report's author found it interesting that while more companies with three

separate solutions for close, reporting and filing used spreadsheets (73%), a "significant 59%" of companies with a single solution also use them.

Paul Bramwell, Senior Vice President, Treasury Solutions at SunGard, looks upon the reliance on spreadsheets and manual processes alone as "making it difficult for corporates to respond quickly to fluctuations in the market with any degree of confidence". Without automation, he says the time it takes to pull fragmented data together, as well as the potential inaccuracy of data, "can have a negative impact on investment and borrowing decisions". Whether or not Bramwell's contention is correct that spreadsheets are thus "quickly losing their appeal" remains to be seen.

Baxter offers some evidence to the contrary. Firstly, the fact that spreadsheets are still very much in use (with plenty of anecdotal evidence to support this) suggests that the business world has not found a suitable alternative and neither is one waiting in the wings to take over. Secondly, that their usage is not constrained by size, value or project complexity suggests an almost limitless appeal. In respect of the latter, he claims that one of the biggest treasury-related projects of the past few years – the $700 billion Troubled Asset Relief Programme (TARP) in the US – had to be managed in spreadsheets. "Despite the supposed foresight of all the vendors in the market place, I doubt any of them had built a TARP programme that could be bought off the shelf."

Regardless of who's right, because of the continual dysfunctional conversation (and the publication of many spreadsheet horror stories) that has sown the idea that spreadsheets are bad and must be removed, many finance professionals don't want to admit the extent to which they use them. But like any problem that's swept under the carpet, the result tends to be the creation of a bigger problem because if no one's admitting what they are doing, the task of managing spreadsheet usage becomes that much more difficult.

The fix

According to a 2000 study by the University of Hawaii's Raymond Panko, only one approach to error reduction has been demonstrated to be effective. This, he said, is code inspection, in which a group of spreadsheet developers checks a spreadsheet cell-by-cell to discover errors (so ensuring that what is supposed to happen has and that nothing unexpected has occurred). Quoted by EuSpRIG, Panko said that even this process, exhausting and expensive as it would be, could only catch about 80% of all errors.

But Baxter believes that as long as the business process integrity for each key spreadsheet can be defined, the checking process can be automated thus making it quicker, cheaper and more consistent. Such a checking tool cannot reach spreadsheets that have been taken outside of the corporate system (on a user's laptop, for example), but this marks a move away from business process integrity towards compliance and security issues, both of which should be handled by their respective policy units.

And it is perhaps policy development where the real answer to all this lies. There certainly needs to be a change of direction in the approach to spreadsheets, steering thoughts away from shame and secrecy towards an acknowledgement that, according to need, there is a balance to be reached between spreadsheet usage and the deployment of corporate systems. And if, as the academics and the regulators state, the problem is one of control, the obvious need is to implement a policy-led framework to create that control, and then to implement it enthusiastically.

PwC's Internal Auditor publication has noted five common effective spreadsheet controls:

1. Training users.
2. Setting documentation standards.
3. Establishing data entry procedures.
4. Using good security measures.
5. Backing up data frequently.

In addition to this high-level set of pointers, the T2P Information Governance Research Community has published a few more pertinent guidelines:

- Expect errors and test regularly.
- Manage spreadsheet change, preferably using versioning software, at least where spreadsheets are part of a critical business process.
- If possible, use software to audit spreadsheets, right down to cell level.
- Automate critical business processes.
- Monitor centralised application adoption.
- Encourage a balanced mix of enterprise application and spreadsheet usage.
- Enforce policies and procedures.

Companies need a clear understanding of where their existing and new business-critical spreadsheets are being used and what people are doing in them. In an ideal world, the gathering of this knowledge would take the form of a centralised business/IT team capable of assessing existing spreadsheets, monitoring and controlling the creation of new ones across the organisation. This implies a level of group-wide connectivity which few companies possess and, in the real world (where siloed technology and fractured data sets are par for the course), knowledge of what is happening locally is usually only a local capability.

An alternative is to adopt a more distributed approach to understanding spreadsheet usage, where centrally the need is only to know that everyone is following policy, but then giving all the tools, capabilities and support to enable teams to manage spreadsheets locally. In this way, spreadsheet control becomes a policy issue, with the assumption that, as long as the policy is well-crafted, most users will comply.

Ultimately, the flexibility of the spreadsheet is not in question and neither is its capacity to fill a technology gap between what is needed for immediate and ad hoc developments and what is offered by more substantial but less wieldy corporate systems. But just as the Japanese samurai used to carry two swords – the powerful long-blade katana for most combat use, and the agile short-blade wakizashi for close-quarter (or indoor) fighting – modern businesses need the combination of power and agility to cover all eventualities and it gets this through intelligent combination of the tools available, including spreadsheets. ■

Big in Japan

Gary Williams
General Manager Treasury

Since joining Mitsubishi Corporation International (Europe) Plc as General Manager of its European treasury centre eight years ago, Gary Williams has implemented some significant changes in terms of policy and technology. His work to date has been at the forefront of the creation of a modern and streamlined operation – with barely a spreadsheet in sight.

London-based Mitsubishi Corporation International (Europe) Plc (MCIE) is a wholly-owned subsidiary of Mitsubishi Corporation (MC), a global integrated business enterprise headquartered in Tokyo that develops and operates businesses across virtually every industry including industrial finance, energy, metals, machinery, chemicals, foods, and environmental business. MC's current activities are expanding far beyond its traditional trading operations, as its diverse business ranges from natural resources development to investment in retail business, infrastructure, financial products and manufacturing of industrial goods. MCIE's business largely focuses on a traditional import/export commodities trading role, through its six business groups: Global Environment and Infrastructure Business Development Group; Industrial Finance, Logistics and Development; Living Essentials; Metals; Machinery; and Energy. Its turnover for the year ended 31st March 2012 was £599m, giving a profit after tax of £58.6m.

In the world of production strategies, Japan leads the way. Amongst numerous workplace philosophies, it has given us Lean, Just-in-Time, Kaizen and the 5S principle, to name but a few. Each has its own purpose and methodology, but all focus on effective workplace organisation. They have been designed to help simplify the workplace environment and reduce waste, whilst improving quality and safety. In the treasury space, safety is perhaps not an issue (unless you count paper cuts as a threat) but the other values are absolutely critical to the effective management of the function and, ultimately, of the business.

It is perhaps entirely appropriate then that under the guidance of MCIE's decidedly British-sounding Treasury General Manager, Gary Williams, the spirit of Japanese orderliness (if not the exact principles of Kaizen et al) has been instilled within his London-based treasury centre, delivering an operation that, although small, has a major impact on the day-to-day running of the business across the region.

Arriving some eight years ago, armed with ACT qualifications and a decade of experience acquired in treasury management at energy firms, British Gas and E.ON (preceded by a career in banking with J.P. Morgan and Riyad Bank), Williams now runs MCIE's treasury centre and in-house banking team of five. With oversight of the firm's UK and European financial operations, their work is split between asset liability management (ALM), short-term cash management, FX hedging, trade finance and payment/receipts, and also looks after downstream activities such as confirmations, settlements, accounting and reconciliations. Operations are purposefully kept simple and a key part of this is its use of technology, not only to drive a high level of straight through processing (STP) but also to deliver absolute clarity of purpose and visibility across all processes. In the current economic environment this is only to be applauded.

Trading in a crisis

Being a Japanese Sogo Shosha (a general import and export company), MCIE's turnover is generally quite high whilst margins remain competitive. With the continuing economic turmoil in Europe inevitably some of its regional counterparties have been affected through lower demand for commodities and the stability of their banks. Consequently, Williams pays close attention to credit-related issues to ensure MCIE's position is protected, a task he says requires constant monitoring. "On the positive side, our financing costs have been competitive, with lower interest rates and less volatile credit-related margins."

Williams is somewhat less sanguine regarding an end to the European debt crisis. "It has been dragging on for three years or so, and whilst efforts have been made to calm the markets it seems that good news is short lived," he comments. Sometimes the focus goes elsewhere (he cites the so-called 'fiscal cliff' that the US government will face at the end of 2012, when the terms of the Budget Control Act of 2011 are scheduled to go into effect), but generally any sight of untoward news is taken as "a good excuse for a sell-off". Consequently, he believes that there is "no real trend and a lack of long-term confidence". For Europe to get a grip economically, Williams sees stronger political union, where all countries are at least facing in the same direction, as the only way forward.

The crisis has brought a raft of regulatory reforms for the banking sector and these are starting to cause ripples of concern in the corporate space. At parent level, Williams says the business is subject to Sarbanes-Oxley (SOX) and therefore further down the line (at MCIE's level) regular internal and external checks on systems and workflow cycles are experienced. "I think at first I struggled with the overhead that this brought, however over time the process has been streamlined and become more efficient," he comments.

Over-the-counter (OTC) derivative legislation, which will demand more bank reporting, has arrived and within the MC group there has been a concerted fact-finding effort to understand who is doing what in terms of derivatives, what the underlying nature of the contracts are, where there is hedging and trading and who the counterparties are. "We're currently building up that picture and then we'll take the required action," say Williams. What also concerns him is the possible effect on pricing that the OTC derivative legislation – and Basel III – may bring. "Indications are that the banks will look to pass on some or all of their increased costs to the end user."

On the whole though, Williams says MCIE's banking relationships have remained "healthy" and in some cases have improved since the advent of the financial crisis. "I believe it pays to try and keep good relationships through thick and thin."

Special FX

On a day-to-day level, the upheavals only really impact MCIE's treasury through exchange rate volatility. MCIE's relationship with its banks centres on the provision of FX dealing facilities. As 90% of its revenue is in foreign currency, translation exposure remains a major risk and alongside FX transaction exposure it undertakes a "significant amount" of hedging. "We're dealing in commodities that are priced in dollars, therefore some of the profit and loss is also in dollars. Consequently we have to keep an eye on this," says Williams. Some companies have a similar risk where they hold overseas investments on the balance sheet in foreign currency and therefore may decide to hedge that asset, he explains. "This is a similar situation in that it is still a translation risk, although it relates to earnings."

FX volatility of course means that budgeting can also be difficult: as Williams says, "costs are relatively easy to predict but FX gain/loss and interest figures are somewhat difficult". MCIE's hedging policy framework is always agreed before the start of each fiscal year, along with FX budget rates. "We review the previous year's performance against budget rates and then formulate a plan of action to try to exploit upside movement whilst protecting the downside with a stop loss against the budget rate," he explains. To ensure it remains appropriate, that plan is revisited three times a year and any decisions taken are done so using a balance of analysis and experience. "Using technology too much means sometimes there is no reality to the budget; there must be a personal overlay with it to make sure the figures stack up." There is no exact science to this process and in terms of budget accuracy the golfing analogy "nearest to the pin" is applicable to what is acceptable.

Although banks play their part, MCIE is mainly internally financed via its affiliate company, Mitsubishi Corporation Finance. This is an entity that is set up to source cash from the capital markets (via issue medium-term notes and commercial paper), undertake bank borrowings and look after the interest rate risk of the European region. The two-tiered financial structure means that on top of the range of treasury services MCIE provides (such as FX, trade finance, payments

and receipts), it also acts as a conduit for finances further downstream, providing to some of the subsidiaries in Europe.

To this end, MCIE's European treasury centre was created with an in-house banking operation, primarily to reduce legacy system costs and bank fees. It aims to provide short-term financing, FX and payment/receipt facilities for the regional subsidiaries. Whilst most subsidiaries understand the benefits of the in-house bank, Williams' operation still has to ensure that its rates and pricing are close to what can be achieved externally.

IT matters

In practical terms, the in-house bank is based around functionality provided by MCIE's IT2 TMS. This system effectively acts as a hub that the overseas subsidiaries can access remotely to view data (it also affords them some input capability). MCIE's core systems – the TMS, along with its access to the enterprise-wide SAP ERP (supported and controlled out of Tokyo); its own FXall dealing platform (which also handles all FX and the occasional money market transaction confirmations); and the Bank of America Merrill Lynch (BAML) CashPro® bank management system – are all "plumbed in" so that "on the whole they all speak to each other". Consequently, this has given Williams' team a high level of automation for processing of payments and receipts, deal import/export and confirmation matching. "We also run automatic bank reconciliations in IT2 that are ready when we walk into the office in the morning."

Within MCIE, each department is accorded responsibility to make its own IT arrangements, and is free to source whatever is required as long as it "OK'd by IT". Under such a regime, the high level of STP achieved within treasury is clearly no accident, picking best of breed solutions to suit its needs. Williams' team purposefully avoided the "big-bang" approach to implementation, developing the system architecture slowly but surely. "I've learned by experience not to make changes too quickly," he says. Although some IT changes were "no brainers", others have required extensive testing and re-design to ensure a result that "everyone is happy with". The net effect has been to free-up staff to do what they do best. "When I was recruited my first priority was to look at the team and, where need be, bring in people who had the relevant experience," he recalls. "Since that point, a team has been developed who have gained relevant qualifications and are experts in their own field."

Whilst that high degree of STP means there is "very little fall-out or repair work that has to be undertaken" within MCIE, the fact that Williams has assembled a team of professionals who know their job "inside out" means they can get to the heart of the problem quickly when it is required.

It is rather telling that MCIE's treasury has very few spreadsheets in use, and then only as a conduit for data out of SAP's Business Warehouse (for P&L and balance sheet results). "It has been one of the things I have eliminated since I've been here," states Williams. And for good reason: he believes that as a small department it is vital for everyone to have visibility through a central system rather than via a series of locally maintained spreadsheets with changes that are not necessarily known to everybody. Quite apart from that, he also argues that there is no point in paying out for a treasury system and then not using it.

Having used IT to help create and empower the small but perfectly formed team (Williams says it is now at its optimal size), he has further ambition to be able to post customer receipts directly to the individual accounts receivable (AR), "but given issues such as bank charges and amalgamation of payments, life is not that easy".

With his openness to technology and the raised level of industry chatter around mobile treasury, particularly at conferences, has it impacted on Williams' day-to-day activities yet? Whilst he admits to having "heard a lot about it", mostly from the banks, his view is that the concept is still not widely accepted. "My thoughts always return to security and having documentation around me – I would personally feel a little bit exposed if I was on the move approving payments." Having said that, he does see the advantage that a mobile treasury solution could offer "as a contingency".

SEPA fan

Where many treasurers are yet to adopt the single euro payments area (SEPA) with any conviction, around 66% of MCIE's euro payments are made this way. "We identified that a high percentage of our euro payments could be sent via the SEPA route if we added a SWIFT code, IBAN and SEPA indicator," explains Williams. (MCIE does not connect directly to SWIFT: "From a European perspective, I don't think we need it; we're served adequately by the banks," says Williams.) For SEPA data it worked with its subsidiaries to convert what it could until it was "satisfied with the results".

Whilst the immediate objective here was to exploit SEPA's promise of reduced unit charge per payment, he feels it also gave rise to a worthwhile housekeeping exercise in tidying up some old data. "We wanted more of a consistent approach in terms of the data that is set up in the system and on our invoices so we rolled it out to include other factors as well." The next step is to migrate the remaining payments being made through the legacy systems that won't be around come the SEPA deadline of 1st February 2014.

The treasurer's lot

Given the obvious importance of the role and the responsibilities attached to it, Williams is acutely aware that the business world in general sometimes takes for granted the position of treasurer, in relation to other professional colleagues, especially when times are good. This attitude is largely driven by the structure of the business in which the treasurer is working, but there is, he acknowledges, a natural tendency to focus more attention on the profit-generating areas of a business. "However, in times of financial turmoil, when cash becomes inaccessible or FX rates become volatile, then treasury is back in the spotlight."

Standing in the limelight may not be the default position for most treasurers, but when the audience is listening, it is time to talk. In the past few years Williams has pushed forward many positive changes in both treasury policy and technology. But he has also taken it upon himself to learn Japanese, partly in acknowledgement of the challenges that his colleagues from Tokyo may have when visiting London. It may be a "work in progress", but conversing in one of the most difficult languages to learn for a native English speaker is surely a good way of fixing the attention of those who need to be listening to their treasurer right now. ■

Safeguarding your reputation

Reputation is a highly valuable – and vulnerable – corporate asset. Building up a global name can take years and even decades, but it is surprising how little time it takes to dismantle a high-profile brand.

Seeing your company's name splashed across the front pages is enough to give any employee that terrible sinking feeling. This is even truer for corporate treasurers as their job is not only about cash management and working capital, but also about integrity and personal character.

In this regard, contrary to popular belief, not all publicity is good publicity. Negative exposure can have a ruinous effect on a company's market standing, credit ratings, bank relationships and investor relations, as well as the ability to attract and retain talent. "Ultimately, diminished reputational value, or 'soft' capital, could impact a company's long-term competitive advantage," says Rey Sermonia, who previously held the Treasurer position at Qatargas.

Repute plagues the minds of executive members. Two-thirds (66%) of directors on the Boards of more than 190 public and privately held companies surveyed by the accounting firm EisnerAmper say reputational risk remains their biggest non-financial concern.

However, protecting your company's brand can seem a bit like fighting fires on all sides. All other risks contribute to a corporate's reputation, including market risk, liquidity risk, credit risk, foreign exchange (FX) risk, financial crime and compliance, and operational risk. For example, BP's operational blunder, which caused the Deepwater Horizon oil spill, resulted in the biggest criminal fine in US history as part of a $4.5 billion settlement. The financial cost is compounded by reputational harm associated with criminal charges and an environmental catastrophe, something which will be remembered for generations.

Paul Stheeman, ex-Director of International Treasury at Petro-Canada turned Treasury Consultant, says: "The reputational damage was huge, partly because the disaster hit BP alone and none of its peers. Shareholders are now more demanding as to what can and should be managed by a corporate."

"Today there are many ongoing enquiries and high-profile investigations into wrong-doings," adds Gary Williams, General

Manager Treasury, Mitsubishi Corporation International (Europe). "The affected parties are more likely to seek settlement through the legal system and these cases are well publicised."

Although the most significant contributing factors may differ depending on industry, reputation risk is common across all sectors. Stheeman comes to the crux of the matter when he says the biggest risks facing a corporate's reputation today are those which reflect a lack of internal controls.

Fraud and financial crime: a question of integrity

Eddie McLaughlin, a Managing Director at Marsh Risk Consulting, believes that key reputation exposures facing corporates are around the fidelity of staff and social and ethical responsibility. This is certainly true for the financial services (FS) industry, which has come under severe scrutiny post-financial crisis, resulting in public trust in the banking industry reaching an all-time low.

The banking industry's standing has been further impaired by a number of high-profile insider trading and fraud cases, such as the UBS rogue trader Kweku Adoboli, who was jailed in November for racking up losses of over £1.5 billion during three years of secretive, off-the-books trades. Billed as the 'UK's biggest fraud', Adoboli was allowed to move from a back office role to the exchange traded futures desk, a move normally seen as a breach of best practice. His public prosecution exposed UBS' internal compliance lapses for all to see and may lead to more regulation for the industry as a whole.

While banks have dominated headlines in recent months, well-known corporate brands have also taken reputational hits due to fraud and criminal misconduct. Recently, Hewlett-Packard (HP) revealed it had to write-down $8.8 billion after "serious accounting improprieties" were discovered at Autonomy, the British tech firm it acquired in 2011 for more than $10 billion. HP reported a net loss of $6.9 billion, effectively wiping out its profits for the last quarter. Despite assuring the public that it would attempt to recoup shareholder money through the civil courts, the damage was done and HP shares plunged 13% by mid-morning after the announcement. This example shows how quickly a blow to reputation can affect a corporate's standing in the market and its bottom line.

Today corporates have to stay abreast of a slew of new domestic and international regulations. The world has come a long way since Sarbanes-Oxley (SOX) in 2002, which was a response to the accounting scandals involving Enron, Peregrine Systems and Worldcom, among others.

Notably, more companies are adopting risk mitigation and compliance measures when it comes to the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act, according to a recent survey by Kroll Advisory Solutions. In 2011 only 26% of survey respondents said they had put bribery risk monitoring and reporting systems in place. This year, that figure increased to 52% of respondents. Likewise, where 29% of companies said they trained employees and vendors on anti-bribery compliance in 2011, 55% said they had done so in 2012.

However, more than one in five of survey respondents said that "although they are subject to the UK Bribery Act or US FCPA, they have not made a thorough risk assessment, trained the right people, or amended their due diligence process." This is a worrying lack of oversight and may lead to hefty fines, as well as headline news.

Fraud and financial crime are clearly areas under the treasurer's remit. To help mitigate these risks, Mitsubishi's Williams advises treasury to:

- Have a well-constructed treasury policy and procedures in place, including payment and dealing limits.
- Regardless of the size of the team, have some level of segregation between tasks, particularly in the payment and reconciliation processes.
- Perform regular reconciliation of derivative hedge positions to underlying exposures.
- Have a regular independent review by the audit or internal control department.

Market, liquidity and credit risk

The spectacular failure of Facebook's initial public offering (IPO), which led to the company losing more than $50 billion in market value (40%) in 90 days, as well as Zynga and Groupon which dropped more than 75% since going public, called in question their business fundamentals and strategy. These companies quickly went from leading lights to laughing stocks in the marketplace. The exposure has also made many other companies skittish about directly tapping the market for funds.

But funding remains an issue for many corporates. Earlier this year, debt-laden directories group Yell dropped around 18% after warning on outlook and banking covenants, and was forced to rebrand as hibu. Many other retail brands have faced similar credit and cash flow problems, such as Comet, Ocado, Hostess and Premier Foods, to name just a few. Experiencing a liquidity crunch meant that these companies have had to slash jobs, shut shops, pull out of non-core markets and go through debt and cost restructuring programmes in order to preserve investor and market confidence – all of which make headline news.

In order to maintain a level of confidence in the business, treasury needs to develop clear, effective lines of communication to its banks, investors, rating agencies and suppliers, in addition to the company's internal stakeholders, advises Sermonia.

An Assistant Group Treasurer at a large travel and leisure group believes that being adequately funded is the most important reputation risk from a treasury perspective. "Any indication that you might breach banking covenants in the current climate triggers a press reaction. This is particularly true if you are a consumer brand and employ a large number of people, as the press interest might go further than just the financial pages.

"The ongoing worldwide recession has made trading conditions hard, squeezing revenues, and the step change to the banking world has added to the pressure on cash flow, as the cost of servicing debt increased," she adds.

The Assistant Treasurer suggests pushing for additional headroom in facilities, and focusing on working capital and cash management to improve cash flow. Growing revenues is quite difficult in this economic environment, so treasurers need to lead the way in encouraging a cash culture within their organisations. "There is also a role for innovative banks to develop new products to help with both the working capital and cash management and also ways of reducing the needs for credit lines, for example by using insurance rather than indemnification for chargeback risk," she adds.

In a new development, UK high street names – for example Tesco, John Lewis and National Grid – have gone down the route of corporate bonds aimed at retail investors. The expansion is driven by a retreat in UK banks' lending, which has pushed companies that are not large enough to access institutional public bond markets to look for alternative funding resources. However, already some concerns are being raised that retail investors may not fully understand the potential losses they could be exposed to – which could, in turn, result in a negative backlash for the brands and their banks.

Supply chain stress

The sluggish global economy has put a lot of pressure on the financial strength of suppliers. By rationalising their supply chains during the recession, many companies have become more reliant on fewer suppliers and opened themselves up to severe supply chain risk, not only from supplier distress but also natural disasters and other types of business disruptions.

According to the January 2012 Association for Financial Professionals (AFP) Risk Survey, in collaboration with Oliver Wyman Group's Global Risk Centre, 57% of organisations that view business and operations risks as a major concern identify supply chain disruptions as having the potential for either a "significant" or "very significant" impact on earnings over the next three years. But it is not just earnings that will take a hit if a company can't deliver products to its customers – the market reputation will also come under strain.

Peter Robertshaw, Senior Vice President of Communications, Active Risk, explains how one large manufacturer discovered that it was reliant on a major supplier that would halt the company in its tracks if it was to stop manufacturing. To develop a dual source, the company built its own factory and started producing the part itself.

Mustafa Kilic, until recently the Regional Treasurer and Group Insurance Manager, Group Treasury, Indesit, tells a similar story. In 2009, the home appliances manufacturer decided to embark on a risk audit that also took into account potential future risks. It identified a Japanese manufacturer that was the sole supplier of a critical refrigerator part. In order to mitigate future risk, Indesit sourced a second supplier in Latin America. As a result, when the Japanese earthquake and tsunami hit in 2011 and closed down the original supplier, Indesit was able to protect its business reputation with advance planning. This is in stark contrast to some companies which didn't know that they had exposure until their supply chain had been interrupted.

Kilic believes that business continuity risk is the biggest threat to reputation and promotes the concept of key risk indicators (KRIs). In a similar vein to key performance indicators (KPIs), Kilic explains that KRIs are "triggering items" hidden under the radar that could have a profound effect on the business. These risks are interdependent and could result in a domino effect.

Looking for connections between risks is a developing trend, according to Robertshaw. "Typically in the past the Board would have been presented with a top ten risk list," he says, "but what that was doing was creating a false sense of security. Now people are trying to go beyond the top ten and examine smaller risks that deserve to be looked at because they are highly connected."

He goes back to the BP oil spill, which was a result of several things coming together to "create the perfect storm". "BP is a good example – people are monitoring things at an operational level unconnected to the strategic level, which understands that it can ill afford a conflict with the US government because that will lead to its operating licence being taken away. This is a strategic risk but the operational people wouldn't have seen it," he says.

The treasurer's role

Stheeman believes that treasury is a natural function to have responsibility for enterprise risk management, including reputation risk. "Creating awareness at all levels and ensuring appropriate policies and procedures are in place, as well as having sustainable plans in how to deal with an event leading to reputational damage, are essential," he says.

Marsh's McLaughlin is not fully convinced that the treasurer is the best-placed person, which he believes should be a dedicated chief risk officer (CRO). However, the debate continues as to whether having a CRO allows employees to relinquish responsibility for risk. McLaughlin argues that it depends on how it is executed. "The CRO should have a mantra stapled on the wall which says 'it is not my responsibility to manage risk in this organisation, it is yours'. The CRO is a risk coordinator – they are not responsible for every risk in the organisation," he says.

> The final component is making sure that there is a cross-discipline group for crisis and enterprise risk management to develop action plans for safeguarding the company's reputation.

All agree that developing an enterprise-wide response plan that can immediately be put into action is a critical component to managing risk. Robertshaw recounts how when HSBC's ATM network went down in May, the bank immediately responded to complaints on Twitter, by first apologising and then providing progress reports until the systems were up and running again. "Social media commentators then tweeted positively about HSBC's response. Even if something bad happens, you can enhance your reputation if you respond in the right way," he says, but warns that social media, because of its ubiquity and speed, has the power to destroy corporate reputation in seconds. Robertshaw believes that executive Boards are lagging behind in understanding the power of social media.

McLaughlin's advice to corporates is to put in place mechanisms for tracking reputational risks across the enterprise and have a separate reputational risk register to understand the kinds of risk that would undermine the company's reputation. "Part of that is assessing your company's reputational capital and emotional quotient with clients, because this will help to classify your sensitivity to brand risk," he says. The final component is making sure that there is a cross-discipline group for crisis and enterprise risk management to develop action plans for safeguarding the company's reputation. ■

Sustainability: it's the business

In this feature, the first of a new six-part series for 2013, we look at the evolution of corporate sustainability. For forward-thinking companies, sustainable business practices are the only option, but a number of 'dinosaurs' remain unconvinced. Whose side are you on?

The mere mention of 'sustainable business' provokes a range of reactions among today's corporate community. For the cynics, sustainability still conjures up images of animal rights activists or long-haired 'green' campaigners. Others just brush it off as the latest, rather intangible, fad. But for a growing professional contingent, corporate sustainability is becoming a trusted tool in their risk management armoury. So what exactly is sustainable business? What benefits does it offer? How can these be measured? And how can companies evolve from sustainability laggards into sustainability leaders?

Enter the triple bottom line

Back in 1994, the year that the Whitewater Inquiry began, corporate sustainability was very much in its infancy. To help embed the concept in the mass consciousness of business executives, John Elkington, co-founder of strategic advisory firm SustainAbility, coined the term the 'triple bottom line' (TBL). Through this, Elkington proposed that companies must pay attention not only to financial risks, but to the social and environmental threats to their profitability, too. This trio is sometimes referred to as 'the three Ps': profits, people and planet. By the late 1990s, the idea had gained significant traction, especially among the big global brands and fossil fuel CEOs. As Western consumers became increasingly aware of the use of sweatshop labour and the environmental impact of excessive hydrocarbon usage, corporate sustainability became not only a buzzword but a watchword for cutting-edge organisations.

Today, the fundamental pillars of TBL still form the basis of business sustainability; however the approach has evolved beyond a pure accounting play. While there is no globally accepted definition of what sustainable business is, the gist is that by being connected with 'the three Ps', a company can build resilience to external shocks, as well as contributing to the communities around them through sustainable development. According to the World Council for Economic Development (WCED), sustainable development 'meets the needs of the present without compromising the ability of future generations to meet their own needs'.

How are companies interpreting this?

A well-established manifestation of the sustainability drive is corporate social responsibility (CSR). Once again, this is a term that lacks a firm definition, but it broadly revolves around a company taking responsibility for its impact on society and the environment. A typical CSR programme will tackle four aspects of a company's reach:

1. Workplace.
2. Marketplace.
3. Environment.
4. Community.

To see how this might work in practice, let's take a look at how international pharmacy, health and beauty group, Alliance Boots, approaches CSR:

Like Elkington's triple bottom line, the concept of CSR has moved on in recent years. Nowhere is this more evident than in the European Commission's (EC) communication on its 'Renewed EU strategy 2011-14 for Corporate Social Responsibility'. According to this paper, the EC previously defined CSR as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis'.

However, the communication goes on to say that: 'The economic crisis and its social consequences have to some extent damaged consumer confidence and levels of trust in business. They have focused public attention on the social and ethical performance of enterprises. By renewing efforts to promote CSR now, the Commission aims to create conditions favourable to sustainable growth, responsible business behaviour and durable employment generation in the medium and long term.'

Here we see the scope of CSR significantly expanded. This is no longer about paying lip service, or making a few public donations to charity. It's about delivering growth for future generations – whether business owners and employees, or consumers in the community they serve. So, sustainable business challenges traditional CSR, taking a longer-term, more holistic view.

Reaping the benefits

No matter what size your company is, the benefits of embracing this holistic approach to corporate sustainability are numerous. They include:

- **Improved company or brand image**. Consumers are becoming more demanding and expect corporations to act ethically and responsibly. In return, a reputation for integrity and respect can help to build customer loyalty, based on these values. In fact, a 2011 survey by Green is Universal (the sustainability division of US media and

entertainment company NBC) found that 68% of consumers believe it is worth paying more for a green product or service if it is a brand they trust.

- **Enhanced risk management**. Many businesses decide to embrace sustainability as a means of recovering from bad press, or mitigating reputational risk – see this month's Risk Management article on page 33 for more details. Sustainability also offers companies an enhanced way of looking at risk – one that is broader than traditional enterprise risk management, going beyond economic, strategic and operational factors to consider emerging external risks as well.
- **Cost savings**. These may come in a number of forms, ranging from process efficiencies (eg electronification of paper-based processes) through to more careful monitoring of resource consumption, such as water usage. Elsewhere, experts argue that by minimising certain business risks, sustainability can help to reduce the costs of regulatory non-compliance and litigation, for example.
- **Reduced cost of capital**. A study conducted by the Canadian non-profit Network for Business Sustainability confirmed that companies that 'implement an environmental risk management strategy reduce their weighted average cost of capital.' Higher levels of environmental risk management, the study found, can lead to:
  - Greater willingness of debt markets to provide debt financing.
  - Higher tax benefits that partially offset the cost of debt capital.
  - Reduced cost of equity capital from a decrease in systematic risk.
  - Reduced cost of equity capital from an increased dispersion of shares.
- **Supply chain stability**. By acting responsibly towards suppliers, companies are better placed to secure consistent, long-term access to the raw materials and products that they need. Contrary to popular belief, sustainable procurement can actually work out to be cheaper than traditional routes – largely through more transparent relationships.
- **Competitive advantage**. Sustainability enables "enterprises to better anticipate and take advantage of fast changing societal expectations and operating conditions. It can therefore drive the development of new markets and create opportunities for growth," says the EC. When looking at strategies for becoming sustainable, companies also often take stock of their current business model and examine how they can become more innovative, or gain an edge over their peers.
- **Improved employee satisfaction, morale or retention**. According to a survey released by non-profit community Net Impact in May 2012, employees who have a job that enables them to make a "social or environmental impact on the world are more satisfied with their job by a 2:1 ratio". And when employees are happier, they are more productive.

What is more, many reputable reports show a strong correlation between a company's sustainability credentials and its financial and stock market performance. 'Companies that are considered leaders in environmental, social and governance (ESG) policies also lead the pack in stock performance – by an average of 25%,' according to a 2007 Goldman Sachs report, which it released alongside the launch of a sustainable investment focus list, GS SUSTAIN.

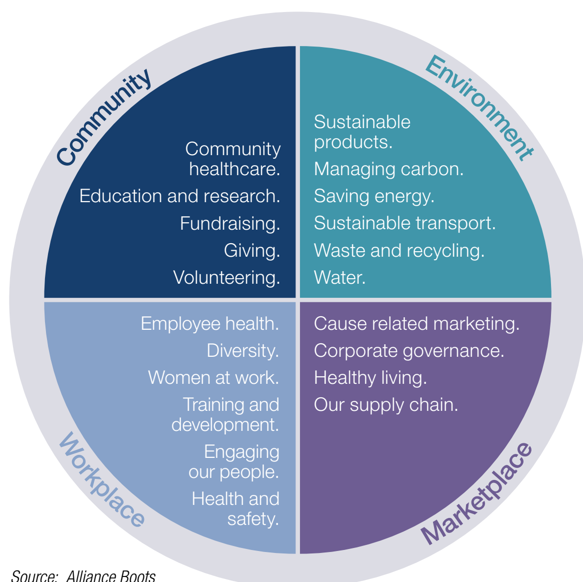
Best practice implementation

With the benefits outlined, how does a company put a workable sustainability programme in place? The following five-step process provides a good outline of the stages required, although somewhat simplified:

1. Envision.
2. Engage.
3. Map.
4. Perform.
5. Measure.

CSR at Alliance Boots Group

Case study



Source: Alliance Boots

The group's framework of CSR priorities covers the four key areas outlined above. This framework is called the 'scorecard' (see diagram) and is used across businesses within the group. Business plans are presented to the social responsibilities committee for approval and progress against these plans and the scorecard are monitored centrally.

"Corporate social responsibility forms a natural part of our group's business culture," explains Ornella Barra, Chairman of the social responsibilities committee at Alliance Boots. "People lie at the heart of Alliance Boots and our commitment to them is as important today as it has ever been. Our CSR approach continues to reflect this, whether through improving the health of communities around the world, creating healthy workplaces, striving to encourage healthy living or reducing the impact of our activities. As we grow, so too will our commitment to the local communities we serve."

Marks & Spencer: learning from the best

Case study

Launched in January 2007, Plan A is UK retailer Marks & Spencer's sustainability drive. The company originally set out 100 commitments to achieve in five years. That has now been extended to 180 commitments to achieve by 2015, with the ultimate goal of becoming the world's most sustainable major retailer. Through Plan A, the company is working with its customers and suppliers to combat climate change, reduce waste, use sustainable raw materials, trade ethically, and help customers to lead healthier lifestyles.

In 2012, Marks & Spencer (M&S) sent zero waste to landfill. It is also now a carbon neutral company. Since April 2012, M&S has stopped selling confectionery designed to appeal to children. These are just three examples of how the company is making a real difference.

"Plan A is how we do business at M&S – it involves our customers, our employees, our suppliers and our suppliers' suppliers. We are fully committed to it," says Marc Bolland, CEO, Marks & Spencer. The initiative is called Plan A "because we believe it's now the only way to do business. There is no Plan B."

M&S was named Responsible Retailer of the Year in the 2012 World Retail Awards.

The most difficult of these five steps for the majority of businesses is engagement. With a well-researched business case behind it, sustainability should be a no-brainer for the C-suite. But while buy-in from top-level management is essential, so too is buy-in across the business. Securing this will depend to a large extent on how robust the company's proposed sustainability policy and framework is. This is where specialist consulting firms can add real value.

Placing sustainability representatives throughout the organisation can also be invaluable in ensuring enterprise-wide engagement. Alliance Boots, for example, has a 'champion' in most businesses with responsibility for defining and delivering local CSR priorities and targets in line with the group's overall objectives. All champions are supported by the company's CSR Director and Co-ordinator, who provide guidance and additional expertise on working within the group's CSR framework. Colleagues from a number of departments including, human resources (HR), communications and finance also support the work of the champions.

Sustainability metrics

Measuring the company's progress against its sustainability goals is often the second most challenging step. While every company will have different requirements for sustainability metrics that ensure compliance with the stated goals of its programme, examples of indicators that could be easily and effectively monitored are (in no particular order):

- Customer satisfaction and loyalty levels.
- The number of customer complaints.
- The social impact of the company's core product or services.
- Energy and water consumption.
- Waste sent to landfill.
- Carbon footprint.
- Environmental impact of the company's supply chain.
- Workforce diversity.
- Number of staff grievances.
- Level of staff turnover.
- The percentage of suppliers and partners screened for human rights compliance.
- The percentage of suppliers and partners meeting sustainability requirements.

Not only does having metrics in place allow companies to measure their progress, the process of defining the correct metrics can actually help to cement the organisation's sustainability goals and priorities. Moreover metrics can assist in reinforcing personal and organisational accountability, as well as improving internal and external communication around the success of the company's sustainability drive.

Global leaders in sustainability

The best practice steps outlined above are designed to bring sustainability laggards into the 21st Century. Going the extra mile and becoming a sustainability leader requires something extra special: genuine, deep-rooted commitment. The case study above illustrates the difference.

Being a sustainability leader isn't just about the accolades though. In a world where companies increasingly have to compete for resources, corporate sustainability will – sooner rather than later – become the 'new normal'. And now is the time to get ready, because sustainable business models aren't put in place overnight. ■

The next article in this series will appear in the **March edition of Treasury Today**. It will examine sustainability within the treasury department, from what initiatives can be put in place, to treasury's role in upholding and driving the company's sustainability aspirations.

THE BANK INTERVIEW

Robert Hare
Director of Specialist Banking at Lloyds Bank Commercial Banking

As Director of Specialist Banking at Lloyds Bank Commercial Banking, Robert Hare has responsibility for corporate deposit clients as well as corporate clients' liabilities strategy and performance. He is a Chartered Banker and a Fellow of the Chartered Institute of Bankers in Scotland. He worked with RBS for ten years and was sponsored through an MBA programme before joining Capital Bank and Bank of Scotland Group in 1988.

In the current economic environment and the volatility that we're seeing in European markets, the importance of understanding liquidity options, and creating and managing a liquidity strategy to maintain the health of the business, cannot be overstressed. Lloyds Bank Commercial Banking Director of Specialist Banking, Robert Hare, considers the options.

Why would a business need a formal strategy for liquidity and what role does the banker play in its formulation?

We live in a world of uncertainty so it's important that all businesses manage risk. Managing liquidity is an example of risk mitigation and companies that have taken the right steps should be able to protect themselves from surprises. They also need to be prepared for opportunities in the market. In order to fulfil both of these requirements, they have to know their overall business strategy and be able to apply it to make best use of their business assets – and cash is certainly one of them. A formal strategy for liquidity must therefore sit within the overall business strategy, directing the use of that cash. Many corporates have been concentrating on two things over the past 12 months: cutting costs and keeping cash. But the more they do that, the more imperative it is that they have a strategy for that cash. When

it comes to forming liquidity strategy, global corporates and mid-cap firms are now realising that because of economic uncertainty they need to start looking at their cash balances through a different lens. And that's where bankers come in.

What informs today's corporate approach to liquidity – is it all about risk mitigation or is there more to it?

As Europe continued (and some may say continues) to implode, the concentration has been on the return of cash. But as things settle down, thoughts start to focus on the return on cash and what sort of yield it is going to get. However, in addition to protection or yield discussions, it is also about the effective use of the different types of cash a business has. Many will have a strategic cash pile, where they are looking for large projects and opportunities to acquire or to make investments. But there are other elements at work here, including a necessity to place a really keen lens on the working trade cycle of the business – especially working capital – to make sure that they are optimising that cycle, and thus their use of cash, by getting money from debtors when they expect to get it, and by making sure that they're not paying on invoices too quickly. These decisions will all be driven by the cash strategy.

What are the dangers of not forming a liquidity strategy?

For a business, looking at its cash and liquidity strategy is like looking at its raw materials and production strategy. If either gets out of kilter with opportunities and with the operation of the business, it can cause serious difficulties. Cash has always been the lifeblood of a business, so it has always been important. The liquidity strategy must cover the immediate, the short-term and the longer-term needs of the business. The role of the treasurer or cash manager is to make sure that they have the right quality and quantity of funds available at the different points in time of the business lifecycle so they can meet any threats and take advantage of any opportunities that come along.

Forming a liquidity strategy is just as important for a small business as it is for a large business. Obviously it becomes more complex for the latter as they start looking at international sweeping and pooling, making decisions whether to centralise or de-centralise their cash pools, ensuring the correct reporting processes are in place in a de-centralised model or, if centralised, that the exact levels of cash are left in country for day-to-day requirements. Despite these variants, the essentials remain the same: you have to have the right level of cash at the right time. A well-formed liquidity policy helps to ensure that.

What can Lloyds Bank offer clients to help them form and manage an effective liquidity policy?

Liquidity is very much on the agenda now, but over the past nine months or so we have found, surprisingly, that many corporates don't have a robust treasury policy to tackle it. As their banker, we've been talking with them to get feedback in terms of their critical needs and requirements and then helping them to shape what a liquidity policy should look like. We're able to go to our clients – whether they're a university, a government body or a corporate – and advise them on the areas that they should be looking at to help them formulate an effective liquidity policy. There will be elements pertinent to each business and to each sector but, as I said before, the principles remain the same. So, for example, it's about currency and it's about the extent to which they tie up cash. It's about their liquidity buffer and the extent to which the business needs a pool of cash, what that pool might look like, where it needs to be, and how quickly they need to access it.

Chart 1: Volatility in sovereign credit default swaps

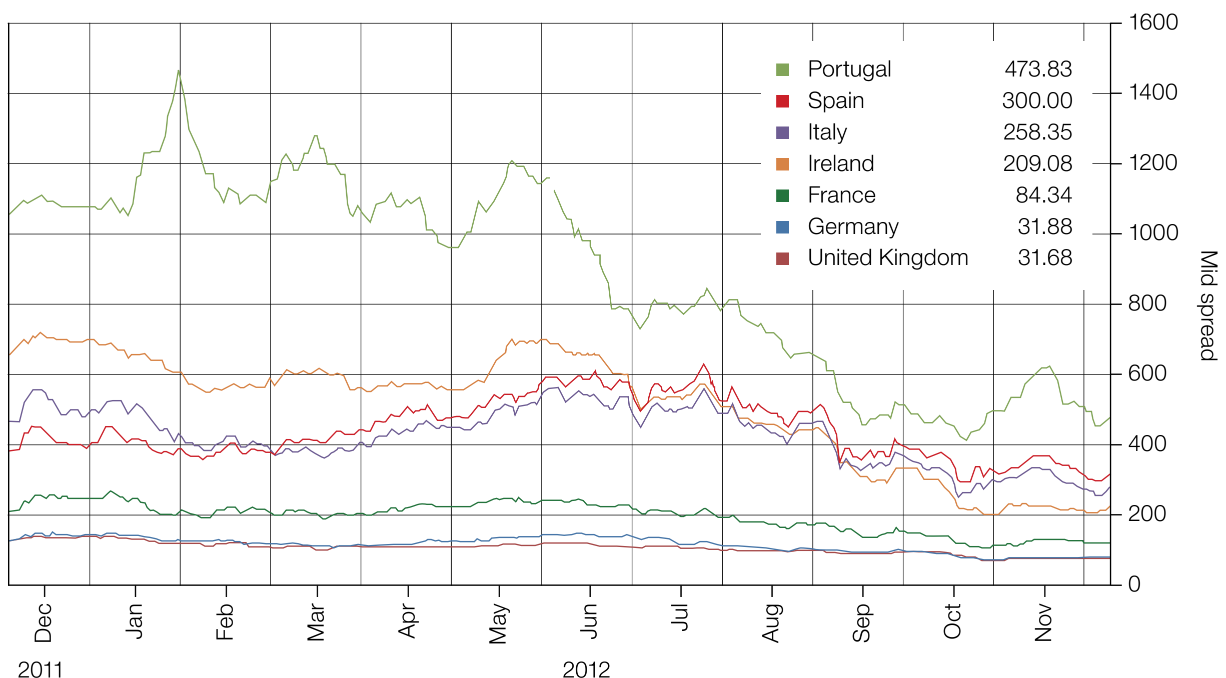
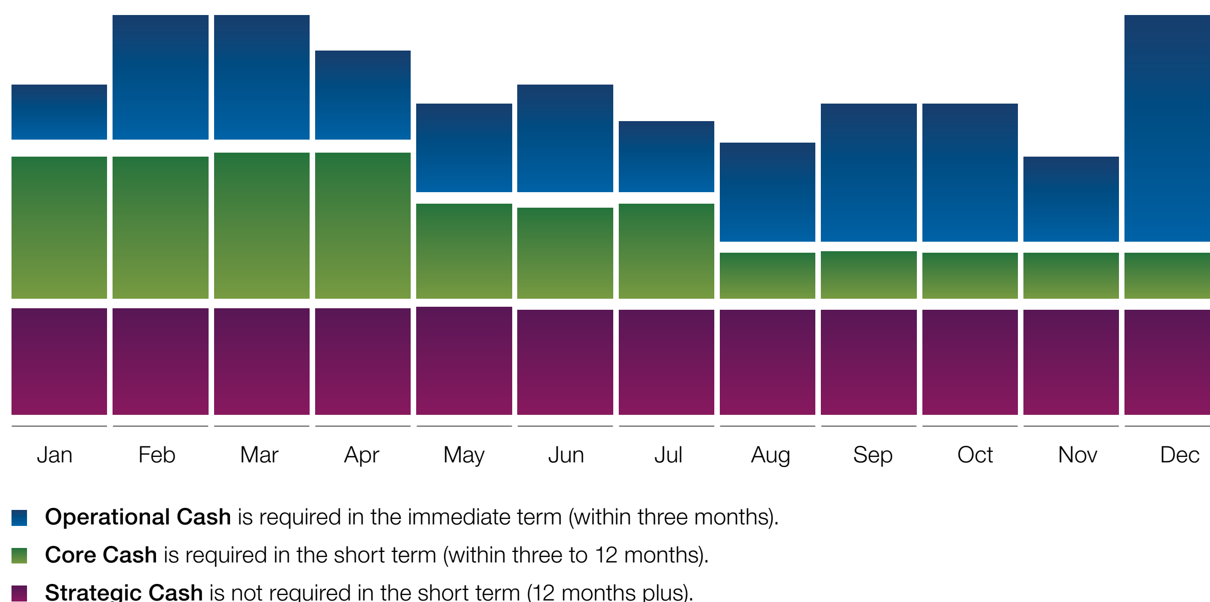


Chart 2: 0-12 months. The process starts with establishing the cash structures (operational, core, strategic)



- **Operational Cash** is required in the immediate term (within three months).
- **Core Cash** is required in the short term (within three to 12 months).
- **Strategic Cash** is not required in the short term (12 months plus).

In terms of technology, one of the solutions Lloyds Bank has is a software product called Optimiser. This enables us to sit down with treasurers and CFOs and help them go through their past, present and future cash requirements, building as we go as complete a picture as possible of what they need from their cash and how they can achieve it.

Typically, we'll go back a year or two and talk about how they have used their cash and cash sources, what trends they may have seen and what the current year looks like in relation to previous years. We can then talk about a range of aspects going forward, such as what is anticipated, whether a greater buffer may be needed for cash access, what the residual funds are and how best to invest any surplus.

How open are businesses to advice from a bank?

In discussing these matters with clients we do find them immensely receptive. No one can definitively claim to have the answer to Europe's problems – and there are many people who don't even understand some of the questions because the landscape keeps changing. What we have found with all this uncertainty is that corporates want a trusted advisor, someone who is seeing the same sort of things that they are, but from a different perspective. The role of the banker is therefore paramount, drawing on our experience, sharing that with clients and helping them to try and look around corners at what might be coming along next. As I said, no one has all the answers, but we can help treasurers ensure they have the right level of flexibility around their business model and around their cash, so that they can optimise their response.

How important is it to review policy regularly and which points of reference should be used?

It's not only 'how often', but it's also 'how to'. Policy review should extend from the day-to-day process of looking at and understanding what's happening in the financial markets, to a formal consideration of whether the current liquidity policy is appropriate for the coming 12 months. In these more turbulent times I'd suggest a thorough evaluation at least quarterly to assess what they are seeing and what has changed in their own business, in the market, and in the particular banks they are dealing with. Then they can make a judgement as to whether the current liquidity policy is sufficient to meet requirements over the next three and six month periods and make changes as appropriate.

As for 'how to', undeniably there is still some concern about bank risk, so we want our clients to consider how they wish to evaluate the risk they are taking on, vis-à-vis leaving funds with banks. Some of the credit ratings agencies are still receiving criticism for their ratings dating back to the start of the 2008 crisis. They have a long road to travel to recover their reputation, but it has forced corporates, and certainly banks to encourage corporates, to evaluate the risks they are taking through different – and more dynamic – media. We say certainly look at credit default swap (CDS) ratings, and I'd add that bank share price is a major tell-tale sign too; if there's a material movement in that, you'd really want to know why. There also needs to be an appreciation of possible impact in terms of the wider market, so do investigate what the exposures are of certain banks to different parts of the world. In essence, make sure your radar is always switched on! ■

The development of SEPA

Since the beginning of 2002, a growing number of European countries have adopted the single currency, with the notion that payments across European borders should be as easy and as cheap to carry out as those made domestically. Although a natural extension of monetary union, this has still to be realised a decade later. With the final deadline for migration to the single euro payments area (SEPA) instruments set for 1st February 2014, how close are we to the SEPA vision?

What is SEPA?

The single euro payments area (SEPA) is a payments industry -led initiative that is designed to establish a framework of rights and obligations for creating a standardised process to allow for harmonised payments processing in Europe. In basic terms, SEPA allows individuals, businesses and banks to make payments across Europe as easily – and as cheaply – as if they were making a domestic payment.

While one of the aims of SEPA is to make retail payments more convenient for customers, it is about much more than that. The greater objective is to strengthen the internal market through enhanced competition and greater efficiency – which was an integral part of the Lisbon Agenda.

There are three types of SEPA payment instruments:

- **SEPA Credit Transfer (SCT)** will provide customers with a single means for transferring funds regardless of whether it's within the country or involves a cross-border payment.
- **SEPA Direct Debit (SDD)** will make it possible to charge directly an account in one country within Europe for services by a company based in another country. SDDs are divided into the SDD Core Scheme (SDD Core) and SDD Business-to-Business Scheme (SDD B2B).
- **SEPA for Cards** will enable consumers to more conveniently use their cards for purchases anywhere in Europe. For retailers, accepting cards will become easier and more attractive.

In the beginning…

The vision for a harmonised area for payments within the EU can be traced back to the discussions that took place during the early 1990s, preceding the establishment of the monetary union.

But it was only subsequent to the introduction of the euro that the first concrete plans were drafted for a fully integrated, harmonised payments area. The expectation was that the introduction of the single currency would bring about a substantial increase in intra-community trade, and in order to support this there would need to be a system in place to allow all Eurozone members to offer cheap, fast and reliable services for individuals and businesses who wish to make cross-border payments within the EU.

Progress had already been made during the 1990s on the matter of large-scale wholesale payments typically used by large multinational corporates, but there was not yet any mechanism in place to facilitate smaller day-to-day transactions or retail payments.

The first serious indication that EU policy-makers were intent on reforming payment systems within the internal market came on 31st January 2000. The European Commission, concerned that cross-border retail payments remained expensive and time-consuming, circulated an official communication in which it demanded – rather optimistically with hindsight – "a significant improvement in the efficiency of small value cross-border payments, and substantial reductions in charges to customers, by 1st January 2002".

Three months later that goal would be formally approved and incorporated as a part of the Lisbon Strategy, the objective of which was to make the European single market the most dynamic and competitive knowledge-based economy in the world by 2010. To demonstrate just how serious they were about pursuing their payments objectives, the European Commission followed up the decree with new legislation – the introduction of Regulation No 2560/2001, which demanded that banks end the practice of price discrimination between cross-border and domestic payments under a specified threshold, initially €12,500, then raised to €50,000.

Developing SEPA

Now the banks, confronted with the choice of either building a new payments infrastructure and process or making continual losses on cross-border transactions, began to take the first tentative steps towards the development of SEPA. But as Ruth Wandhöfer, Head of Regulatory and Market Strategy at Citi Transaction Services, describes, this was merely the beginning of a very complex and protracted negotiation process.

"At the time of Regulation No 2560/2001 we didn't really have a cross-border retail payment system for euro transactions," says Wandhöfer. "We were able to process high value payments with TARGET – later TARGET 2 – but for day-to-day retail payments, we didn't have anything at a pan-European level. This is why the industry came together – to create a scheme that is more efficient and borderless.

"But as you can imagine, creating a harmonised scheme that works in the same way for domestic and cross-border retail payment types would also mean that banks open themselves up to competition from outside their home markets – and, of course, that was going to be challenging for many players."

The principle difficulty, explains Wandhöfer, was that with a few exceptions the majority of Europe's banks operate at the domestic level. "Most customers in Europe are consumers and SMEs, because that is how Europe is structured. Therefore most European banks were concerned about potentially losing their customer base if the market opened up," she says. The thinking was that for a bank to maintain a competitive edge it needed to retain aspects of its domestic flavour of payment.

Another area of significant disagreement centred on how the new SDD scheme should be designed and implemented. Compromise, Wandhöfer argues, was more straightforward with SCTs "where you just push the money out of the door".

"But on the direct debit side it was a much larger challenge," she says, largely because of the flow and responsibilities around mandates, which varies considerably between European countries. "Some countries, such as Slovenia or Greece, have the debtor bank holding on to the mandate, while in many other countries it is the creditor, for example the UK. Some countries, like Italy for instance, even have a mixed model. And depending on who is holding the mandate, the liability and ability of intervention if there is a wrong transaction debited to an account is, of course, very different."

Moving forward

With the October 2011 announcement that the SEPA migration deadline is 1st February 2014 for countries within the Eurozone and 31st October 2016 for non-Eurozone states, migration to the new payment instruments has now become driven by regulation, and banks and corporates are engaged in preparations for the transition. Although the SCT and SDD schemes were originally introduced in 2008 and 2009 respectively, the scheme failed to attract quite the level of voluntary adoption the European Payments Council (EPC), among others, was hoping for. It soon became evident to the European Commission that unless the Eurozone wanted to be left with a legacy of independent national systems along with a side-lined SEPA system it would have to introduce legislation to force banks, companies and public administrations to begin the migration process.

The imminent end-date has definitely helped to focus minds on the necessary steps involved in migrating to SEPA. Demonstrable progress has been made as a result – on the SCT side at the least. For example, as of October 2012 the share of SCTs, as a percentage of the total volume of credit transfers in the euro area, stood at 30.18%, according to European Central Bank's (ECB) statistics. But corporate migration to SDD continues to crawl along at a sluggish pace, with the scheme presently accounting for only 1.85% of direct debits in the euro area.

"I think the direct debit has been a bit of a disaster," admits Wandhöfer. The reason for this, she argues, is about much more than the different ways in which direct debits operated in euro nations previous to the introduction of SEPA; there are also, she believes, significant security issues yet to be satisfactorily addressed. The problem is a lack of a pan-European risk management scheme. "If you think about local processes, you usually have domestic scheme rules in place that enable, for example, a bank to automatically get the funds returned if a collection goes wrong or if it is fraudulent," she says. But at the present time there is no such recourse available for SEPA users at a pan-European level, meaning that any unwinding of problematic transactions may take longer and be more complicated. This could bring a much greater risk to the parties involved.

The upshot of this, Wandhöfer says, could ultimately be less harmonisation. "So we've got a brilliant solution on paper – one which would bring a lot of benefits to corporates, particularly on the cross-border side," she says. "But it is exactly that cross-border side where it suddenly gets very scary for some people. And that could be where the local direct debit inside SEPA suddenly starts looking very different. They will probably come up with local risk mitigation models, but I can't conceive of a pan-European model being introduced from where we are today."

Brian Hanrahan, Executive Vice President Sales and Marketing at specialist provider of SEPA payment solutions, Sentenial, agrees that the progress on migrating to the new direct debit scheme has, to date, been rather disappointing. "SDD was a much bigger project," he says. "Traditionally it has been a domestic instrument – people weren't doing cross-border direct debits before SEPA. Credit transfers, on the other hand, were already operating cross-border – people were just using more expensive payment mechanisms. So you could say that, unlike SDDs, SCTs have naturally replaced something."

The transition to the SCT, he says, has been faster because these instruments present less of a technical challenge for banks and corporates. "If you think of a credit transfer," he notes, "it is usually a one-off event. You capture your beneficiary details, which are now required in the IBAN format rather than a legacy format, but other than that it is a push instrument – you just send the message to your bank and they will execute the transfer."

"But with direct debit there is a lot of back and forth involved. The corporate will send out a collections message to thousands of their customers and then over the next few days a variety of exception messages could come back. There is a lot more traffic and it is a more interactive process, which considerably multiplies the complexity."

Getting ready for 2014

SEPA principally began as a politically-based project rather than a business initiative. European policy-makers saw it as a natural next step to the introduction of the single European currency – an essential component of the internal market which legislators hoped would foster greater levels of pan-European trade.

SEPA's origins as a political project may explain why many banks and companies have not been in any rush to migrate early. But while the above-mentioned drawbacks may undermine the business case for SEPA, at least with regard to the direct debit, notice of the looming February 2014 deadline means that migration is no longer an option – it is now, unquestionably, a matter of compliance.

In light of this, nearly all banks and companies operating within the Eurozone have started taking steps to tackle the various technical and contractual changes required to prepare themselves and their customers for the switchover. "I think up until the deadline was announced SEPA had a few niche users. These were mostly companies with large volumes of cross-border payments who had seen a business opportunity in SEPA and adopted early for their own benefits," says Hanrahan. "But they were in a very small minority. However, since the regulation passed into law most large corporations are now undertaking an impact assessment and many are in a vendor selection process." ■

CASH MANAGEMENT

Achieving visibility

As access to bank credit lines and external liquidity continues to be challenging, many treasury departments are looking to free up internal cash. But to do that, they need to know where it is and whether they can move it to where it is needed. Treasurers can use different cash pooling techniques to give them a better picture of their cash position.

REGULATION

MMFs

Despite the SEC abandoning its plans to reform money market funds last year, the battle has just begun. US regulators still have their sights set on the $2.6 trillion industry. But what is the state of play in other jurisdictions? Will there be a global consensus to increase regulatory oversight? If so, what will this mean for the industry as a whole?

INSIGHT AND ANALYSIS

Bank relationships

As corporate treasurers look to share wallet with their banking partners, many are waking up to the fact that it is a two-way street. Having a heart-to-heart discussion with your banks as to what they need to get out of the relationship will have a positive effect and deepen the relationship as a whole. It is then you can see a shift to substance over style.

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

Ornella Barra, Chairman of the social responsibilities committee, Alliance Boots; **Suzanne Barry**, Head of Liquidity and Investments EMEA, Bank of America Merrill Lynch; **Ralph Baxter**, CEO, ClusterSeven; **Carole Berndt**, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch; **Marc Bolland**, CEO, Marks & Spencer; **Paul Bramwell**, Senior Vice President, Treasury Solutions, SunGard; **Simon Constantinides**, HSBC's Regional Head of Global Trade and Receivables Finance, Asia-Pacific; **Malcolm Cooper**, Global Tax and Treasury Director, National Grid; **Brian Coulton**, Emerging Market Strategist, Legal and General Investment Management; **Grenville Croll**, Specialist and Chairman, EuSpRIG; **Rohan Douglas**, CEO, Quantifi; **Marie-Astrid Dubois**, Assistant Treasurer EMEA and Asia, Honeywell; **Steve Dwyre**, Managing Director, Industrials and TMT, Lloyds Banking Group; **Christina Easton**, Principal, Treasury Dynamics LLC; **Brian Hanrahan**, Executive Vice President Sales and Marketing, Sentenial; **Robert Hare**, Director of Banking, Lloyds Bank Commercial Banking; **Manish Kapoor**, Head of Airtel Centre of Excellence Cash and Bank, Bharti Airtel; **Mustafa Kilic**, ex-Head of Regional Treasury and Group Risk and Insurance Manager, Indesit; **Richard Jaggard**, Head of Transaction Banking, Europe, Standard Chartered; **Phil John**, EMEA Treasury Director, Mars Inc.; **Simon Jones**, Head of Corporate Sales for Treasury Services EMEA, J.P. Morgan; **Eddie McLaughlin**, Managing Director, Marsh Risk Consulting; **Rajesh Mehta**, EMEA Head of Treasury and Trade Solutions, Citi Transaction Services; **Eric Mueller**, Head of Cash Management Corporates EMEA and Head of Global Network Banking EMEA, Deutsche Bank; **Hugo Parry-Wingfield**, EMEA Head of Market Management for Liquidity and Investments, Citi Transaction Services; **Julia Persson**, Deputy Head of Corporate Treasury, A.P. Moller–Maersk Group; **Stuart Ridley**, Manager – Treasury, Robert Walters Recruitment; **Peter Robertshaw**, SVP Communications, Active Risk; **Rey Sermonia**, Treasury Consultant; **Dmitriy Shamraev**, IATA Director for Russia and CIS; **Paul Stheeman**, Treasury Consultant; **Kah Chye Tan**, Global Head of Trade and Working Capital, Barclays; **Ruth Wandhöfer**, Head of Regulatory and Market Strategy, Citi; **Gary Williams**, General Manager Treasury, Mitsubishi Corporation International (Europe); **Eileen Zicchino**, Managing Director and Chief Marketing Officer, J.P. Morgan Treasury Services.

treasurytoday ASIA

research | insight | analysis

QUALIFYING CORPORATES SIGN UP NOW

Let us keep you informed for **FREE**

Treasury Today Asia is the new, bi-monthly magazine launched by the publishers of the renowned Treasury Today. This new magazine reflects on the trends, challenges and opportunities for treasury/finance professionals in the Asia Pacific region. Each edition of our BPA audited bi-monthly publication has a specific country focus and includes articles providing relevant insight and analysis through independent editorial content.

Treasury Today Asia combines our extensive knowledge of the region through our work with Treasury Today in China and our ground-breaking Benchmarking Studies in Asia Pacific and China.

If you are a corporate based in Asia Pacific - Register NOW so we can give you:

- The authoritative voice on treasury and finance in the Asia Pacific region.
- Six issues per year of clear and thorough well-researched copy.
- Independent analysis of treasury topics specific to your region.

UP-TO-DATE RESEARCH, INSIGHT AND ANALYSIS THAT TREASURY PROFESSIONALS LIKE YOU CAN'T AFFORD TO MISS

To start your FREE subscription to treasurytodayASIA contact:

Telephone	Email	Fax	Web
+44 (0) 13 0462 9002	asia@treasurytoday.com	+44 (0) 13 0462 9010	treasurytodayasia.com

We reserve the right to limit complimentary subscriptions to corporate readers based in Asia. If you are not a corporate or you are based outside this region, please contact us to obtain details of our subscription packages.

Financial Supply Chain

SEPA

Bottom line:

[Become SEPA proof with ING]

Do you want to derive the maximum advantage from SEPA and take an integrated approach to your financial supply chain management?

ING supports businesses migrating to SEPA and advises on ways to optimise cash management. We have the experience and a large European network to help you migrate to SEPA and can offer you an approach that is tailored to your needs.

If you want to learn more about becoming SEPA proof, please visit our dedicated SEPA website:

www.ingsepa.com

ING Commercial Banking is a marketing name of ING Bank N.V., registered by the Netherlands Authority for the Financial Markets (AFM). Copyright ING Commercial Banking (2012).