treasurytoday
research | insight | analysis
September 2013

The storm before the calm

There have been many forces at play in the foreign exchange (FX) market – including the rising renminbi and the recovering US dollar, which has sent other currencies tumbling. How well-equipped are treasurers to deal with this volatile environment?

Women in Treasury

Kathleen Hughes

Managing Director, Global Liquidity Sales
Investment Management Division
Goldman Sachs

The Bank Interview

Claudia Colic

Head of Transaction Banking
UBS

Movers and shakers

Mobile treasury

New regulatory threats

Taking different roads

Translating treasury overseas

Jurisdictional considerations

Political risk

Measure, manage, mitigate

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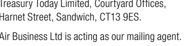

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The Sibos jamboree heads for Dubai

Sibos is the annual banking conference organised by SWIFT, the bank owned provider of secure financial messaging services. Sibos has become the 'must-attend' conference for bankers, technology suppliers and consultants who are involved in all aspects of the transactional banking business. The conference is held in different parts of the world each year and there are 6,000+ attendees most years. What do they all do? Well, there are some serious debates at Sibos and informative conference sessions but it is also a big party as banking friends get together and the booze flows from the stands.

The real world also intrudes. Those that attended Sibos in Vienna five years ago will always remember 'Sibos Monday' as attendees learnt of the demise of Lehman Brothers. The lasting and stark image of that event is of massive stands empty of content and people, as well as disappearing keynote speakers.

Last year the empty stand spaces at Sibos in Osaka, Japan reflected a different reality. The Chinese banks, who have had a growing presence at Sibos in recent years, all withdrew from the conference in Osaka over the dispute with Japan over the sovereignty of eight uninhabited islands in the East China Sea.

Nonetheless SWIFT claims to have had 6,250 attendees in Osaka, the largest ever attendance in Asia Pacific. Those that were there are sceptical as to whether they had all turned up but Asia Pacific is still predicted to supply 45% of this year's attendees. This is a clear sign of the growing importance of SWIFT in the region and just as importantly of this region to SWIFT. EMEA is next in significance with 42%.

It is the ME bit of EMEA that Sibos is visiting this year, with the conference going to the Middle East for the first time. It will be interesting to see attendance levels in this new location. SWIFT expects more than 6,000 attendees including a few corporate treasurers to descend on Dubai from 16th-19th September.

To attract corporates Sibos has, for the sixth consecutive year, included a dedicated two-day Corporate Forum as part of its programme, under the main theme of "accelerating innovation in treasury and trade". Anita Prasad, General Manager – Treasury at Microsoft and Alawi Al-Shurafa, Treasurer at Saudi Chevron, will join the opening panel to discuss best practice in centralising treasury functions and there are a few other corporate speakers over the following two days. But Sibos is not really a corporate forum and the corporate attendees will typically be from big companies with the larger and more complex transactional banking requirements who use SWIFT messaging to communicate with their banks.

Sibos is as much about the chats outside the formal sessions as it is about the agenda topics. The conference attracts the main decision-makers in banking and payments. In many ways, that is the secret to Sibos' continuing success – as a networking event for the banking industry, it is unrivalled, allowing participants to meet the people they need to in order to do business.

Treasury Today will be in Dubai, reporting on the conference and uncovering what is going on behind the scenes.

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Managing Director, Global Liquidity Sales, Investment Management Division

Goldman Sachs

Staying abreast of global trends is an incredibly important and interesting part of Kathleen Hughes' role at GSAM.

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Whether in the business or personal field, language is everything. Cultural variances can act as huge obstacles in communication, creating barriers that inhibit efficient workload management. One solution is to embrace a company language, as Microsoft has done, by developing specific phraseology and acronyms.

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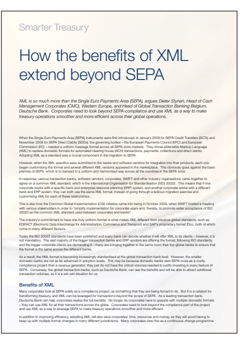

Smarter Treasury

How the benefits of XML extend beyond SEPA

Extending XML benefits beyond SEPA

Dieter Stynen, Head of Cash Management Corporates (CMC), Western Europe and GTB Belgium, Deutsche Bank, illustrates the role XML will play in making treasury operations smoother and more efficient across global operations.

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BUSINESS BRIEFING

treasurytoday Business Briefing

Why using the renminbi can help companies cut costs and grow

Why using the renminbi can help companies cut costs and grow

China's GDP is set to increase by 8.6% in 2013, and next year China will add more to global economic growth than ever before. For this reason, the renminbi (RMB) should be seriously considered as an integral part of a corporate's management strategy.

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Movers and shakers

Some critics have said that mobile treasury is trying to solve a problem that does not exist, but many would have said the same thing about the motor car. Indeed, a revolution has to start somewhere. If the first faltering steps in a new direction are seen as a gimmick, then so be it.

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Financial Risk Manager

Coca-Cola HBC AG

In moving from banking to the corporate sector, Dimitris Papathanasiou was looking for more excitement and variety. As Financial Risk Manager at Coca-Cola HBC, where there are many more things to do and fewer resources, he has certainly found what he was looking for.

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The Bank Interview

Claudia Colic
Head of Transaction Banking

Due to the developing regulatory environment, corporate treasurers are changing their approach to risk management and mitigation. Claudia Colic, Head of Transaction Banking, UBS, looks at the drivers of this change.

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

Cross-border pooling: the Holy Grail for treasurers in China

Robert Yenko, Regional Treasurer, Intel, began his talk at EuroFinance Singapore 2013 with a short story to illustrate the transformation that has occurred in China during the past 20 years. In 1994, as part of a team selected to set up Intel's first factory operations in Pudong, China, he went along with a couple of colleagues to visit the Head of the Capital Accounts Division of State Administration of Foreign Exchange (SAFE). They arrived at the office five minutes early to find a smoke-filled room and the capital accounts manager in his undershirt – he wasn't quite ready for their arrival. Today, the Chinese authorities are more than ready to do business. They are consciously building close relationships with multinational companies (MNCs).

SAFE engagement

Intel's evolving relationship with the SAFE did not happen overnight, emphasises Yenko. In 2004, SAFE introduced Rule 104, which allowed domestic cash pooling with US dollars, and at the same time it allowed one-way cross-border lending. However, there was a caveat – Rule 104 was specifically targeted at companies with a regional headquarters (RHQ), which Intel didn't have at that time. "Therefore, we explored how we could restructure our legal entities in China so that we could participate in Rule 104," says Yenko. In 2005, it set up a RHQ for its subsidiaries and operations in China.

As a result, in early 2007, Intel was allowed to do its first cross-border loan, which was a significant milestone for the company. "Of course there was a limit – it wasn't a free-for-all," he says. The limit was linked to the level of profits that a company generated in China. Intel then petitioned SAFE for approval to perform domestic cash pooling in US dollars. "This didn't address trapped cash issues because it is still a domestic cash pool in China. However, it allowed us to effectively manage our domestic liquidity within China, so that we can use our cash wherever we want to in-country."

But in 2009, SAFE suspended Rule 104 (cross-border lending) and replaced it with Rule 49. "Our in-country cash started to balloon over time," says Yenko. That is, until the company caught a "big break" last year.

In June 2012, the company was invited to participate in a US dollar cross-border cash pooling pilot programme, and in December 2012 received SAFE's approval to become a part of the pilot programme. In January this year, Intel made its first transaction. "This is the Holy Grail for treasurers in China – having the flexibility to move money outside of China and to be able to invest it the way we want to. It is a big win for us," says Yenko.

Glass now half full, say CFOs

Risk appetite is at a six-year high and UK companies are the most disposed towards expansion than they have been in two years, according to the most recent quarterly CFO survey from Deloitte. The 2Q13 survey took place between 14th and 28th June and quizzed 135 CFOs, including 37 from FTSE 100 and 45 from FTSE 250 companies, alongside CFOs from other UK listed companies, large private companies and UK subsidiaries of major companies listed overseas.

With CFO optimism having risen for the fourth consecutive quarter, it now runs above its long-term average, says the report. Tension caused by the ongoing Eurozone saga, for example, has eased with just 9% of CFOs seeing the likelihood of the euro-area breaking up in the next 12 months compared to 36% last year. Fears also of the UK slipping back into recession have abated slightly, with CFOs assigning a 23% chance of this happening in the next two years.

Funding and cost

Bond issuance remains the CFOs clear favourite for financing with around 70% citing this as an attractive source of funding, a figure that has risen steadily since the low of 3Q08. Bank borrowing naturally remains part of the mix, being cited as an attractive source by 60% of respondents (rising steadily from about 30% since 1Q12). Equity issuance has also gained favour this year having bounced back from the depths of 1Q12.

CFO expectations for revenue and profit growth in the next 12 months are at the highest level for two and a half years, with increases of around 60% and 40% respectively since 2Q12. Increasing cash flow remains one of their top priorities, this having risen slightly in priority over last year (from 39% to 40%). ■

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

CAPITA

Asset Services

ADVERTORIAL FEATURE

The newly formed Capita Asset Services division launches with a strong commitment to treasury solutions

Capita Asset Services' 100-strong treasury solutions team has an enviable track record built up over more than 25 years. With the formation of this new division it will be even better placed to offer clients a host of new opportunities and benefits.

As far as delivering integrated treasury services is concerned, Capita Asset Services' treasury solutions is a market leading provider. "We have an experienced and well established business," explains David Whelan, Managing Director, Treasury Solutions. "Integrating this business within Capita Asset Services," says David, "very clearly aligns treasury services with other related Capita services and makes it far simpler for the marketplace to appreciate the full breadth and scope of our asset services capabilities."

In terms of day to day delivery, Treasury Solutions' clients will continue to receive the same high quality service and advice from the existing team, using the same proven systems and approach. "Being part of this new division," says David, "along with the continued investment in IT and our people, is a demonstration of the level of long-term commitment the business is making to its treasury solutions proposition.

Benefits to clients

David believes that a key benefit of the new division is that it will make it clearer to clients that there's a lot more they can get from Capita in order to add value to their existing operations. "Clients may be struggling with substandard services or a lack of internal resources," he notes. "Now they'll see that they can actually receive a wider range of quality services from a company they know they can trust."

David also points out the advantages of Treasury Solutions' closeness to Capita plc, it's very successful FTSE 100 parent. In treasury, he explains, it's hugely important that clients choose a provider with the stability, soundness and financial backing to stay with them for the long term, as they go through a number of different economic cycles. "With the strength of Capita plc sitting behind us," says David, "our clients have that reassurance."

A stronger proposition

The Treasury Solutions' team, which includes accountants, corporate treasurers and bankers, has the relevant qualifications and experience to provide a high quality service. The provision of investment advice in the UK, as part of Treasury Solutions, is regulated by the Financial Conduct Authority. Treasury Solutions is independent of any bank, so always provides absolutely impartial advice.

Treasury Solutions

Capita Asset Services' treasury solutions team has a presence in 25 countries and provides a range of integrated treasury services to corporates, private equity houses, banks and public sector organisations. Managing Director, David Whelan comments, "we offer the best in treasury advisory, outsourced solutions and platforms, supported by one of the largest independent treasury teams in the world."

Services range from cash advisory and counterparty credit monitoring to setting up and running chosen aspects of a client's international treasury operations in a number of strategic tax-efficient locations. David adds: "We also provide modular services such as multi-lateral netting solutions to reduce the cost of global trade and payment flows, and a range of loan and derivative valuation and accounting services."

Contact us

Find out more about our range of services, call David Whelan on **0871 664 6826**

www.capitaassetservices.com

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This much I know

Kathleen Hughes

Managing Director, Global Liquidity Sales
Investment Management Division

Goldman Sachs

What is your career-defining moment?

The most stressful time in my career – but in retrospect also the most defining – was managing the events of late 2008 by staying close to our clients and leading my team by example. As someone once said to me, it is important to be calm in a crisis and it's the one time that I really understood how critical that advice was.

Which women in business most inspire you and why?

Inspirational women display certain characteristics: they can explain complex concepts or products in a comprehensible way; they have an authentic leadership style, which shows a human side and plays to their strengths; and they tell stories as a way to emphasise a point or motivate people, which illustrates a high level of emotional intelligence.

What is the biggest challenge you are facing just now?

The challenges I face are the same ones that our clients are facing: a low interest rate environment; evolving regulatory change; a reduction in high quality investment options; and effectively coping with fast-changing market developments. All of these create opportunities to help clients find solutions that often result in new products or strategies.

What couldn't you manage without?

Both my husband and I work and travel. He tends to travel more intra-Europe with a couple of long haul trips a year, whereas my long haul travel tends to be more frequent and for longer periods of time. Consequently, having a supportive partner and family has been critical to navigating my current role.

What is your next major objective?

My major objective is to help our clients operate in markets across the globe, which will continue to be my focus for the foreseeable future. We already have a market-leading business across the US, EMEA and Asia, but a particular area of priority for us currently is China.

What advice would you give to other women in finance?

For junior women, develop mentor relationships with someone that can offer you an unbiased opinion and act as a sounding board for ideas. Plus diligently build your network, starting with key people closest to your day-to-day business and broaden out to related businesses or teams.

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

I would have dreamt a bit bigger when I was younger. I would have been more thoughtful about my career and developed a deeper understanding of my industry at an earlier age.

"If you have a good, strong network, you can navigate all sorts of challenges."

ON THE WEB

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

"Mobility" is the word Kathleen Hughes, Managing Director, Global Liquidity Sales, Investment Management Division (IMD), Goldman Sachs, uses to describe her career. It began in 1990 working with private clients at Chase Private Bank in the US. In 2000 she moved across to asset management, working with institutional clients on the fixed income (FI) desk and initially covering client relationships, and took an opportunity to transfer to London and into a European role.

That year J.P. Morgan (JPM) merged with The Chase Manhattan Corp., and it is then that Hughes "discovered" the world of global liquidity, joining the liquidity team at JPM in 2001. In 2010, she joined Goldman Sachs Asset Management (GSAM) and moved from a European role into a global role. Today, she heads up GSAM's global liquidity sales team based in London and oversees sales teams based in the US, Europe and Asia.

In this role, Hughes travels to either Asia or US one week a month. For that week, she is on the road with one or two salespeople and sees as many clients as possible. "This is a part of my job that I find very interesting and incredibly important because I need to stay abreast of global trends, new developments and challenges that our clients are facing wherever they are," she explains. "I might be talking to a US treasurer one month and a Chinese treasurer the next, and I need to bring insights into what challenges treasurers are facing in other parts of the world."

When she is not working directly with clients, Hughes is focused on managing a global sales operation, which encompasses developing people, setting strategy and having input into new products. Hughes also supports new developments in the money market fund (MMF) industry through the Institutional Money Market Funds Association (IMMFA) and has been on the Board since 2006, something that – given what is happening in the industry today – "takes up more time these days" than it did when she first joined.

In addition, Hughes is co-head of Goldman Sachs Investment Management Division (IMD) Women's Network in EMEA, a responsibility she took on last year alongside Amy Liu from the private wealth side of the division. Although it was already an established network, when Hughes and Liu took over the reins they decided to change the mission statement to: "Recruit, retain and promote high quality women so that they can be future leaders in our business. We do that through a number of ways, including helping to drive commercial results, building effective networks and gaining visibility with senior management," explains Hughes.

The network is structured around five pillars: recruiting, career development, parenting, communication, networking. The steering committee is made up of women responsible for each pillar and together they plan a series of programmes throughout the year. Importantly, each event has to adhere to the mission statement. For example, the first IMD Women's Network event this year was an investment panel featuring three women from different disciplines – FI, currency and private equity (PE). It was open to the entire division and attracted a high turnout. "Many events are open and not just for a women-only audience," explains Hughes. "This was an opportunity to showcase the talented, smart investors in our division which happen to be women – we wanted to get their thoughts on what was happening in the market according to their different disciplines."

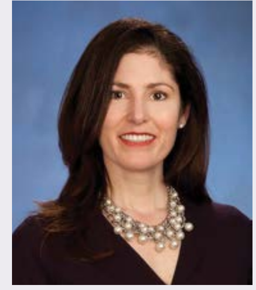
The network also attempts to address the challenges that crop up at different points in a woman's career. For example, the career development pillar will put on specific programmes targeting analysts and associates starting out in their career, as well as other programmes targeted at vice presidents and managing directors.

As an integral part of career development, Hughes strongly believes in network-building. "I don't think people realise how important it is to their overall career and the role it can play throughout their career. No matter which stage of your career you are in, if you have a good, strong network and people that understand what you bring to the table, you can navigate all sorts of challenges."

It is possible to use existing structures, such as a women's network, to help jumpstart your own, "but carefully think about who you need to know better in your business, which can also have a commercial impact. Networks are not just about being well-connected, but you should use the network to drive commercial impact in your current role," she says.

Mentoring/sponsorship is another area of importance – and part of the culture at Goldman Sachs, both formally and informally. Hughes feels she is "very lucky" to serve as a mentor to a handful of men and women. She stresses that it needs to be a two-way relationship. "When I first joined Goldman Sachs, many people approached me to become their mentor and in return I asked them to help me find my way around the company – it was mutually beneficial."

As careers develop, mentor relationships may evolve and change. "Mentors that start off inside your company may move to another, but that doesn't mean the relationship has to end," advises Hughes. "As a person's experience grows and expands, they can shed new light on things – which can be extremely valuable." ■



Kathleen Hughes is Head of the Global Liquidity Sales team at Goldman Sachs Asset Management (GSAM). She serves as co-head of the Investment Management Division (IMD) Women's Network in EMEA. Hughes joined Goldman Sachs as a Managing Director in 2010. Prior to this, she was Head of Global Liquidity Sales for EMEA at J.P. Morgan Asset Management (JPMAM). Her career at J.P. Morgan began in 1990 and included a decade as a private banker and another ten years in asset management sales. Hughes serves on the Board of Directors of the Institutional Money Market Funds Association (IMMFA), a position she has held since 2006. She was named one of the 100 Most Influential People in Finance by Treasury & Risk magazine for 2011. Hughes earned a BA in Economics from the University of Richmond in 1989.

Why some treasurers are more equal than others

As part of our pioneering new initiative, Treasury Today have launched the first Women in Treasury study. Designed to build an understanding of women's experience in the profession, the insights gathered from this study are set to be an eye opening call to action for all those operating in the treasury field.

Our Women in Treasury study has been developed to better understand the female treasurer's experience at work. Covering key areas such as salary parity, work/life balance and career aspirations, the response has been both remarkable and shocking. It is only once we understand what the major obstacles for female professionals are that we can begin to combat them. How better to do this than to conduct the largest survey of female treasurers to date on just this issue.

Over 140 female corporates have already completed the study. The results cover the full range of age and experience levels. The survey hasn't yet closed and there is still the opportunity to take part, yet already there are some key themes coming through loud and clear. Echoing the views of those women featured in our Women in Treasury profile series, female treasurers express their fierce commitment and passion for their profession. What resonates from the responses we have gathered so far is that the majority of women in treasury are experiencing inequality in pay and in career prospects and this appears to be exacerbated for those who have children. The two areas of inequality specific to treasury are identified as the predominantly male environment that this industry remains and the fact that the nature of the work of a treasurer does not lend itself well to flexible working arrangements, making life particularly difficult for treasurers who are also mothers.

Our study results so far reveal that:

56% of respondents feel they are paid less than their male counterparts.

60% of respondents feel they have lower career prospects than their male counterparts.

When it comes to professional networking, key to career development, there are very few existing platforms available for women treasurers. Our study only serves to highlight the necessity for women to better promote themselves, to find great mentors and to support one another as careers develop. Although nearly all of the women surveyed stated that they think mentorship is key to career development, over 50% are working for a company that does not offer such a programme. Treasury Today's first Women in Treasury Lunch, on October 31st in London, aims to be a place for female treasurers to raise their visibility, learn from each others' experience, and to network amongst each other. It will also be the first opportunity to exclusively hear the full results of the complete study.

In addition, Maeve Robinson, Assistant Treasurer of Omnicom Inc, and the winner of our Treasury Today Adam Smith Awards 2013 Woman Of The Year, along with our highly commended Treasury Today Woman of the Year, Marie-Astrid Dubois, Assistant Treasurer, EMEA and Asia at Honeywell, and Jenny Knott, CEO at Standard Bank, will join us. We look forward to hearing their participation in our panel discussion around the findings of the study, as well as sharing their advice and unique insight with other female corporate treasurers. When asked what advice she would give to women working in treasury, Robinson says; "Be creative, be thoughtful and definitely don't be afraid to speak out even when you are outnumbered. If you do it the right way it will get the reception that it is due."

Women in Treasury Lunch, 31st October 2013

The Women in Treasury Lunch promises to be both inspiring and informative. Do not miss this opportunity to network with like-minded women from a diverse range of industries and geographical locations. The findings of our first Women in Treasury study will be exclusively revealed at the Lunch which takes place at the Four Seasons Hotel in London on 31st October.

To reserve your place at this exclusive event please contact lisa.bigley@treasurytoday.com

Selecting a payroll service provider

Tapping our collective knowledge to get better information

> *What are the main considerations when preparing a request for proposal (RFP) to select a payroll service provider?*

Linda Pullan, Head of Payroll Alliance:

There are huge changes taking place regarding HM Revenue and Customs (HMRC) processes, in particular implementation of real-time information (RTI), which has had a major impact on UK employers. This new system of communicating information to HMRC has meant that employers have had to review their payroll and BACS software to ensure it is up to the task. Unfortunately many legacy payroll systems have either not been upgraded to RTI, or the cost has made employers reconsider their options.

As a result of RTI and the introduction of auto-enrolment pensions, a number of employers are considering outsourcing their payrolls. In this respect, they have two choices: they can either outsource the technology and use a payroll bureau but retain their payroll team, or opt for a fully-managed service.

There are pros and cons to both options, so it is important to consider the choices carefully.

An employer should be aware that the cost of providing a bureau or fully outsourced service is never advertised. This is because each solution is tailored to the individual client's requirements. As a result, this means they will need to send out a RFP to the providers they are interested in. But before an employer drafts a proposal, they should think about what they want from the payroll system. As payroll is usually an employer's biggest cost, an accurate and efficient payroll service is fundamental to employee relations.

Many employers make the mistake of changing software but not updating their requirements. Instead, what they should be thinking about is how they want the payroll function to develop, using blue-sky thinking.

So before taking the plunge in issuing a RFP, here are my top tips for success:

- Choose a reputable company that is established in the market.
- If you work in a specific industry, such as retail, then choose a company that is experienced in offering payroll services in this field.
- Large providers will be able to offer advanced technology, but smaller providers are usually able to provide a more personal customer service.
- Include everything you want the system to do now and in the near future to fulfil your requirements, as it will be more costly to add them later.
- An accurate payroll specification is invaluable.
- Ad hoc reports can be very expensive, so consider a report writing function.
- Don't underestimate how long this process will take from start to finish.
- Pay particular attention to 'exit' clauses in the contract, otherwise it may be cheaper to stay in and suffer than to get out.
- Always do parallel runs before going live.

- If you opt for a fully managed service, do not be too quick making your internal expertise redundant because if it doesn't work out you have no one to bring the service back in-house.
- Ask the providers for a list of customers that you can speak to before you make your final decision.

Mike Edwards, EMEA Head of Market Management, Global Transaction Services (GTS), Bank of America Merrill Lynch:

To a certain extent, best practice for payroll services RFPs is no different to the approach taken with any cash management RFP. However, when dealing with payroll, the fact that the payment of employees' salaries is at stake makes it is even more critical that you choose the appropriate solution from a suitable payroll provider for your business, and that the implementation process is seamless.

In preparing for the RFP, the first element is to engage the correct internal stakeholders. The core RFP working group should be comprised of representatives from different geographies and functions to ensure that feedback and buy-in is sought from a range of people who will be affected by changes to payroll – including the commercial teams and HR.

The next stage is to consider the scope of the services required. Payroll is sometimes treated as a bolt-on component to a company's broader cash management programme but this approach risks missing a significant opportunity. The effective management of payroll payments can help improve a business's overall cash efficiency and contribute to a better working capital position. For this reason, it's worth considering how it can be combined or aligned with a broader cash management or working capital solution.

The geographic scope of the RFP is also vital. A harmonised global solution brings greater efficiencies and may enable payment accounts to be rationalised. However it's difficult to find a one-size-fits-all service from payroll providers because of the considerable local nuances that exist. The European marketplace is particularly fragmented, for example. Many payroll providers are focused on enhancing their formats in order to comply with the Single Euro Payments Area (SEPA) in time for its 1st February 2014 migration deadline, but these formats are largely being developed at a local and in-country level first, rather than at a pan-European level. It can therefore be challenging for companies to attain a holistic payroll solution from providers and may have to support multiple in-country solutions.

Payroll data is highly sensitive, and an additional element to consider is the level of security to be expected in the data delivery process, irrespective of whether the data will be delivered as part of a bulk payments file (which may include other payment types), or a dedicated payroll file. Individual payment items can be masked to increase privacy, but it's important to decide how much information masking is required and to ascertain whether providers can meet these needs. Once the payroll file is created, there is also the challenge of establishing who and how the file is approved to go to the bank or direct clearing payment process, and controlling the risk that surrounds this.

Any RFP process related to payments is an opportunity to review the wider picture. By using one global payment solution, you can make your payments process more efficient and increase control over your working capital. It can be time-consuming, but thorough preparation can lead to a better outcome and end solution, which will benefit all employees. ■

To read more answers, go to **http://treasurytoday.com/2013/09/selecting-a-payroll-service-provider**

The next question:

"What are the main obstacles in setting up a collections-on-behalf-of structure (COBO) and how have corporates overcome these issues?"

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

No free lunches

Printing money may seem like an easy way out of a crisis, but such action comes at a price. With the Federal Reserve's balance sheet quadrupling in just a few years, what price will the US have to pay?

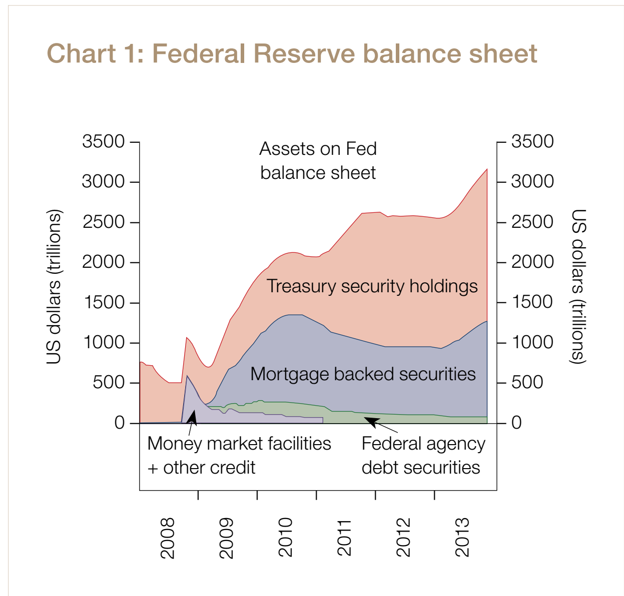
In this day and age, it pays to remember Milton Friedman's famous adage: "There is no such thing as a free lunch". What he meant, among other things, was that a central bank cannot print money (to boost the economy) with impunity. This figures – creating a wealthy society simply by cranking up the printing presses would be too easy, withZimbabwe being a case in point.

What Friedman was really saying was that too much money creation eventually leads to inflation, which makes people poorer. This, in particular, is the price that has to be paid.

So why would a central bank pursue such a policy? After all, there is every chance that the drawbacks of liquidity creation will eclipse the benefits in the long run. The problem is that initially, the effects are benign. In almost every situation growth picks up, whereas inflation is nowhere in sight and only starts to bite at a later stage. As a result, politicians are often tempted to head in this direction. They are also encouraged to do so because they have a perfect excuse: the policy provides temporary relief in a difficult situation.

With this in mind, one could wonder what most central banks thought they were doing in the past.

The Federal Reserve, for example, has quadrupled its balance sheet in just a few years. Equally, the Bank of England (BoE) and the European Central Bank (ECB) have created a lot of money, as well as the Bank of Japan (BoJ).



Source: Thomson Reuter Datastream/ECR

Regardless of their motives, the main question now is what will the fallout be? The answer will determine prices and rates in the financial markets. This Market View takes a look at the costs of "paying the piper" in the US.

Countering the crisis in the US

During and after the credit crisis in 2007-2008, growth slowed so much that there was downward pressure on asset prices on an ongoing basis. Owing to plunging asset prices, the banks suddenly needed to write down their debts. Consequently, credit seized up, asset prices kept falling, the economy started to contract more and more, and inflation threatened to morph into deflation. In other words, a vicious cycle was taking hold. Many debts could no longer be serviced, let alone repaid. To offset this, the government intervened on a massive scale. One implication was that its deficit mushroomed within a couple of years.

It soon turned out that this wasn't enough to save the day and that, in any case, high deficits would not be sustainable, due to the ageing population. So the Fed needed to step in. The central bank embarked on a large-scale bond-buying programme, which drove down long-term interest rates and created a lot of "new money", which boosted asset prices (albeit artificially).

The Fed policy helped to gradually turn the tide. As asset prices rose, consumers became more inclined to borrow and banks started to supply credit again. Instead of a collapsing financial sector and general downturn, the economy saw modest growth and credit picked up. At first glance, this is a fantastic achievement for the central bank, and completely in line with what can be expected during the first stage of a large-scale monetary stimulus.

Free lunch today?

However, it would be unwise to ignore Friedman's comment. In other words, at what cost did all of this happen? This is a very relevant question even if, for the moment, inflation does not loom large – quite the opposite (which is why several Fed members appear more worried about deflation). The following can be expected.

The absence of inflation – so far – is understandable. After the credit crisis erupted, credit stagnated and the money multiplier, as well as money velocity, dropped sharply. The money created by the Fed merely compensated for this.

The problem is that in order to prevent deflation in the US, economic growth needs to be at least 2.5%. And as long as real disposable incomes increase marginally, this can only be

attained if credit eases. The Fed accomplished this through asset inflation. Yet, success in this respect is a double-edged sword: as the money multiplier and the rate of money circulation accelerate, deflation risks will disappear but inflation will increase rapidly. Simultaneously, interest rates will spike until inflation is no longer a threat and/or until nominal interest rates exceed the expected rate of inflation considerably.

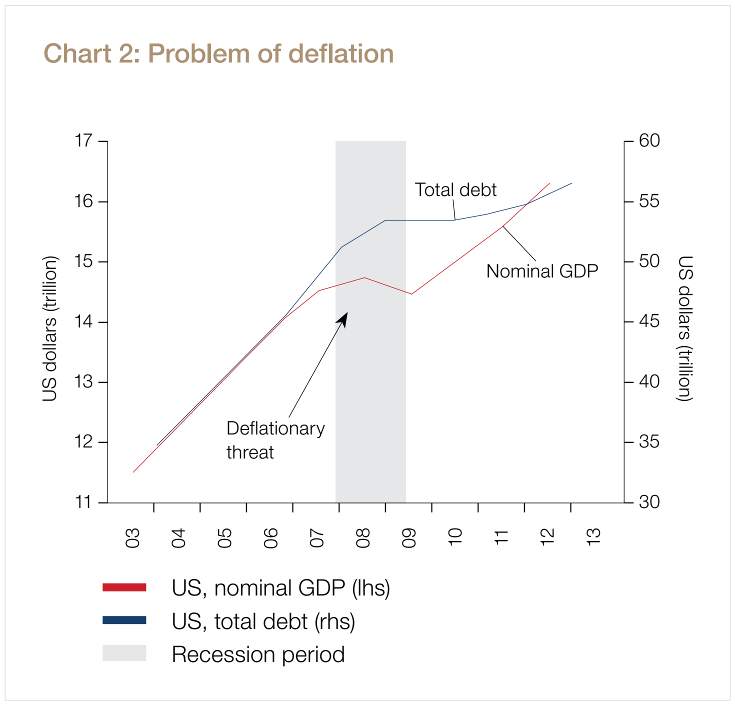
In the circumstances, interest rates will have a long way to go, the Fed having considerably depressed interest rates. Short rates are below inflation. However, long rates are not. For instance, the yield on ten-year US Treasury bonds is approximately a percentage point higher than the current inflation rate.

Of course, bond investors tend to look ahead. They know that once credit takes off properly, economic growth will reach 3% and inflation will rise to 2%. If so, nominal growth will hover around 5%. As long as the rate of interest remains below that, it will be profitable to borrow money and credit will continue to ease. As a result, the money multiplier and money velocity will increase and so will the risk of future inflation. In other words, whereas long-term interest rates exceed the present rate of inflation they are bound to go up at some point, which makes it even more attractive to borrow money, and so on.

Bond market limits growth potential

Owing to the massive money creation of the past years, the bond market will not tolerate a much higher money multiplier/velocity. In practice, this means that once borrowing picks up, bond yields will climb to levels where credit stagnates again.

Therefore, the price for the recent liquidity creation is that it will not be possible to expand credit supply much in the coming years. This could well imply that the US economy faces a prolonged period of low growth as deflation continues to threaten. To counter this, the Fed will have to keep on boosting asset prices artificially, eg. create more money. However, as money supply expands, interest rates will tend to shoot up at an ever earlier stage (and more steeply) as credit eases.



Source: Thomson Reuter Datastream/ECR

Too much market optimism

The markets are too sanguine about the long-term growth prospects for the US economy. It is praiseworthy that the Fed has managed to prevent a deep depression after the credit crisis broke out, but that is not the same as returning to the growth percentages of the past decades. The latter would require a functioning credit system but precisely because of the policy the Fed has pursued in recent decades, this may well be impossible.

Therefore, many years of sluggish growth is on the cards. If growth threatens to slow too much, the central bank will – again – try to create asset inflation through money creation. But once credit eases, interest rates will skyrocket, until credit starts to tighten again. It seems that the US economy has now arrived at this stage. ■

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The storm before the calm

The volatility in the global economic environment has spilled over into the foreign exchange (FX) market, which is experiencing significant moves and liquidity problems. The FX world is very different from a decade ago and therefore so too are FX risk strategies.

As companies become more global in their operations and outlook, they are exposed to increased levels of foreign exchange (FX) risk. This may be in the form of an obligation to pay a supplier, or a foreign currency payment the company will receive from a customer. These payments are subject to fluctuations in currencies, which have become more volatile and uncertain since the global financial crisis and its consequences.

"There have been powerful forces at work in the global financial system," says Robert Minikin, Senior FX Strategist at Standard Chartered Bank in Hong Kong. "Investors in specific markets have been heavily deleveraging; outflows from some types of bond funds are the largest on record in terms of weekly data." Volatility is occurring across all asset classes, including FX, and corporate treasurers need to be alert to market developments and aware of liquidity conditions as well, he adds.

Recent developments

The internationalisation of China's currency, the renminbi (RMB), is an important change of the past few years. In July, a survey by Standard Chartered Bank and treasury research company EuroFinance found that 73% of treasurers think the RMB will be the third most important currency (behind the US dollar and euro) within ten years. Of the 307 respondents, optimism was highest among corporates who already use at least one offshore RMB product: 79% think the RMB will be global number three or better. That compares with 70% for those who don't currently use the currency.

However, the rise of the RMB is not as straightforward as it could be. In June, money market liquidity tightened significantly in China, with inter-bank rates pushing notably higher. This move was much larger than the usual seasonal spike seen in the middle of the year and, in the view of HSBC

Asian FX strategists, could start to have more negative consequences for the RMB.

"We have been turning more cautious towards the RMB, and as liquidity has tightened onshore our caution towards the currency has increased. We expect USD/RMB spot to move higher and think USD/RMB FX forward curves will stay supported," says a research note issued in June.

The sharp move upwards by China's money market rates has been caused by a combination of seasonal factors, tighter regulations, structurally high leverage and a policy focus, which has shifted away from providing seasonal liquidity to make market participants focus on and try to deal with the root causes of this tightness. China's money market liquidity tends to tighten towards the end of June when the China Banking Regulatory Commission (CBRC) checks banks' loan-to-deposit ratios (LDRs). Additionally, says HSBC, corporate tax payments in July and seasonally slower FX inflows contribute to tighter onshore liquidity, as seen in a typical widening in the spread between money market funding costs (seven-day repo) and the one-year benchmark deposit rate in June.

Another contributor to the tighter RMB liquidity picture is a decline in FX inflows. In May, monthly FX purchases by banks and the People's Bank of China (PBoC) slowed significantly, from an average of RMB377 billion in the first four months of 2013 to just RMB67 billion. "This suggests the regulatory changes to curb speculative and hot money inflows booked as real export/trade financing activities are taking effect," says HSBC's research note.

Ivan Wong, Head of Corporate Sales, Greater China at HSBC, says the US dollar rally has been putting significant pressure on Asian currencies in the past few months, with the exception of the RMB. "Corporate customers with operations in China are generally still bullish on the RMB in the long term. There has been some concern of late about a liquidity crunch and economic slowdown, but most companies believe the RMB will pull back a bit but will still be at a good level to enter into hedges," he says.

"The internationalisation of the RMB is a long-term policy and as it gets more traction there will be greater demand for RMB not only for trade settlement but also for investment and as a reserve currency. Our customers recognise that the Chinese government has realised there was an imbalance in the growth in China in the past and that the new government intends to rebalance and channel economic energy into more productive sectors. People are generally very positive about these moves for the long run."

Dealing with volatility

In addition to the rise of the RMB, there are other, more immediate forces at work in the currency markets. The US dollar, which has been on a downward trend for some years now, seems to be recovering, sending some other currencies into sharp declines.

The US Federal Reserve's policy of quantitative easing (QE) has had a marked effect on some currencies. Before a Congressional panel in July this year, Fed chairman Ben Bernanke said the institution's proposed timetable for tapering its $85 billion a month bond-buying programme was not "on a pre-set course".

Bernanke said the Fed anticipates it will be appropriate to begin to moderate the pace of the $85 billion asset-purchase plan "later this year" and end it "around mid-year" in 2014, if the economy evolves as forecast. If economic conditions were to improve faster than expected, the pace of asset purchases could be reduced "somewhat more quickly". However if market conditions such as employment or inflation were less favourable, easing would continue.

"We are in an unusual market context," says Standard Chartered's Minikin. "There is a question as to how well-equipped treasurers are to deal with this environment." An important issue is to try to understand what type of volatility can be expected from the financial markets going forward. "We have seen a big jump in realised volatility and implied volatility (in the options market). There are extreme moves in particular currency crosses and powerful day-to-day swings."

Minikin says it is difficult to be certain how long such volatility will last. The sudden surges in some currencies were due to the prospect of Fed tapering only shortly after the news surfaced of an aggressive QE programme in Japan.

Rahul Badhwar, Head of Corporate Sales, Asia ex-Greater China at HSBC, agrees that it is a very challenging period for corporate treasurers. "There have been too many forces at play on the FX market. The correlation with various market events is very high and it is tough for corporates if they have exposure to particular currencies," he says. "An event that is unrelated to a certain currency may drive it up or down."

Even corporate treasurers who do not have sophisticated trading networks and FX strategies should understand that "the world is now highly connected". For example, a domestic business in Thailand that does not export goods and borrows only in Thai baht may think that what happens in US Treasuries has no impact on it. However, says Badhwar, US Treasuries have an impact on yields in Asian commercial paper. "Companies that think they have no FX risk have to realise that the market is highly interlinked. US investors, for example, will buy Thai debt. Across the world organisations are investing in each other which has created global flows and is increasing correlations that didn't exist ten years ago."

James Wood-Collins, CEO of Record Currency Management, an independent currency manager, says any hedging decision must be made with "a clear view of the objectives of the programme". Corporates face two types of FX exposures: cash flow versus cost, where a manufacturer, for example, produces goods in one country and sells them in another country that has a different currency; and balance sheet exposure, where the funding structure of the corporate is in a different currency from the denomination of a liability.

"The issues and challenges for treasurers are focused on ensuring that the objectives are understood, rather than how a particular hedging programme should be implemented. Corporates have to decide how much of their revenues they should hedge. Sometimes treasurers can focus too much on the losses that are attributed to a currency hedging programme and fail to see that there is a gain – they are offsetting an underlying exposure." While treasurers are happy when a hedge pays out, they are often uncomfortable with the cost of hedging. "There are times in the market when FX options look historically cheap or expensive, based on how volatility is priced. Treasurers always have to take a view versus the rest of the market."

Corporates have not been confident about the economic outlook for the past three years, says Sean Yokota, Head of Asia Strategy at SEB in Singapore. The stop-and-start nature

of recovery has dampened expectations of growth and heightened uncertainty. "The prospect of a possible change in the US Fed's QE programme, for example, has led corporate treasurers to become even more conservative."

New strategies needed

Those corporates involved in emerging markets (EMs) have even higher levels of currency risk. "If a corporate has money in EMs, compensation for the currency risk would usually come from higher growth and profitability, or from higher yields. But with US rates rising, EMs don't look as attractive as they once did," he says. Volatility in EMs is also heightened by redemption pressures from investment funds that are pulling money out of these markets because their performance is declining.

This point is highlighted by HSBC's Badhwar. With US Treasury yields around 100 basis points (bps) higher than a few months ago, investors are rethinking their EM strategies, he says. "Investors are finding that many of these markets are not very liquid and they cannot get out of them very easily. The capital outflows cause a problem in Asia because in many countries the amount of investment in the stock or bonds markets by overseas investors can be as high as 30%. When that money leaves the country it puts pressure on the currency."

Companies operating in EMs have substantial currency exposures, says Petter Sandgren, Head of Markets Asia at SEB. "The increased volatility means most corporates understand that they need to hedge their currency exposures in different ways. They have to be strict about financial policies and follow them closely, even if it implies higher hedging costs."

The problem for many corporates, he adds, is that unless they are very big they don't have the resources to have competence in FX hedging and treasury management in individual subsidiaries. "There is a growing trend for corporates to manage currency exposures in the head office or regional treasury centres (RTCs), and to do the hedging on behalf of the subsidiaries. Another option is to use the local currency internally, for example the parent company will invoice in its subsidiary's local currency, which moves the currency exposure from the subsidiary to the head office."

Much of this trend has been driven by the reforms in China, which have created an offshore yuan, the CNH, to enable companies to accept onshore yuan payments from Chinese importers and then change that into US dollars at a more attractive offshore rate. In markets with high interest rates, corporates need to strongly control risks and take into account the real cost of doing business in these markets. SEB's Yokota says: "Many corporates are looking to produce goods in the places where they are selling those goods. The easiest way to hedge currency exposure is to move production to the country in which you are selling those goods."

Most corporates use FX forwards or FX options to hedge currency risk. An FX forward is an agreement to purchase or sell a set amount of foreign currency at a specified price for settlement at a predetermined future date, or within a predetermined window of time. These instruments help the user to manage the risk inherent in currency markets by predetermining the rate and date on which they will purchase or sell a given amount of FX. Treasurers use them to: protect the costs of products and services purchased overseas; protect the profit margins on products sold overseas; and lock in exchange rates as much as a year in advance.

An FX option is a derivative financial instrument that gives the owner the right but not the obligation to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date. Treasurers primarily use FX options to hedge uncertain future cash flows in a foreign currency. The general rule is to hedge certain foreign currency cash flows with forwards, and uncertain foreign cash flows with options.

In 2010 treasury systems supplier SunGard conducted a global study to benchmark FX exposure management practices and FX risk management results. It believed one of the fundamental challenges companies faced as they sought to optimise FX exposure management resulted from a lack of standard processes, uniform policies or other benchmarks to define successful programmes.

The study of 275 finance executives across a diverse set of industries, found that 59% of companies had experienced unexpected, material FX gains or losses over the 12 months to May 2010. It found that difficulty in quantifying exposure data, gaining timely access to data, and achieving data confidence were exacerbating the challenge of forecasting and managing FX risk, driving companies to adopt automated FX management and risk solutions.

Many of the companies surveyed used manual accounting processes to calculate and monitor their FX exposure, thereby increasing their risk for error. "As a result, these companies lack confidence in the data they use to make risk mitigation decisions, increasing their susceptibility to unexpected FX losses or gains," said the SunGard report. Wide swings in currency and market conditions, which continue today, were compounding these issues. SunGard claimed corporate treasuries should gain more reliable data and increase process automation. FX management solutions would help treasurers achieve this goal by aggregating and modelling data from various sources to identify exposures across the balance sheet, helping them make better hedging decisions and decrease their FX risk.

Then and now

Wood-Collins says the FX environment is very different from that of the pre-crisis years. "Rather than having steady, long-term moves in a currency we now see relatively little movement followed by sudden dislocations. This is a different environment, but the principal challenges remain the same for corporates – to decide the objectives and expectations of a hedging programme, backed by a large degree of realism."

Standard Chartered's Minikin says forward planning is required and that corporate treasurers need to anticipate hedging requirements and understand market exposures. "In this environment there can be very abrupt and unexpected FX swings. This forces treasurers to be very alert to specific market exposures and cash flows. They have to anticipate their hedging requirements and understand that their ability to trade at a specific level may be short-lived."

Going forward, he says, there should be "more order" in the currency markets. "We have to be aware of the underlying economic volatility behind the volatility we see in the capital markets is not that great. Our forecasts for the US are broadly benign; we think there will be 1.8% growth this year and 2.7% in 2014. The US economy is ticking along and inflation is not a big problem. The volatility in the financial markets is not justified by the economy or economic policy. Over time, I think we will gradually edge into a more orderly market environment." ■

How the benefits of XML extend beyond SEPA

XML is so much more than the Single Euro Payments Area (SEPA), argues Dieter Stynen, Head of Cash Management Corporates (CMC), Western Europe, and Head of Global Transaction Banking Belgium, Deutsche Bank. Corporates need to look beyond SEPA-compliance and use XML as a way to make treasury operations smoother and more efficient across their global operations.

When the Single Euro Payments Area (SEPA) instruments were first introduced, in January 2008 for SEPA Credit Transfers (SCTs) and November 2009 for SEPA Direct Debits (SDDs), the governing bodies – the European Payments Council (EPC) and European Commission (EC) – needed a uniform message format across all SEPA zone markets. They chose eXtensible Markup Language (XML) to replace domestic formats for automated clearing house (ACH) transactions, payments, collections and direct debits. Adopting XML as a standard was a crucial component in the migration to SEPA.

However, when the XML specifics were submitted to the banks and software vendors for integration into their products, each one began customising the format and several different XML versions appeared in the marketplace. This obviously goes against the basic premise of SEPA, which is to transact in a uniform and harmonised way across all the countries in the SEPA zone.

In response, various transaction banks, software vendors, corporates, SWIFT and other industry organisations came together to agree on a common XML standard, which is the International Organisation for Standardisation (ISO) 20022. This means that if one corporate works with a specific bank and enterprise resource planning (ERP) system, and another corporate works with a different bank and ERP system, they can both use the same XML format, instead of going through a tedious migration exercise and customising XML for each of these relationships.

This is also how the Common Global Implementation (CGI) initiative came into being in October 2009, when SWIFT hosted a meeting with various stakeholders in order to "simplify implementation for corporate users and, thereby, to promote wider acceptance of ISO 20022 as the common XML standard used between corporates and banks".

The industry's commitment to have one truly uniform format is what makes XML different from previous global standards, such as EDIFACT (Electronic Data Interchange for Administration, Commerce and Transport) and SAP's proprietary format IDoc, both of which come in many different flavours.

Today the ISO 20022 standards have been published and every bank can decide whether it will offer XML to its clients – however, it is not mandatory. The vast majority of the bigger transaction banks and ERP vendors are offering the format, following ISO standards, and the bigger corporate clients are demanding it – many are bringing together in the same room their top global banks to ensure that the format is the same across the different banks.

As a result, the XML format is becoming increasingly standardised at the global transaction bank level. However, the smaller domestic banks are not as far advanced in adoption levels. This may be because domestic banks view SEPA more as a costly compliance project than a revenue generator; they just do not have the critical volumes needed to justify investing in every feature of SEPA. Conversely, the global transaction banks, such as Deutsche Bank, can see the benefits and will be able to attract additional transaction volumes, so it is a win-win situation for us.

Benefits of XML

Many corporates look at SEPA solely as a compliance project, as something that they are being forced to do. But it is a catalyst for transforming treasury, and XML can be leveraged for transactions beyond the scope of SEPA. As a leading transaction bank, Deutsche Bank can help corporates realise the full benefits. No longer do corporates have to grapple with multiple domestic formats – they can use XML for all their transactions across the globe. Corporates need to look beyond the compliance part of the project and use XML as a way to leverage SEPA to make treasury operations smoother and more efficient.

In addition to improving efficiency, adopting XML will also save corporates' time, resources and money, as they will avoid having to keep up with multiple format changes in many different jurisdictions. Many corporates view this as a continuous change programme

Case study

Arnaud Lajoinie

Financing and Treasury Department – Head of Project and Organisation
LVMH – Moët Hennessy Louis Vuitton

LVMH
MOËT HENNESSY . LOUIS VUITTON

When did the LVMH – Moët Hennessy Louis Vuitton group start planning its migration to XML, and which particular challenges were top of mind?

We first thought about implementing a group platform for bank communication in early 2010. This idea was driven by the planned closure of ETEBAC – the French bank-corporate data communications network developed in the 1980s – and the possibility to use only one format (ISO 20022 XML) together with SWIFTNet for exchanging financial instructions with most of the banks worldwide. In addition, by using the XML format we could tackle SEPA at the same time.

Bank communication is a complex issue, so this was a massive change for many French corporates, particularly for a major group like LVMH with a portfolio of over 60 prestigious subsidiaries, each with its own communications solution. But we also realised that building a bank communication platform for the group was a great opportunity to rationalise LVMH's bank partners per country, improve cash visibility and establish high standard security norms across the group.

In March 2010, most of the group's treasurers met to discuss this topic and decided to build and on-board a global communications solution based on SWIFT and XML. Despite each of our brands operating independently – they are not dependent on LVMH and therefore could have opted out of a global solution – securing buy-in was not difficult. We were one of the first adopters of SWIFT back in 2007, which made it a 'pressure-free' decision, and there are obvious treasury benefits to be gained from a global solution. For example, some of our brands – such as Louis Vuitton – are present in more than 80 countries, and any platform that can allow them to increase cash visibility and security over all affiliates can only be a plus.

When the solution first went live, it was only used by the holdings. The on-boarding of affiliates was a real breakthrough in the process. The main challenge that we faced was the establishment of an organisation able to support all our affiliates as they behave independently and have their own systems.

What benefits will XML provide LVMH outside the scope of SEPA?

For us moving to XML goes beyond the migration to SEPA. We consider SEPA to be the catalyst rather than the driving force for XML. SEPA has had a clear impact on European banks, focusing their energy on rolling out XML capabilities.

Indeed, XML itself goes well beyond SEPA. SEPA migration alone will be responsible for around 70%-80% of bank flows for European companies, but XML can be used for all payments/collections and countries outside Europe. When you think of the number of different local payment formats – there are over 100 in Europe alone – the ability to deal with just one is ideal from an ERP perspective.

Using XML means we can standardise and dematerialise our transactions, which is more efficient and cost effective. Dematerialisation through the richness of XML is a great opportunity to eliminate the last paper-based transactions, which the local formats could not support. That is why we did not offer our affiliates the option to convert their local format into XML.

What were the specific operational challenges associated with XML migration? And how were the difficulties managed?

The issue of generating IBANs and Bank Identifier Codes (BICs) is often cited as a challenge, but this wasn't the case for us as we put the necessary tools in place using SWIFT repositories. The key challenge for us was the issue of bank discrepancies and dealing with local means of payments.

Uniformity between banks is a real challenge with respect to XML, especially in London and Hong Kong. We spent a lot of time with our banks in an effort to convince them to use the format in the same way – particularly with respect to the use of Japanese and Chinese characters and bank cheques. Banks need to work in the same way, and we had – and still have – to really push for the required uniformity.

Did XML migration differ between Europe and the US? How did you time the transition and manage both internally and with external providers?

The first implementation in the US was done on the 1st January 2012, by which time the major US banks were already familiar with SWIFTNet and XML. The US and Europe migration were quite similar, with a few exceptions such as the routing code in the US to perform ACH or cheques, which are still very strong in the US.

LVMH is a decentralised group, so our affiliates are responsible for managing their own processes. Timing was dictated by individual affiliate requirements, as long as the group had declared their banking partners ready for implementation.

Our XML migration process is worldwide and we're now ready in 40 countries – the US, Canada, most of Europe and key markets in Asia.

At which stages throughout the process were bank guidance and/or technical support required?

Initially, we experienced a real of lack of expertise – and consistency – when it came to XML. In some countries, it had to be pushed; in others, we had to go to great effort to ensure consistency among banks.

As a result of this process, we have rationalised the number of partner banks we work with, which has also increased efficiency and lowered costs.

What challenges remain with respect to SEPA compliance, and how are you going about addressing them?

We are in a good position with SCTs, but SDD remains a challenge, although it isn't too great a concern as it's not a core business for us. We are working on building mandate management solutions and our efforts should be well underway by October.

Looking at the market's adoption rate, February 2014 would seem to be an ambitious deadline for SDDs. Banks will be faced with a massive increase in migration projects as the end-date gets closer and that could be an additional concern. In any case, we will do our best to reach the deadline.

Looking to the future, how do the efficiency gains presented by SEPA fit into your future treasury management strategy?

I would enlarge the case to XML, although SEPA has played a major role in Europe to mobilise the banks. Lowering costs, increasing efficiency and heightening security are universal treasury objectives. The use of XML and SWIFT presents a key opportunity for all treasurers: XML means you only have to use one format; while SWIFT – when integrated into an ERP system – can improve straight through processing (STP) by helping to ensure that the information sent to banks is correct.

An extra bonus is the ability to streamline our bank relationships. Identifying key partners – reliable partners are vital given what's going on in Europe – has enabled us to concentrate our flows and create uniformity, which is a huge help to our cash management processes.

Greater visibility, improved communication, increased efficiency (the result of a single payments format (XML) and subsequent dematerialisation), lower costs and access to a worldwide depositary (via SWIFT), are the cornerstones of optimal treasury management. The move to XML together with SWIFT is, for us, a milestone in this process.

– today they are updating the format for Belgium, tomorrow they will change it for the Ukraine, etc. By working with the same format in all countries, a corporate's maintenance cost will significantly go down.

Furthermore, XML makes the whole implementation process much easier, less time consuming and less resource intensive by standardising the information needed for each transaction type. This reduces implementation and development time: previously if a company was expanding into new countries, it had to test and developed several formats; now it only has to develop and test one format for the entire range of countries involved in the process.

XML harmonisation beyond the scope of SEPA

Although the ISO standards are in place today, they have solely focused on SEPA instruments – SCT and SDD – to date. Therefore for those payment and collection instruments a uniform standard, XML version 3, has been agreed upon.

For transactions outside of the scope of SEPA, which are also in the XML format, there is much less uniformity – and the possibility remains that different versions will be developed over the course of time. Some markets have also developed dialects of XML in order to cater to local needs. Again, it is more likely that domestically-focused banks will look to offer a local dialect of XML if it is easier to implement, but global transaction banks, such as Deutsche Bank, will not do that, because we see greater, and sustainable long-term value in offering a uniform standard across many markets.

This will be an ongoing exercise. There is no doubt further versions of XML will be developed in the future, however we hope the industry can look at XML beyond SEPA compliance as a means for format harmonisation for non-SEPA transactions and markets.

Corporates still using MT940s for reporting

Today, most companies are working – or have worked – hard on rolling out XML for payment and collection files, but there has been less activity on the reporting side. The reason for this lag is two-fold. Firstly, there is already a uniform standard on the reporting side across most markets and banks – the SWIFT MT940. Companies, therefore, have set up reconciliation in their ERP systems based on MT940 statements, which is working well due to the ease of the reporting process compared to payments or collections.

Secondly, because so much energy has been focused on developing XML for payments and collections, less energy has gone into the reporting process. Although we have had discussions with our clients about how XML reporting statements are far richer, with additional information that MT940 statements cannot provide, they look at the switchover as a second phase within the SEPA project. Today, they are getting ready for SEPA, making sure that their outbound files to banks are SEPA-compliant and that they can migrate on time. Once SEPA is up and running then they can look at additional benefits, such as how to replace their MT940 statements with XML statements. But that will take some time and right now treasurers have their minds firmly focused on SEPA migration.

Migrating to SEPA and XML

In order to help our clients become SEPA-compliant and migrate to XML, last year Deutsche Bank created a SEPA migration guide, which clearly identifies what clients need to do to move to SEPA instruments and outlines XML specifications, such as which fields need to be present and how this can be accomplished.

In addition, the bank has developed an online XML checker. For example, when a client creates a test file in XML, rather than having to send it to a person at the bank to look at the file, test it and send feedback to the client (which could prove to be a time-consuming process), our clients can upload a file onto the online XML checker site and receive immediate feedback as to whether the file is correct, or if not what needs to be changed. Companies can quickly change the file and then upload it again to make sure that it will be successfully processed.

Thirdly, Deutsche Bank published a vendor guide, which includes a list of vendors in the marketplace that can help clients, whether that is on the XML side, or converting local account numbers into International Bank Account Numbers (IBANs), or helping with SDD mandate management. This is a great help to our clients, especially those who need outside and third-party assistance in order to be ready for the end date of 1st February 2014.

If companies haven't yet started to develop XML capabilities for their SEPA project, they should reach out to a third-party vendor at this stage, given that there are only a few months left to go. Their top priority today should be to ensure that they are ready – and there are a host of third-party providers who are capable of providing support. The good news is that the newest releases of the larger ERP systems have XML already embedded in them, so if a corporate is upgrading its ERP system, it will need relatively little development and testing to go live.

Conclusion

In many ways XML will be game-changer for corporates, because of the efficiency it brings, as the industry moves away from domestic and proprietary formats to one uniform standard. This is a significant development for the global payments market and will make life much easier for companies.

Dieter Stynen
Head of Cash Management Corporates (CMC), Western Europe and
Head of Global Transaction Banking, Belgium

While his first experience was in the chemicals sector, Stynen started his career in banking in 1996 with the Bank of New York Mellon as a Customer Service Officer for global custody clients. He joined Deutsche Bank in 1998 as a Cash Management Sales Advisor in the local Benelux/France sales team. After four years, he moved into the treasury solutions team and was made head of the Europe, Middle East and Africa (EMEA) region in 2009. In July 2012, Stynen was appointed Head of Sales for Corporate Cash Management (CMC) for Western Europe. He holds a Masters degree in Applied Economics from the University of Antwerp, Belgium, and an MBA from the Katz Graduate School of Business, University of Pittsburgh, US.

Translating treasury overseas

Enhanced international communication skills can boost revenue, profits and market share for ambitious firms, as accessing and capitalising on overseas markets is recognised as playing a large part in the corporate growth agenda.

The world is changing. The 'old' industrial countries, especially those in Europe, are losing ground to the increasingly stronger competitors – and potential collaborators – from Asia and other emerging markets (EMs). Understanding regulatory requirements and standard operating procedures (SOPs) in international locations is essential for corporates expanding into overseas markets. But equally as important is the understanding of the critical role language and culture play in doing business with these new regions.

According to a 2012 survey by the Economist Intelligence Unit, 64% of businesses believe that language differences constrain their international expansion plans. Does this recognition mean that corporates are giving their time and resources to up-skilling their workforce in this respect? And, are the remaining third of those surveyed under the impression that language poses any sort of issue at all?

Speak no evil

Whether in the business or personal field, language is everything, according to Juan Pablo Cuevas, Head of Global Transaction Services (GTS) for Latin America and the Caribbean at Bank of America Merrill Lynch (BofA Merrill). In Latin America, Portuguese is the predominant language, while Spanish is spoken in more countries (but with less people). A third language, French, is spoken in certain Caribbean countries. But even in the Spanish speaking

countries, the meaning of certain words can be completely different in different countries, says Cuevas. "The word 'giro' ('withdraw' in English) means something completely different in Chile, versus Peru, Colombia or Mexico." Effective communication is not just about learning the language – it's about understanding the wider cultural context and being aware of possible misunderstandings.

Jacqueline Martin, Treasury and Credit Manager at Johnson Electric, agrees that – aside from the obvious linguistic differences – cultural variances can act as huge obstacles in communication, creating barriers that inhibit efficient workload management. "In my role, I deal with Asian, European and North American employees and business partners. As a Canadian, I tend to become informal very quickly, even upon meeting someone for the first time, but not everyone thinks that is appropriate behaviour."

Martin observes a much more rigid structure when consulting with the company's subsidiary in Hong Kong, for example, and even reports a certain amount of formality in European hubs, particularly in certain industries. "In France, for example, there is a sort of hierarchy as regards in-house working relationships – it would be inappropriate to be overly familiar or informal with someone on a different 'level'. Many in the automotive sector prefer business dealings to be conducted in a specific, formal way."

But the communication stumbling blocks concerned with establishing a treasury hub overseas or relocating an employee to another part of the world to share expertise or skill up may not only stem from within the office. In fact, more issues can arise when the working day ends.

Brazilian native João Paulo Faria, CFO at Microsoft, Chile, jumped at the opportunity to live in the US for a couple of years working for the company. As an American company, English is the standard language within Microsoft and Faria envisioned no issues as he felt comfortable conversing with native English-speaking colleagues on any business topic. "We all follow the same processes and regulations that are unique to Microsoft so the rituals, expressions, phrases and analyses are familiar with everyone, regardless of their mother tongue.

"However, when I was living in the US, even with the same colleagues I easily interacted with in-house, I faced problems when it came to communicating outside the office. There was no more familiar business lingo and it was the cultural aspects that caused the most problems. I spoke the same language but outside the office the cultural themes varied wildly – even when taking a trip to the shopping mall."

Problem solved?

One of the key themes highlighted – and lingered upon – at World Trade Day, held in Denver in May this year, is the concept that being social in business operations is best practice rather than a passing fad. In that vein, the issue of conquering communication barriers was also discussed.

However, interestingly Cuevas doesn't necessarily consider language a barrier in the corporate treasury world. "A derivative is a derivative no matter where you are in the world," he says. "If you are trying to raise money in the capital markets, it is essentially the same thing in every country – the difference resides in effectively explaining in a local language what your objectives are so that you can achieve the desired results."

Mikko Sopanen, Director, Global Finance and Treasury at LiteOnmobile, too, maintains that it is not entirely necessary for corporate treasury professionals to be exceptional English speakers. "Many successful international companies understand, recognise and fully accept that their official corporate language is 'bad English'. The most professional person in finance and treasury might not be the best English speaker, but that shouldn't be a big issue."

Nonetheless, Cuevas does recognise the limitations of some companies which may not have a multilingual person at the HQ corporate treasury centre to speak to each relevant local bank to discern and make sense of the financial anomalies. BofA Merrill, for example, provides a shared service centre (SSC) in Miami that acts as a one-stop shop for the entire region. Cuevas explains: "If I have a client headquartered in Paris without a Portuguese-speaking person that can take care of operations in Brazil, the treasurer can call our SSC in Miami. The client can speak directly to our multilingual staff who will take care of all the required communications on behalf of the client."

Another method of bypassing varying linguistic blocks globally is to embrace a certain company language as Microsoft has done, with its own phraseology and passion for acronyms, according to Faria. But even this method of communication can take some getting used to and it still does not address the cultural, more informal aspects that can help build solid business relationships. In this vein, Faria reports that it is now mandatory that new recruits for Microsoft subsidiaries have fluent written and spoken English. "Even if you don't have to travel and are just reporting to someone in the same country, you still have to plan for the day that this information may be shared. Many years ago, some people in Microsoft were not fluent in English and they faced issues when they travelled to a worldwide meeting, for example, as they found it difficult to communicate with their industry peers."

Martin agrees that, issue or not, this is an area that international companies are currently very aware of and which is being addressed. "In our company, we have SOPs on emails and communication in general. This covers how to construct an easy to decipher mail, what is the best way of getting a point across, etc. For smaller queries, rather than send an email, it is advised to just pick up the phone and clarify that the request or memo is received and understood."

Combating these communication challenges can be very simple once an understanding of other cultures and a certain amount of patience is involved, believes Martin. Some people can get very agitated with certain communications – they might read too much into a certain phrase or the way in which a request is put across, she explains. "It can be quite helpful to know what the quirks and standards are of the countries and regions you will mainly be in contact with. In Hungary, for example, people use exclamation marks and capital letters as a matter of course, as a way of being friendly."

Sopanen agrees, as he liaises with Chinese people, speaking Mandarin, Cantonese, Hokkien or other Chinese dialects as a mother tongue. "In the beginning I found their emails in English very commanding and written in a superior manner. But when I started studying Mandarin myself, I could understand the structure and the way Chinese is translated into English emails."

Building bridges, not barriers

Global firms seem to be proactively looking for ways to strengthen their communications with their industry and

business partners. Thomas Dippold, CFO at Semikron, is acutely aware of existing cultural and sociological factors in these relationships. "It is very important not to always write emails or forward policies electronically, but to visit the foreign companies and plants and develop personal contact. For example, we try to organise our annual finance meeting so that it doesn't always take place at the HQ, ensuring each subsidiary feels valued and appreciated."

On the other hand, an employee that speaks multiple languages will always be a plus, says Cuevas, and this skill is currently promoted in-house with corporate training programmes and externally with government schemes worldwide. "All of corporate America is encouraging not only the 'cross-sell', but also the 'cross-cultural sell'. This means that if I have someone sitting in Iowa who wants to take on a new role in France, why not send them? In the long run, it's going to greatly improve diversity from a business and managerial point of view."

> "If you are trying to raise money in the capital markets, it is essentially the same thing in every country – the difference resides in effectively explaining in a local language what your objectives are so that you can achieve the desired results."
>
> Juan Pablo Cuevas, Head of Global Transaction Services (GTS) for Latin America and the Caribbean at Bank of America Merrill Lynch

Fluently speaking two or three different languages can also be the differentiator for a finance or treasury professional in comparison to their peers when it comes to career growth, according to Faria. But there are, of course, exceptions when technical knowledge will trump the depth of the linguistic skill. Yet, Faria echoes the possibility for in-house training in this scenario. "If you need to hire someone with a very specific ability and you need that person regardless, you will consider investing some money on a rotational programme in order to bring this exceptional, 'top' talent up to a certain standard of English."

Regardless of what rung the individual employee falls on this talent ladder, the importance of global exchanges and assignments even on a short-term basis is a practice that is seen as wholly positive by many forward-looking firms. The importance of understanding the culture in addition to learning the language is widely acknowledged across the board – as the end benefits for the company itself are also recognised, especially across such a rapidly changing landscape. Says Faria: "We have seen our customers and partners moving their people around, so this is a natural movement adding to diversity in the company to be better prepared, more flexible and react in a faster way to the changes we have seen in the world.

"We are moving very quickly in technology today – to the cloud, for example – so we need to constantly undergo business transformation and we need people from different cultures and a range of diversity to accelerate this transformation."

Universal language of technology

Certain language solutions, and advances in language solutions (such as the new machine translation (MT) capabilities released by SDL earlier this year) can empower organisations to drive global revenue streams on the back of informed business strategy rather than assumptions or, even worse, inaccuracies. With these developments, the world has become a smaller place; social business and its related communications have allowed corporates to operate in a much more scalable and cost-effective manner. For example, electronic trading (e-trading) has decreased the need for very critical phone calls, which could be challenging due to the accent and dialect differences.

Faria reports that Microsoft has wholeheartedly followed this communication technology trend – and that they are not the only ones. "The CIOs of the majority of our global customers are confident that all of this technology, this unified communication including social networking, the cloud and big data, will soon be pervasive in all companies. Not only can embracing these advances save money, eg Skype and video conferences in lieu of travelling, but I can connect immediately with someone in Ireland or France, or even further afield. I can see these people, share information, and interact during conversations and presentations."

European treasury is expected to be dominated by the Single Euro Payments Area (SEPA) for much of the remainder of 2013, but positive growth opportunities in EMs – especially with the latest liberalisation of the renminbi (RMB) – have meant that expanding corporates are leaning on other forms of standardisations to allow for a seamless transition overseas. Corporate adoption of SWIFT and an increase in host-to-host communication using standardised connection within enterprise resource planning (ERP) systems may help with this migration, effectively removing the barriers language can create. Yet, there are still more helpful tools coming to market.

From a financial support perspective, BofA Merrill – for one – has recognised the importance of working in multiple languages, and Cuevas reports that the bank made significant investments in order to weave languages into its technology, systems and front desk, in order to make life easy for both corporates and itself. "Our proprietary system, CashPro Online, is a global application available in 11 languages – including Chinese characters and Japanese characters," he explains.

"We try to make the life of the user easier – just like the globally accepted iPhone has done. We are doing the same from a technology perspective. If I put in a system that only operates in English, I am diminishing my capacity of capturing new, more global customers."

But technology does not solve all communication problems, according to Martin, as exciting and progressive as it may seem. As she gets emails in so many different languages, one of Martin's own favourite tools is Google translate – but she recognises the drawbacks, not only of Google's imperfect device, but also of relying on a remote application. "Naturally, it is essential to be very simplistic in the way we express ourselves and communicate through text. Every phrase has to be extremely basic, clear and concise with no idioms or local terms used. It's by no means ideal but because of the flood of mails I get from all over the globe, this way of operating is essential," she says.

"Yet if I were embarking on building a new relationship, or wishing to communicate with someone at a more senior level, I would much prefer to meet face-to-face. Text can limit the scope of discussions but if you can see someone in a meeting, the tone and general argument or discussion is still comprehensible, even if the actual words are lost." ■

Irving Fisher

Joseph Schumpeter described Irving Fisher as America's greatest scientific economist, in spite of Fisher's overly optimistic statement that the stock market had reached "a permanently high plateau" on the eve of the 1929 Wall Street crash.

Irving Fisher was an internationally renowned economist and statistician, known for his work on economic measurement and many other topics related to monetary and financial stability. He made important contributions to utility theory and general equilibrium. He was also a pioneer in the study of intertemporal choice in markets, which led him to develop a theory of capital and interest rates.

Fisher was one of the earliest American neoclassical economists, although his later work on debt deflation has been embraced by the post-Keynesian school of economics. His research on the quantity theory of money inaugurated the school of macroeconomic thought known as 'monetarism'. According to James Tobin, who was an American economist and originator of the 'Tobin tax' on foreign exchange (FX) transactions: "Much of standard neoclassical theory today is Fisherian in origin, style, spirit and substance. In particular, most modern models of capital and interest are essentially variations on Fisher's theme, the conjunction of intertemporal choices and opportunities. Likewise, his theory of money and prices is the foundation for much of contemporary monetary economics."

Despite being eclipsed by British contemporary John Maynard Keynes during his lifetime, Fisher's theoretical work was revived in the late 1950s and more recently due to an increased interest in debt deflation during the recent global financial crisis and recession. Keynes himself acknowledged that Fisher was the "great-grandparent" of his own theories on how monetary forces influenced the real economy.

Early life

Fisher was born in Saugerties, New York on 27th February 1867. He gained a diverse education at Yale, studying science and philosophy, but his greatest accomplishments were in mathematics and economics, the latter having no academic department at Yale. In spite of this, in 1891 Fisher earned the first PhD in economics ever awarded by Yale. His thesis, published by Yale in 1892 as 'Mathematical Investigations in the Theory of Value and Prices', was a rigorous development of the theory of general equilibrium. After graduation, he stayed at Yale for the remainder of his career.

He always sought to bring his analysis to life and to present his theories as lucidly as possible. For example, according to Tobin, to complement the arguments in his doctoral thesis Fisher produced a "remarkable hydraulic-mechanical analogue model of a general equilibrium system, replete with cisterns, valves, levers, balances and cams. Thus could he display physically how a shock to demand or supply in one of ten interrelated markets altered prices and quantities in all markets and changed the incomes and consumption bundles on the various consumers."

In addition to his academic achievements, Fisher made several practical inventions, the most notable of which was an 'index visible filing system'. He patented it in 1913 and sold it to Kardex Rand (later Remington Rand) in 1925. His concept eventually became the Rolodex system.

Through this invention, and his subsequent stock investments, Fisher became very wealthy, but his personal finances were wiped out by the stock market crash of 1929 and the subsequent Great Depression – as was his personal reputation. A few days before 24th October 1929, dubbed 'Black Thursday', Fisher did something which economists should always think twice about: he made an economic prediction. He publicly proclaimed that stocks "have reached a permanent high plateau". In addition he said that the market was "only shaking out of the lunatic fringe" and went on to explain why he felt the prices still had not caught up with their real value and should go much higher.

For months after the crash, he continued to assure investors that a recovery was just around the corner. Once the Great Depression was in full swing, he did warn that the ongoing drastic deflation was the cause of the cascading insolvencies then dogging the American economy, because deflation increased the real value of debts fixed in dollar terms. Fisher was so discredited by his 1929 proclamations that few people took notice of his debt-deflation analysis.

Fisher was a committed health campaigner after a bout with tuberculosis in 1898, a disease that had killed his father and which nearly killed him. He was a proponent of vegetarianism and wrote the US best seller 'How to Live: Rules for Healthful Living Based on Modern Science'. Fisher also supported the prohibition of alcohol and eugenics. He died in New York City in 1947, at the age of 80.

Contributions to economics

According to French economist, Maurice Allais, Fisher "marks a decisive stage in the history of economic science. He was the first economist to combine profound theory and authoritative observation. He contributed powerfully to the construction of theoretical mathematical models aimed at the explanation of reality, and at the same time, whether in working out his assumptions or interpreting his results, he never lost his extraordinary preoccupation with reality, which he observed and analysed with a refined sense of the concrete." Let's look at his main contributions.

Use of mathematics in economics

Fisher must be considered one of those who laid the foundations of modern economics, particularly of econometrics. He contributed more than any other scholar to the introduction into economics of scientific methodology and mathematical thinking, and he played an essential role in the development of specific concepts and theories which lie at the base of today's economics.

Theory of value and prices

In his PhD, 'Mathematical Investigations in the Theory of Value and Prices', Fisher's aim was to present a general mathematical model of the determination of value and prices. It appears that Fisher had independently developed a theory of general economic equilibrium that was almost identical to French mathematical economist Léon Walras, and included the concept of the indifference surface, one of the fundamental bases of modern economic theory.

Capital and income

'The Nature of Capital and Income' contains the theoretical foundations of accounting science, both at the enterprise level and for the economy as a whole, as well as of actuarial science, within a general economic theory framework. In addition, Fisher presented a systematisation of the two concepts of capital and income, showing how these two concepts are linked through the rate of interest. Capital consists of a stock of goods; income is a flow of services. The value of capital is given by the present value of the future flow of income from it.

Monetary theory

In 'The Purchasing Power of Money' (1911), Fisher recasts the theory of money, giving a full demonstration of the principles that determine the purchasing power of money in the formal framework of the equation of exchange (MV + M'V' = PQ) and applying these principles to the study of historical changes in purchasing power.

For Fisher, the purchasing power of money depends on five well-defined factors:

1. The stock of money in circulation (M).
2. Its velocity of circulation (V).
3. The volume of deposits (M').
4. Their velocity of circulation (V').
5. The over-all volume of transactions.

Theory of interest

For Fisher, the rate of interest is governed by the balance between the supply of capital, as determined by the psychology of savers, and the demand for capital, as determined by the possibilities of, and the outlook for, investment. In 'The Theory of Interest' (1930a), Fisher distinguished two problems, namely, how the interest rate is determined and why it is always positive.

Monetary policy

Three of Fisher's works are devoted to projects for monetary reform: 'Stabilising the Dollar' (1920), 'Stamp Scrip' (1933b), and '100% Money' (1935). Fisher's first book on monetary policy contains a plan for a reform of the gold standard, intended to stabilise purchasing power. The objective of Fisher's stamped money plan was to furnish an efficient method of combating the hoarding of money, which has extremely injurious effects in a period of depression. Fisher's aim in '100% Money' was to show that economic fluctuations can be largely eliminated if demand deposits are totally backed by a corresponding amount of cash, thus depriving the banking system of its right to create money.

Following the stock market crash of 1929, and in light of the ensuing Great Depression, Fisher developed a theory of economic crises called debt-deflation, which attributed the crises to the bursting of a credit bubble. According to Fisher, the bursting of the credit bubble unleashes a series of effects that have serious negative impact on the real economy:

- Debt liquidation and distress selling.
- Contraction of the money supply as bank loans are paid off.
- A fall in the level of asset prices.
- A still greater fall in the net worth of businesses, precipitating bankruptcies.
- A fall in profits.
- A reduction in output, in trade and in employment.
- Pessimism and loss of confidence.
- Hoarding of money.
- A fall in nominal interest rates and a rise in deflation-adjusted interest rates.

In practice today

Fisher's insights remain vital and have filtered, perhaps unconsciously, into the thinking of today's policymakers.

In a 2009 Economist article, 'Irving Fisher: out of Keynes's shadow', journalist Sue Vago wrote: "As parallels to the 1930s multiply, Fisher is relevant again. Fisher showed how such a spiral could turn mere busts into depressions."

For example, in 1933 he wrote: "Over investment and over speculation are often important; but they would have far less serious results were they not conducted with borrowed money. The very effort of individuals to lessen their burden of debts increases it, because of the mass effect of the stampede to liquidate…the more debtors pay, the more they owe. The more the economic boat tips, the more it tends to tip."

Vago argues that policymakers in America are applying his ideas, although they seldom invoke his name. "In academia Ben Bernanke, now Chairman of the Federal Reserve, sought to formalise Fisher's debt-deflation theory. His research has shaped his response to this crisis. He decided to bail out Bear Stearns in March 2008 partly so that a sudden liquidation of the investment bank's positions did not trigger a cycle of falling asset prices and default. Indeed, some say the Fed has learnt Fisher too well: from 2001 to 2004, to contain the deflationary shock waves of the tech-stock collapse, it kept interest rates low and thus helped to inflate a new bubble, in property." ■

Drinking to success

Dimitris Papathanasiou
Financial Risk Manager

Coca-Cola HBC AG

Dimitris Papathanasiou, Coca-Cola HBC's Financial Risk Manager, has a wealth of experience in the banking, investment and finance fields enabling him to deliver a unique approach to foreign exchange (FX) and commodity price risk management – which recently earned him a 'Highly Commended' in the Best Risk Management Solution category of the 2013 Treasury Today Adam Smith Awards.

Coca-Cola HBC is licensed to produce, sell and distribute a range of beverages including Fanta, Sprite and the global mega-brand, Coca-Cola. It is the largest bottler and vendor of The Coca-Cola Company's products in Europe and one of the largest in the world. As a result, it has some heavy-duty currency and commodity needs.

Understanding corporate financial risk is so much more than crunching numbers for Dimitris Papathanasiou, Financial Risk Manager for Coca-Cola HBC. With a wealth of experience in banking, portfolio and risk management, Athens-based Papathanasiou believes in the value of creating an intelligently structured group-wide view that considers all aspects of financial risk and which benchmarks its expectations.

To facilitate this approach, since arriving in his current role in 2010, Papathanasiou set about forming what he describes as "a holistic and centralised financial risk framework", allowing team members to flourish within their individual specialisations whilst creating stability where it matters: at the P&L level.

Early days

His early career saw him work with a number of financial organisations – as a junior dealer in treasury and as an analyst in a securities house – before taking the helm as Treasury

Auditor for Emporiki Bank in Athens. From here he took up the role of Senior Risk Auditor for Royal Bank of Scotland (RBS) and then onwards as Risk Manager at New Bond Street Asset Management. A move into portfolio management at the London office of Iceland's Kaupthing Bank followed, proving to be a defining moment in his career.

As Europe's banking and financial crisis unravelled towards the end of 2008, Kaupthing was taken into the custodianship of the Icelandic government, reducing a team of 37 to just two. Papathanasiou – a Chartered Financial Analyst (CFA), with an MSc in Finance and Investments from Brunel University in the UK – survived the cull, but with Kaputhing looking decidedly unstable and despite an offer to continue working with another investment bank, he took two major decisions by returning to Athens and moving into corporate treasury. "I could foresee that the banking sector would sustain a major hit because of all the regulations being imposed, but I also thought that my diverse background would pay off in the corporate treasury area," he explains.

His experience of the banking and investment world has indeed been "extremely helpful" in preparation for a career in treasury and risk, not least because Papathanasiou feels that traditional treasury training does not necessarily expose candidates to associated functions such as internal control, risk management, and portfolio management. In addition, Papathanasiou considered that treasury would be a "more interesting area" where he could "add much more value and be more appreciated". He was not wrong.

As the largest corporate in Greece, Coca-Cola HBC was keen to offer Papathanasiou a trial, starting in October 2009, as Senior Treasury Dealer. He focused on interest rate management, currency and commodity hedging, before being promoted to his current position as Financial Risk Manager in March 2010. With hindsight, he says it was "a very good move" adding that, true to expectation, it has been "much more challenging". "When you work in a bank you tend to worry only about the markets. In a corporate world you worry about more markets in bigger amounts and on top of that there are also a number of tasks that you have to deliver as well. It is essential to continue improving your processes."

Having received a 'Highly Commended' in the Best Risk Management Solution category of the 2013 Treasury Today Adam Smith Awards, Papathanasiou clearly practices what he preaches, commenting that his team could have submitted a number of innovations for consideration. "Maybe next year," he adds.

Treasury and risk structure

With Coca-Cola HBC operations spread across 28 countries, its Athens-based group treasury is divided into two main functions: front office and cash management, with a segregated back office; and accounting. There is also a person responsible for the systems and projects. Heading up the front office function, Papathanasiou reports to the Group Treasurer, who in turn reports to the Group CFO.

When he joined the front office team, it was staffed by three people and the traders were required to carry out many administrative duties. For Papathanasiou, the balance "did not seem right". His reaction was to secure resources for administration with the continuous support of his boss, freeing up time to enable the creation of a team of specialists. Today, Papathanasiou looks after all risk strategy. One trader now manages all the currency risk including trade execution, and another handles all the commodity execution. There is a considerable research requirement of the traders as Papathanasiou wants them to fully understand the markets (as he does), and any associated aspects, in which they operate – from execution of traditional processes to helping with internal pricing between the various entities.

As each business unit has a responsibility to report financial exposures to group treasury, the team also now has a front office representative acting as the conduit for all country operations, enabling a centralised approach by aligning best practice on exposure reporting across the group. In addition, a reporting and compliance specialist (also an Excel expert) has been brought in as the de facto middle office, controlling all processes.

The importance of benchmarking

As well as identifying that the correct trades have been executed before and after the balance sheet hedging process, the middle office incumbent is also closely involved in Coca-Cola HBC's benchmarking activities. The risk team's benchmarks are created in a "very impressive" Excel file by comparing a hypothetical portfolio based on the policy using real market data with the actual trades, explains Papathanasiou. He sees benchmarking as a vital part of treasury as it defines precisely how well his active strategy has performed against a static hedging approach.

The benchmark is also a means of ensuring compliance which restrains the placing of very big trades on the back of mere opinion regarding the direction of markets. "What I realised when I moved to corporate treasury is that people make vast asset management decisions that can have considerable impact but they are not then monitoring what they have done," he says. "The benchmark is helping me to understand how much value I create when I decide to deviate from the policy. The fact that I have beaten the benchmark four years in a row makes me feel particularly good."

The market impact

Coca-Cola HBC is a diverse business in terms of its geographic reach. "Our portfolio of countries was a double-whammy for us," says Papathanasiou. "We had a negative impact in 2008 and 2009 from the emerging markets (EMs), but we had also a hit from countries such as Greece, Italy and Ireland during the sovereign European crisis." Although the company has benefitted from the decrease in interest rates, the group felt some currency pain on the business. According to the Purchase Power Parity model, countries with high inflation in the long term will have a currency depreciation against the currencies of countries with low inflation. "So the benefits of the high growth rate of increased pricing of our products is partially offset by the currency weakness."

To manage the currencies of EM countries is not an easy task as the company faces "very high hedging costs". Although this afflicts all other companies that operate in such an environment, Papathanasiou asserts that the team "has to be very aware of how the markets and our currencies are behaving, constantly adjusting our hedging strategy accordingly and reporting to management to explain what is happening."

In general, the transactional foreign exchange (FX) risk for Coca-Cola HBC can be quite difficult to handle, says

Papathanasiou. Transactional risk can arise in the time between confirming and settling a contract, simply because two exchange rates can fluctuate in that period. This requires Coca-Cola HBC to closely monitor market activity and its hedging costs. It does this in a number of ways, using research from the banks, communication with market analysts and by adapting in-house tools for valuing and measuring cost paid in premiums and interest rate differentials. "Because countries such as Ukraine and Nigeria are extremely expensive to hedge, we have developed tools to monitor what is happening there with the central banks that want their currency stable," he explains. "We try to be proactive, seeing if we can use other methods, such as pre-payment, in order to mitigate risk without financial tools. Back-testing shows that a constant hedging strategy in those areas would be very unprofitable."

Risk toolset

He notes a sharp difference sometimes in efficacy of risk management tools between the banking and corporate sectors and advises users to treat these models with caution. "When I arrived at Coca-Cola HBC the first thing I looked at was value-at-risk (VaR)," he recalls. "But looking at the results again, I asked how this number really applied to the company. This is when I realised that I needed to make significant adjustments to my thinking and look at risk from a corporate treasury point of view." Companies are not so much concentrated on values rather than cash flows. In addition the time horizon could not be one or ten days like the banks, as there is a very different approach to the holding period.

Then there are also the other problems of the 'at-risk' methodologies such as the correlations and the tail risk. Negative correlations would result in a reduction of the risk and thus a lower VaR. However, says Papathanasiou, the correlations can change in evolving economies. "During a crisis, correlations increase. All risk assets move in the same direction. This would dramatically change the risk profile and suddenly you realise that you are not that safe."

In a portfolio of investments the current value usually deviates according to a fairly standard pattern up or down from a specific point. But there is a need to consider 'tail risk', says Papathanasiou. This is the probability of movement beyond that normal or standard deviation. In EMs, where the currency markets are relatively illiquid and present limited hedging opportunities (because of the cost), sharp long-term trending 'corrections' can occur every five or six years or so, creating awkward blips. "In Ukraine, if the currency changes it will not change by 1%-2%, as it does with other free-floating currencies, but will do so by 10% or 15%."

The 'at-risk' methodologies are useful, he says, because they can provide the big picture of the risk profile. However, for limit purposes, if used, they have to be supplemented by other mechanisms such as sensitivity limits.

IT in risk

When it comes to technology, in the front office, 360T's FX trading system is a staple for Papathanasiou's team. Some banks, he notes, will argue that the rates achieved through a multi-bank portal such as this may not necessarily be the best because each institution will be picking up and passing on the cost of using the platform. "But in general it is a very effective tool to get an idea of the best pricing and instantly assess the differential." Coca-Cola HBC has nine banks on its FX panel and typically goes with the best price offering.

Reval's Treasury Risk Management (TRM) system is also a feature of Coca-Cola HBC's risk infrastructure. This platform was instrumental in bringing the 'Highly Commended' in the Best Risk Management Solution category of the 2013 Treasury Today Adam Smith Awards. Papathanasiou explains that the project's aim was to avoid significant P&L fluctuations on commodity prices by integrating (and thus centralising) commodities hedging activity into group treasury operations.

This was done by automating and managing the capture, analysis and mitigation of risk exposures arising from sugar, aluminium and oil prices and by aligning hedging activities and hedge accounting under the watchful eye of Coca-Cola HBC's Financial Risk Management Committee.

At the technological heart of the company, and covering all 28 country operations, is a SAP enterprise resource planning (ERP) system, which also deploys the vendor's TMS platform. Whilst Papathanasiou believes that the IT infrastructure within Coca-Cola HBC delivers the connectivity required for exposure reporting across the group, he is also of the view that there is no system that can cover everything a treasury needs. "I believe you need to be pragmatic and realistic about what you want," he comments. Pragmatism means that compromise is inevitable.

The next challenge

The next task in Papathanasiou's sights is to find a way of hedging the cost of plastics, a commodity that Coca-Cola HBC uses in abundance. But finding a transparent pricing mechanism that has some correlation to the markets (such as the price of oil) is no mean feat, as doing so can create basis risk – the risk between the price of oil, in this case, and the actual purchased product not creating the intended offset. This is a work in progress.

More generally, Papathanasiou is looking to continually improve the understanding of the risk team's work throughout the business. In the wide open corporate world, the drivers and processes behind risk management are not always immediately obvious to colleagues. Papathanasiou acknowledges this difficulty and the fact that misunderstanding can undermine success. As such he has set out to improve communications with other parts of the business. "I try to put myself in their shoes and adjust my language because we do use a lot of jargon in treasury. I see this as a continual process of improvement for me. My vision is to make treasury fully transparent so that people clearly understand the financial risk/return profile of their operations and co-ordinate actions accordingly."

By moving from banking to the corporate sector, Papathanasiou was looking for more excitement and variety. In Coca-Cola HBC he has found it. "It is more challenging than when I was working in banking because there are so many more things to do and fewer resources," he notes. "It's also hard to explain that when you're operating in an emerging market you cannot simply replicate a G10 hedging strategy." But Papathanasiou clearly relishes the responsibility and need for continual improvement that come with the job. The ultimate aim, he states, is to provide stability to the group. "But we also need to understand what is happening in the markets if we are to add value." ■

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Taking different roads

In the wake of the 2008 financial crisis, global regulators agreed to adopt a co-ordinated response to protecting the financial system against future shocks. But policymakers on both sides of the Atlantic are now pursuing increasingly disparate approaches.

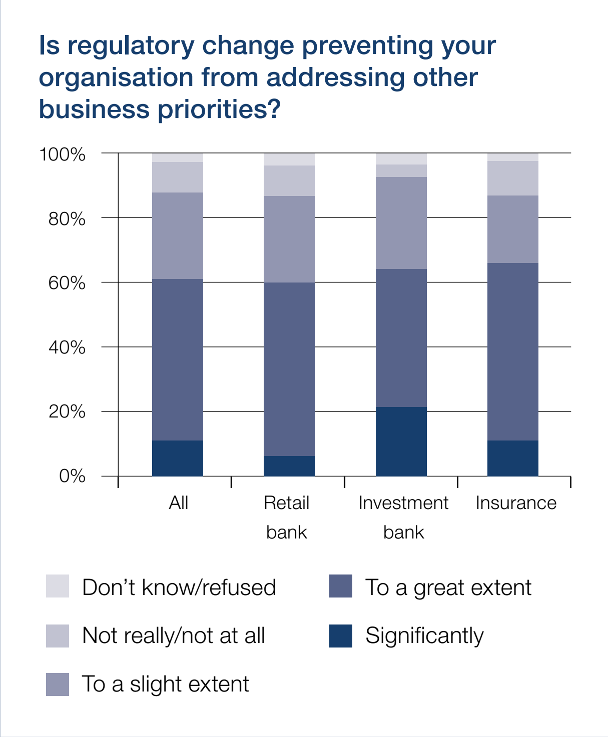
In 2009, the G20 leaders agreed to take a number of co-ordinated measures to guard against future systemic risks in the financial system. Since then, the highly complex network of bodies that govern the different parts of the financial system have gone into overdrive, and the result has been a deluge of financial regulation across the globe.

Under the weight of this regulatory onslaught, it is not surprising that financial institutions, and those that use their services, have complained that they are suffering from regulatory fatigue. A recent survey of the UK financial services sector, commissioned by Moorhouse Consulting, found that approximately 40% of financial services institutions are not coping with the volume of regulatory change, even though two in every five projects initiated concerns with regulatory compliance. Furthermore, this volume is preventing 88% of organisations from proactively addressing other business priorities.

It is not just the speed with which the regulatory landscape is changing that is causing this lethargy, but also the way in which regulation is diverging across jurisdictions. Undoubtedly, there are broad similarities between the various frameworks adopted in the EU and US, but a number of significant differences have appeared.

Basel III

In the case of Basel III, the point of divergence has occurred as the regulation has been transposed into national law. In some cases, national regulators have sought to bolster Basel's minimum requirements – the US regulators', for example, recently proposed to double the original leverage requirement. In other instances, implementation has been fast-tracked, leading to a situation whereby some countries are well ahead of schedule and while a handful have made little or no progress.



Source: Moorhouse Consulting

"If you contrast the approaches of Europe and the US, you can clearly see that the substance of the regulation varies to different degrees," says Ruth Wandhöfer, Global Head of Regulatory and Market Strategy at Citi. "Interestingly the US has not yet proposed the liquidity rules, which were planned to come into effect by 2015. Instead, they have pressed ahead with a modified proposal for a Leverage Coverage Ratio (LCR), whilst Europe has maintained the Basel III approach thus far and refrained from setting firm deadlines for compliance as of yet." The upshot of all this is that one ends up in a very different place on the balance sheet, adds Wandhöfer – and that's even before beginning to factor in the different accounting regimes.

> Approximately 40% of financial services institutions are not coping with the volume of regulatory change, even though two in every five projects initiated concerns with regulatory compliance.

Structural bank reforms are another example of how the US and Europe are moving in different directions. Earlier this year, research published by the International Monetary Fund (IMF) claimed that "potentially significant global costs" could result if systemically important banks are forced to simultaneously comply with the Volker rule in the US, the Liikanen proposals in Europe and the Vickers report in the UK. The combined impact of materially different rules may force institutions to move to the highest common denominator, the report argues, leading to higher costs than would be incurred through compliance with any of the measures in isolation.

OTC derivatives

In addition to banking regulations, there is the reform of over-the-counter (OTC) derivatives. In the US, one of the aims of the sprawling Dodd-Frank Act, enacted by US Congress in 2010, was to minimise the systemic risks associated with derivatives trading and increase transparency by requiring market participants to clear their trades and report more information about them.

> In 2010, a survey of 500 senior executives in the financial services industry undertaken by Ernst and Young found that a majority (79%) felt that much more needed to be done to harmonise financial regulation at a global level.

Across the pond, the European Market Infrastructure Regulation (EMIR) has many commonalities with Dodd-Frank, but there are also significant differences. For non-financial corporates, the most relevant disparity concerns the reporting requirements. EMIR requires mandatory reporting of both OTC derivatives and exchange-traded derivatives; whereas Dodd-Frank, by contrast, only requires OTC derivatives to be reported. EMIR is also less flexible compared with Dodd-Frank in that requires both counterparties to report a trade, while only one side needs to report under Dodd-Frank.

"In 2009, the G20 decided that they want to have enforced central clearing of OTC derivatives," says Alexandra Foster, Global Head of Strategy and Business Development at BT. "But what we have now is one interpretation of that by Dodd-Frank and another interpretation by EMIR. As a result of this, we are going to see a differing impact upon different parts of the financial ecosystem." It will create a legal minefield for a financial institution or corporate operating across borders, she explains. "Now an organisation has to work out whether it is operating according to home rules, or to the rules of the jurisdiction they are in."

Wandhöfer agrees with Foster that differences between the EU and the US on derivatives reform had initially left everyone in the industry confused about what rules they were to follow. "Although the EU Commission and the US Treasury recently announced they will be working together to align aspects of the derivatives trade regulation, at first they were focusing on their own developments, which were not aligned with each other," says Wandhöfer. "That left cross-border institutions like us in legal limbo as it was unclear whether a cross-border OTC derivative trade might land us in jail because of the conflicting EU and US regimes."

Time to get together

None of these concerns are especially new. In 2010, a survey of 500 senior executives in the financial services industry undertaken by Ernst and Young found that a majority (79%) felt that much more needed to be done to harmonise financial regulation at a global level.

Nick Voisey, Director at the Loan Market Association (LMA), says this is also a point his organisation have been endeavouring to make to the regulators for some time now. “One has to remember just how interconnected the global regulatory and financial environment really is,” he explains. “Of course realistically, countries – given their various economic, political and social priorities – are going to implement things in slightly different ways and within different timeframes. But we now have numerous regulatory proposals on the table, and no one at a high enough level has sat down and looked at the impact of them all together and how they will affect the wider European and global economy.”

Many have placed a lot of confidence in the trade talks between the US and EU, which began in July 2013, hoping that politicians on both sides would seize the opportunity and begin doing exactly that. “The financial sector has been strongly advocating for the inclusion of financial services into the transatlantic trade pact,” says Wandhöfer. US Treasury Secretary Jacob Lew recently poured cold water on this prospect, citing concerns that the inclusion of financial services in the trade talks might end with the Dodd-Frank Act being watered down. But to the contrary, Wandhöfer thinks that such a discussion should not be about resolving all the differences between Dodd-Frank and EMIR or the Volker Rule and Liikanen, but instead it should establish a structure for co-operation between the two jurisdictions going forward. “If we establish a framework for co-operation in this trade round between Europe and the US, we can make sure that in the future when we propose laws that we inform each other ahead of time,” she reasons.

Navigating the changing regulatory landscape

“I think we are now in a constantly changing regulatory world, and it looks like that will continue,” says BT’s Foster. In this brave new world, she thinks that corporates will need to adopt a more flexible and strategic approach to issues relating to regulatory compliance.

Often, organisations choose to adopt a step-by-step approach to compliance, but Foster thinks that taking a longer-term view is what organisations now need to be taking to help them to adapt to regulatory changes, both now and in the future. “By having that flexible, adaptive approach means that you will be covered for any eventuality. There are underlying themes to all these regulatory changes we’ve seen recently – Basel, Dodd-Frank, EMIR – and once you’ve considered those you can be more confident about planning your roll-out than you would be,” she says. “It is about trying to become more proactive with your compliance strategy and less reactive.” ■

Getting ready for EMIR

“As mandatory reporting for both OTC and listed derivatives becomes a reality in Europe, banks, corporates and other buy-side firms need to think carefully about their obligations to their regulators,” says Andrew Green, Global Head of Account Management at the Depository Trust & Clearing Corporation (DTCC).

Unlike the Dodd-Frank Act, where the reporting obligation rests primarily with derivatives dealers, obligation to report rests both parties to the trade with EMIR. “It is important therefore that all parties understand their reporting requirements and the options available to them,” says Green. “This includes reporting directly to a trade repository, or utilising a third party or the counterparty to report on their behalf. Regulators, dealers and trade repositories themselves are a good source for this type of information.”

EMIR has certainly become a growing concern for corporates in the past year. According to a survey by Chatham Financial published in May 2013, a majority of derivatives end-users facing compliance requirements under EMIR are not yet ready to meet their key obligations. Among a sample of 177 companies, approximately 66 (44%) stated that they were unsure of their status under EMIR, while 111 (74%) said they are not yet fully prepared for the transition.

The results appear to correspond with the message the banks are hearing from their corporate clients. “The clients we talk to are now feeling quite comfortable with Basel,” says Per-Magnus Edh, Client Executive, Head of Global Financial Solutions, FI Coverage, SEB Merchant Banking. “What they are concerned about right now is EMIR.”

Edh expects that companies with little intragroup trading will outsource their reporting to their banking partners. However, Carlo Scotto, a Senior Product Specialist at SuperDerivatives, cannot envisage the banks providing this service without charge. “The bank will not offer it for free,” he says, “so smaller treasury operations which lack the resources required to handle the execution and management of collateral themselves will need to rethink how much budget the hedging team will need.”

For parent companies reporting on behalf of numerous subsidiaries meeting the requirements under EMIR will inevitably be an even more complex task. These companies will not only need to maintain relationships with their existing brokers, but will also need to develop relationships with the yet-to-be-named trade repositories.

So, what steps do these types of companies need to take between now and the 2014 deadline, and where can they ask for help? One of the ways consultants can assist is by carrying out an assessment of the current infrastructure and using that to design a target operating model, says Scotto. “These activities are generally run by big consulting firms who will advise corporations on how to move from one point to another and how to change the business model so that they have a clear picture of what gaps need to be filled before the regulator comes in to check what is missing.”

Gearing up for SEPA

With less than six months to go before the migration deadline for the Single Euro Payments Area (SEPA), Guy Pantall, Head of Product, Cash Management and Payments, Lloyds Bank Commercial Banking, outlines the immediate impact of 1st February 2014 and how Lloyds Bank is helping its corporate clients find the opportunities presented by SEPA to create a more efficient treasury.

With 1st February 2014 quickly approaching, some national bodies and banks are concerned that markets may not be ready in time for the Single Euro Payments Area (SEPA) migration deadline. Fuelling market uncertainty, rumours persist that some countries will not be able to convert all their legacy payment instruments by the February end-date, which will likely cause disruption to transaction processing.

But, in reality, the deadline is much closer than many people realise, according to Guy Pantall, Head of Product, Cash Management and Payments, Lloyds Bank Commercial Banking. The focus should be on November this year as the more accurate deadline, due to the year-end change freeze that occurs in most organisations. "Most corporates and banks will not implement IT or process changes over year-end – which is from the middle of November to the middle of January – because they are primarily focused on closing the books and can't afford any disruption during the process.

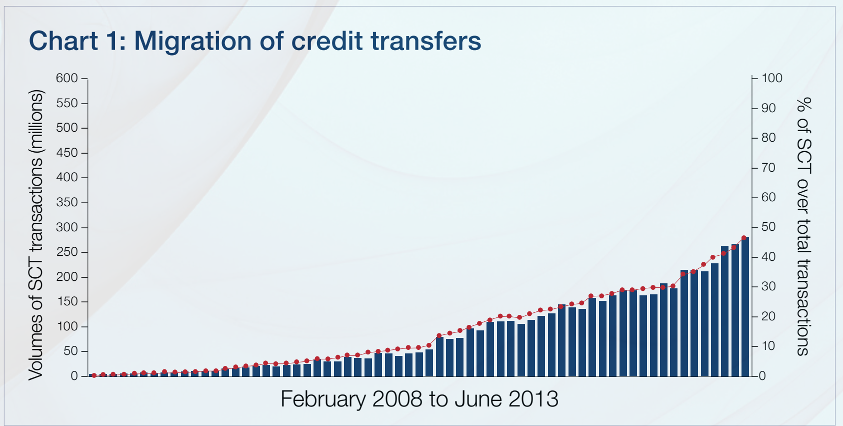
"Therefore, given that the Eurozone migration date is 1st February, it will not be possible to accommodate a major implementation between mid-January and the end date because there is not enough time to perform the necessary testing. So unless these changes are implemented by November, then it is unlikely that an organisation will be ready on time."

But have most corporates even started mapping out their SEPA plans? The trade press is awash with surveys and reports that paint a negative picture in terms of corporate awareness and adoption of SEPA. For example, in a PwC report released last month, one company in three remains at risk of not being ready. Some corporates who haven't yet begun their SEPA journey are still struggling with the fundamental question of why the euro payments infrastructure has to change.

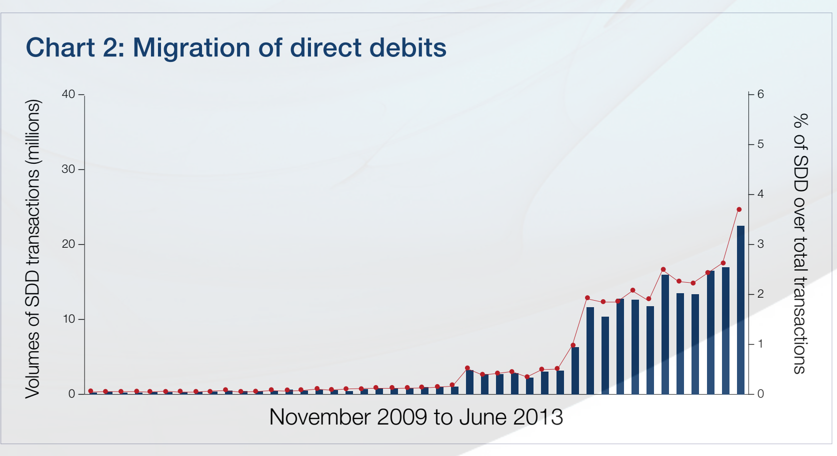
Similarly, the European Central Bank (ECB) migration numbers are indicative of the low level of adoption. On the slightly more positive side, the ECB indices show that just under half (46.95%) of credit transfers made in the SEPA zone are currently compliant, as of June 2013. However, conversion to SEPA Direct Debits (SDDs) is still at a remarkably low level – only 3.73% of euro direct debits are processed as SDDs.

What is even more worrying is the lack of preparedness of the small and medium-sized enterprise (SME) sector. The ECB 'traffic light' indicators show that in the two largest Eurozone economies, France and Germany, this segment is reporting 'red' for credit transfer and direct debits, which means that SME preparations have not yet commenced and/or are not expected to be ready in time.

All of this adds up to the fact that the payments industry as a whole needs to be prepared for less than 100% take-up of SEPA by the end-date.



Source: European Central Bank



Source: European Central Bank

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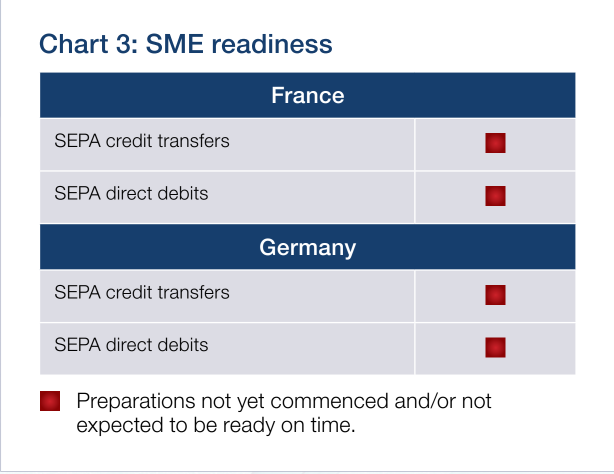
Conversion solutions

Due to the tight time constraints, many corporates are turning to third-party conversion services without directly integrating SEPA standards into their back office. "Corporates looked at their IT and business priorities and thought that by outsourcing they could check SEPA off their to-do list. Rather than creating changes in their own systems, corporates have turned to third parties to provide an intermediate step between what they have now and where they want to be," explains Pantall. "But this goes against the spirit of SEPA, which is aimed at getting everyone to use the same ubiquitous standard."

The original concept was for corporates to directly embed standard formats into their processes, not drive harmonisation through greater intermediation. It appears that this development was not anticipated when SEPA was first being mapped out, so there is no clear rule governing third parties and it remains to be seen whether future regulation will focus on these arrangements.



Source: European Central Bank

It's also unclear what the impact of not being ready will be – there is no 'Plan B' if organisations don't adhere to the end-date. "No one knows what will happen – again it wasn't envisaged that organisations wouldn't be ready," says Pantall. It is quite possible that a country and its banking participants could continue to operate a legacy scheme as a sub-SEPA solution, such as the SEDA additional optional service (SEPA compliant Database Alignment) in Italy, and be willing for a time to accept the ramifications – and perhaps fines – from the EU or national bodies.

The result of late convergence, in conjunction with ad hoc decisions to facilitate local compliance by February 2014, risks moving the market infrastructure further away from SEPA's standardisation and harmonisation objectives. In turn, the standards that are achieved in SEPA instruments are likely to be at a diminished feature-functionality level – the lowest common denominator – which could prove unattractive for corporates in the future.

The devil is in the detail

Adding to market confusion, many banks continue to present different interpretations of the regulation. For example, some banks insist ISO 20022 XML is mandatory for corporates, while others are keen to discuss conversion services. But for those corporates relying on banks or third-party providers for conversion services, such solutions cannot be implemented 'overnight' and mapping services are still dependent on the corporate's access to core data.

The 'devil' is in the detail, and it is only when corporates examine the change effects can they fully grasp their implications, extending beyond simple IT adjustments. For example, the SDD Core scheme changes pre-notification routines, and provides for stronger consumer protection; and whilst the SDD Business-to-Business (B2B) scheme enables faster execution and limited payment revocability, it also introduces additional creditor mandate responsibilities. Banks also need to address clients with smaller scale cross-border trading relationships, or less sophisticated back office capability able to capture SEPA changes.

Today corporates are waking up to the fact that 'the SEPA effect' does not stop at an organisation's boundaries, but touches all their counterparties – payments are fundamentally a network business. A corporate's cash flow could be susceptible to counterparties' delayed SEPA readiness – old-versions or in-house enterprise resource planning (ERP) systems may be incapable of accommodating SEPA data. Some corporates could be forced into unwanted or untimely system upgrades, or they could simply be on the debtor side of a SEPA direct debit collection and unaware of scheme change implications.

It is crucial that corporates talk to their relationship banks in order to understand how SEPA will impact their business. Although other banks will provide some perspective, only a client's own bank is suitably informed to provide guidance and support that takes into account the client's working capital requirements, its treasury complexity, transaction scale and volume, and risk appetite to determine optimum approach to SEPA. "And If your bank isn't talking to you, you need to consider reaching out to a bank ready to address clients' needs and provide its expertise such as Lloyds Bank," says Pantall.

Opportunities in the making

Corporates need to build a clear picture of their euro transactions, understand which need to migrate to SEPA compliance and determine the business value of SEPA to identify opportunities to transform their euro cash management function. "The best opportunities of SEPA are being overlooked in the need to ensure compliance," according to Pantall.

SEPA's aim is to create a level playing field in the euro payments market, enabling faster, cheaper and safer payments processing with cross-border transactions aligning to domestic payments. 'Free choice of EU location of an account with Europe-wide reach' is a hugely significant aspect of the regulation. It will allow businesses to locate financial activities in their financial centre of choice and to rationalise bank providers and account structures.

Clients can capture centralisation benefits through deployment of payments-on-behalf-of (POBO) and collections-on-behalf-of (COBO) shared services as a result of SEPA feature functionality. Although payables transformation is considered to be relatively straightforward, meeting SEPA compliance in receivables given many small cross-border issues and transitioning to centralised COBO processing is much more challenging – none more so in business models where the offer to the consumer is directly linked to bill payment via direct debit.

"SEPA offers an opportunity to our clients to re-evaluate cash management across Europe as the traditional need to rely on local banks and local accounts is reduced," says Pantall. How quickly corporates can take full advantage of SEPA, and how much value can be derived, is conditioned by the significance of non-SEPA money transmission in their ledgers, agility of ERP systems and treasury management systems (TMS), and the risk/reward profile of centralisation opportunities, including its corporate structure and culture.

It could take time for less sophisticated corporates that have achieved 'late' compliance to stabilise back office processes and leverage cash management and payments transformation opportunities, particularly those that have implemented alternative, local scheme solutions demanding continued access to Eurozone country accounts.

Corporates aiming to seize the opportunities created by SEPA must equally be aware of the implications on internal change capacity impacting systems, costs, resources and buyer/seller relationships, which require careful planning and controlled implementation methodology.

"'Phase 1' of SEPA implementation should be execution focused, with no or minimal disruption to business continuity, whereas 'Phase 2' could be considered a next step to pursue post-compliance benefits," says Pantall.

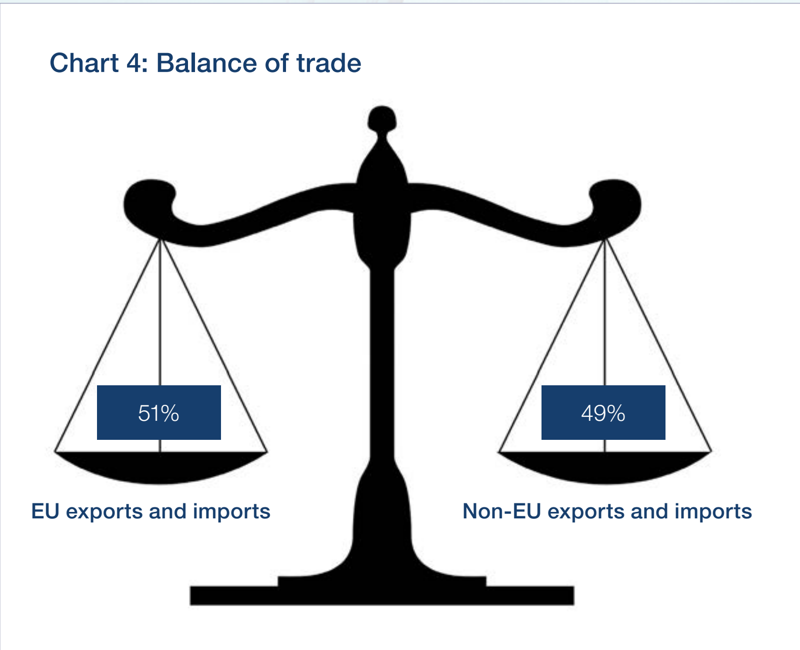
Impact on UK companies

The effects of SEPA exceed the Eurozone – 51% of UK trade overseas is with Europe. By embracing SEPA, UK businesses will benefit from the standardisation across Europe.

However, with most of the SEPA messaging coming from European banks focused on the 2014 deadline, many corporates will not have had a conversation about the latter deadline of 31st October 2016, for those holding accounts outside the Eurozone. This is one reason why SEPA is not high on the corporate agenda in the UK.

The UK market view risks "polarisation" between the 2014 and 2016 end dates, according to Pantall. "Effectively, the UK is already participant in a SEPA continuum, with sterling-base corporates at varying stages of SEPA readiness. Those corporates with a high focus on euro working capital, higher time and interest commitment with dedicated resources allocated to SEPA transformation, and higher competitive leverage with their banks are likely to render the 2014 end date as a demand-led date for SEPA convergence," he explains.

Chart 4: Balance of trade



Source: Regional trade statistics, HMRC

Hence, Pantall advises clients of non-Eurozone banks to focus on the immediate impacts of February 2014, whereas he sees the 2016 deadline as a lesser event with fewer legacy issues to resolve. However, insight from some of Lloyds Bank's larger corporate clients highlights that there is still much confusion in the market about what the impacts and opportunities are, as they are being presented in different ways by the various banks. The key consideration for UK businesses is where their bank accounts are domiciled. It is the location of these accounts – and not the company location – that determines the relevant deadline.

"UK corporates may not be aware of the impacts and opportunities of SEPA, mainly because they have more pressing things to worry about," says Pantall. "However, if a corporate holds accounts both in and out of the Eurozone, will it make the change for just some of its accounts? Very unlikely. Corporates should look to convert everything at once."

Across the board, technical compliance must be achieved by October 2016 and few commentators would bet against a low state of readiness in jurisdictions outside the Eurozone as that date approaches. Clearly, much depends on multiple and diverse economic conditions in the interim, although the Eurozone provides a strong frame of reference for banks outside it to drive a more seamless changeover and de-risk SEPA compliance.

Back to basics

SEPA will happen, and in time corporates will see an end to SEPA-themed events and material. The real story behind the initiative is about making the euro work for business and consumers. The UK trade with Europe is vast and Lloyds Bank is committed to supporting its clients operating in euro.

"Our aim is to set out the facts around SEPA and be clear about what the opportunities are for our clients, what our SEPA products are, the options clients have to locate financial activities in their financial centre of choice, rationalise bank providers and account structures, and create efficiencies more closely aligned to their treasury organisation and working capital structures," says Pantall.

The bank has positioned itself to address the needs of clients of all sizes, including the middle market segment, which has been overlooked by most banks to date. "A lot of the SEPA conversations have been dominated by the big guys, but we are looking forward to having more engagement with our mid-cap customers to give them the support they need."

Lloyds Bank is a natural banking partner in Europe – located in a non-euro country, euro is its second currency and the bank can offer centralised liquidity management using SEPA as "the reach" for transaction management across the region. "In terms of a consolidated one-stop shop, we fit very well. Conditions around bank accounts and liquidity structures are very favourable in the UK, and Lloyds Bank has ubiquitous reach for processing," explains Pantall. "In order to appeal to our clients, we have joined up our SEPA offerings with Trade and Card to present broader capabilities in the form of solutions, which address the needs defined by our clients." The bank has partner bank arrangements on the ground in Europe for clients who want to extend beyond the classic centralised payables and receivables model for services delivered locally.

And most importantly, Lloyds Bank puts its client at the centre of the product management discipline. "We are cognisant that clients do not buy products; they need solutions across all their transaction banking and commercial banking needs," Pantall concludes.

Guy Pantall

Head of Product, Cash Management and Payments, Transaction Banking

Guy Pantall is Head of Product for Cash Management and Payments at Lloyds. He recently joined the group from J.P. Morgan (JPM), where he had worked in a variety of international cash management roles. Previously, Pantall held positions at Barclays and Citi, and has spent the majority of his career in the treasury management discipline.

Lloyds Bank

Lloyds Bank Commercial Banking provides comprehensive expert financial services to businesses of all sizes, from start ups, through to small businesses, mid-sized businesses and multinational corporations. These corporate clients range from privately-owned firms to FTSE 100 PLCs, multinational corporations and financial institutions.

Maintaining a network of relationship teams across the UK, as well as internationally, Lloyds Bank Commercial Banking delivers the mix of local understanding and global expertise necessary to provide long-term support and advice to its clients.

Lloyds Bank Commercial Banking offers a broad range of finance beyond just term lending and this spans import and export trade finance, structured and asset finance, securitisation facilities and capital market funding. Its product specialists provide bespoke financial services and solutions including tailored cash management, international trade, treasury and risk management services.

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Movers and shakers

Mobile devices have reached every corner of the globe and yet in the world of treasury operations they have yet to make any real impact. Why might that be and, more importantly, what are the service providers doing about it?

"It's about options and accessibility," says Paul Taylor, Head of Regional Sales, Global Transaction Services (GTS), EMEA, Bank of America Merrill Lynch (BofA Merrill), describing the essentials of a mobile treasury solution. Taylor is keen to point out that making available an alternative to desktop treasury is not about replacing one channel with another, but about augmenting the existing model. It is a laudable goal but 82% of respondents to Treasury Today's European Corporate Treasury Benchmarking Study 2012 said they had not adopted mobile and only 12% said they would consider using it somewhere down the line.

Enabling financial professionals to access and use company data whilst away from their desktops can, admits Taylor, be seen as "trying to solve a problem that does not exist". In defence of mobile treasury, critics probably said the same thing about the motor car. Indeed, a revolution has to start somewhere. If the first faltering steps in a new direction are seen as a gimmick then so be it.

Indrajeet Maitra, Head of International Cash Management, Asia at BNP Paribas, is an advocate. He notes that the advent of global supply chains with high interdependence has added "another level of managerial complexity" and that on this basis, the industry is looking at every opportunity to "build bridges" between different functions like purchase, inventory management, payments and foreign exchange. "And mobile treasury nicely fits into this new environment."

The wholesale adoption of mobile devices in the consumer space – smartphones, PDAs, tablets et al – has seen the technology shift from a 'want' to a 'need'. This gives it two distinct advantages, if and when it moves more fully into the treasury sector: rapid development of the underlying technology is assured; and there is a user base that has already bought into the basic concept of doing things on the move. Maitra feels that in the Asian markets there is already a "willingness, ability and need to take decisions on the go", the option largely being taken up by the so-called Gen Y age group.

Generations and geographies

Nick Diamond, Head of Cash and Payment Sales, Commercial Banking, Lloyds Bank, believes in the slow but inevitable shift within the treasury sector towards mobile operations. He too sees a new generation of people coming into treasury that are "comfortable working with mobile because it is the way they lead their personal lives".

Diamond reasons that if mobile devices are used to make consumer transactions on a day-to-day basis, why wouldn't they eventually appear in business life? There may be a gap between the slick presentation and user-friendliness of a consumer mobile app and that of a business-dedicated portal, but that gap is narrowing. "There is often an overlap between what people do in the personal and business space, and eventually they tend to influence each other," agrees Maha El Dimachki, Head of Corporate Sales, GTS, EMEA, BofA Merrill. Transferring the consumer experience to the working space will be the way forward; it's what people are used to and they need to feel comfortable using this technology if it is to take off in any meaningful way.

Whilst El Dimachki observes that many treasurers are already happy to carry out certain limited functions on a tablet-style device, some geographic markets are more receptive to the overall concept of mobile transactions than others. As ever, it starts with the consumer segment. Asian countries such as India, Korea and Japan are, she notes, extremely well-disposed to mobile activity. Providers are willing to deliver the necessary solutions to take it further too. Indian mobile payment (m-payment) solutions vendor, iKaaz, for example, launched its own 'Tap & Pay' reader in July this year, enabling cashless transactions based on near field communication (NFC) technology. Earlier, in April, DBS became the first bank to offer an NFC-based virtual credit card to customers of all three mobile network operators in Singapore with its DBS One.Tap.

China too is moving rapidly forward with NFC technology, announcing in April this year its proposed specification for a national m-payment standard. China Mobile, which is the world's largest mobile network operator, and the domestic bank card association, China UnionPay, went live in June with an NFC payments service supported by eight banks, including some of the country's largest such as Bank of China, Shanghai Pudong Development Bank and China CITIC Bank. Others connected to the platform so far include China Everbright Bank, China Minsheng Banking Corp, GF Securities, Bank of Shanghai and Bank of Beijing.

There is undoubtedly a very healthy appetite for consumer m-payment services in some Asian markets. A June 2012 survey of the sector across China, India, Indonesia and Malaysia by the Asia Pacific office of consulting and research firm, Analysys Mason, revealed that 65% of those who used their phones for non-voice services claimed to use mobile banking (m-banking), 51% used m-payments and 47% used mobile commerce (m-commerce) services.

The dominance of consumer payment devices such as cash, cards and especially cheques is slowly being eroded by m-payment concepts such as 'tap and pay' in some countries. But, says a March 2013 KPMG report, 'tap and pay' NFC solutions have generally failed to spark consumer interest. "Until silos are broken down, and there is collaboration across the value chain between merchants, mobile phone companies and financial services organisations, the mass audience will remain unconvinced," says it's author, Mark Guinibert, KPMG UK Head of Customer and Channel Management. Recent research by TNS Global shows that 11.9% of UK consumers use their mobiles to make payments and just over 20% use m-banking – a fraction of current levels of Asian uptake, but nonetheless a sizeable chunk of business.

Retail therapy

With this in mind, Diamond warns that businesses – certainly retail and utilities-based operations – need to understand how consumers are behaving differently in the sales cycle. The smart ones have been re-designing their business model to accommodate these shifts in behaviour. As Taylor says at the beginning of this article, it is about presenting options.

What does this have to do with treasury? Well, the progress of technology from consumer-user to business-user is self-evident, but if consumer behaviour changes to the point where people take their mobile device shopping with them – not just to make payments but also to research prices, order remotely, receive and respond to context-specific targeted offers and so on – the speed of movement and change of payment traffic has more immediate implications around cash flow, cash forecasting and even funding requirements. "More so than ever, the treasury group cannot act in isolation," warns Diamond. "It will have to get much closer to its commercial departments." When a payment is made electronically there is always a data footprint attached. This data can be used to steer the business in its response to buying and payment behaviours, as well as product and service delivery models.

But there is a direct potential use of the mobile device for treasurers, and that is in cash management processes – checking balances and exposures, authorising trades or confirming payments and receiving updates for example.

Treasury resistance

Diamond notes that although many system providers have already created mobile versions of what they do, there has been "some reluctance" within treasury to adopt. Part of the reason, he believes, centres on the "very much office-based" sensibility of many treasury operations; it's all about history and habit. A major concern, he observes, "is in taking the cycle of treasury processes out of the office environment and in doing so stepping outside of the comfort zone". A similar reluctance to "embrace the new" can be seen in the persistence of use amongst treasurers of the spreadsheet, even though newer, more efficient technologies may be available.

Perhaps the most commonly cited discomfort is security. "Corporate treasurers still have the perception that mobile technology is not secure, which is a concern consumers also hold," says Singapore-based Amit Sharma, Director and Head of eCommerce and Channels, Asia Pacific for BofA Merrill. "Consumer behaviour drives corporate behaviour, as it is the same person whether they are using personal or corporate access. This perceived security concern is the biggest hindrance to uptake, and something that can be seen on a global basis."

"The viewpoint is that, if you step outside the ring-fence of office security by using a mobile device, you may be compromising that security by offering more opportunity for criminals to hack into the system," says Diamond. "The fact is that all electronic technologies are open to hacking as criminals become more sophisticated." Banks invest vast

sums to protect clients (and their reputations) against cyber criminals. The authentication and validation tools deployed on a trusted banking partner's mobile channel will be as robust as that of its normal treasury offering, so even if your tablet computer gets into the wrong hands it should still be safe.

Barclays' Managing Director and Head of eChannels, Jon Ashton, does not feel that identity and password security is sufficient to safeguard mobile for corporate clients. The bank's corporate banking unit is focusing on providing information services first, with payments and payments approval to follow once it has the security operating on a mobile device to a level that can support key commercial needs like non-repudiation. "Barclays is very rigid around using smartcards and readers to protect transactions. We haven't really found a way of doing that on mobile, so we recognise there is a slightly lower bar there when it came to security."

For BofA Merrill's Sharma, as consumers and corporates become more confident in the security of mobile devices, the advent of bigger screen sizes in tablet computers will mean that navigation will become easier and the whole user experience will change. "On-the-go treasurers are likely to embrace non-critical activities first, for example accessing current balances or removing a signatory if that employee resigns," he says. "I don't believe that treasurers want to bring their whole bank onto their mobile devices – no one would want to initiate mass payments via mobile – but they probably will want to make time-sensitive, critical payments."

The providers' problem

"The underlying principle is to what extent is the channel being used to achieve business goals and, more importantly, to what extent it simplifies the process," notes Maitra. Aware of the reticence to adopt mobile solutions, the response from some banks and vendors, adds Taylor, has been to deliver the "logical on-the-move extension" of existing treasury services which means smartphone and tablet access to an existing cash management portal, rather than attempting to provide something new from scratch. Mobile treasury as it stands today is not, and never has been, a means of phasing out all other channels, he explains, but instead is a way of giving clients access to data "wherever they are and on a device they already have with them".

However, Diamond takes a different stance, believing that the current lack of appetite has dissuaded many banks and technology vendors from venturing as fully into the mobile environment as they might like. As such, not all functions are available on mobile and so, he feels, the user experience can appear to be a pale imitation of the traditional office-based system. "We are in stalemate at the moment: there is not really the demand for the industry to go the whole way with this and make it the same experience treasurers have in the office; but, on the other side, until the treasurer sees all of the functionality to enable the true remote working experience few will take it on with any real enthusiasm. It is a Catch-22 situation."

In terms of presentation, most banks accept that if they make their mobile offering a mirror image of what is on the desktop "it's not going to work", notes Barclays' Ashton. This awareness applies to core technology vendors too. An adaptive approach has been used by TMS vendor IT2 which currently offers "fluid movement between desktops, tablets and phones", with full functionality at hand, using an "automatic adaptive interface" which configures the view according to the device being used, rather than shoe-horning the same view into every format.

Now for something completely different

For Ashton, the big problem for banks has been that unless they can come up with something that treasurers can do on a mobile device that they might not be able to do on their desktop, "then there isn't really a reason to use mobile". Whilst many providers are merely replicating their desktop cash management services in the mobile environment, he fails to see the point, arguing that treasurers can and will use their desktop for this purpose.

"We have made a conscious decision to structure our mobile application very differently to our desktop environment," he says. "When you look at how the iPad, for example, presents data it is very different to how you would present it on a desktop. For a start, we have to make it very simple so that the small screen can represent everything they want to see," explains Ashton. "The amount of data you can put on a desktop is much greater than you could ever put on mobile." The idea, he adds, is that users neither have to read nor enter a lot of data.

The key to success may be for treasurers to use mobile treasury as a channel in its own right. If it is seen in this light, different products will start to evolve, steering it away from mere desktop replication but retaining its position to complement the other treasury channels.

Currently, the structure of a treasury operation, the segregation of duties within the team and the actual mobility of the treasurer will dictate the usefulness or otherwise of mobile treasury, says BofA Merrill's El Dimachki. Anyone engaged in intensive number crunching, for example, will not want to work on a tablet, for obvious practical reasons. But as mobile functionality and practicality improve and adoption rates rise (looking to Asia as the most likely leader in this space), it could naturally start to change treasury practices just as the PC and the internet changed how we work and how mobile devices are currently changing norms within the retail sector.

"There is a lot that corporate treasurers can expect from mobile solutions," comments Maitra. Convergence of platforms and systems will give a single gateway to various applications that "obviate the need to access applications through different channels". Mobile used as a security token will eliminate the need to carry physical tokens for electronic applications, "and faster, concise, customised analytics will truly aid the decision making process".

Talk of mobile treasury is more than just background noise but it is yet to make a real impact. It may be necessary to 'consumerise' the mobile treasury experience – bringing the same level of service as consumer offerings, with instant access and frequent updates – before users feel at home with it. BofA Merrill's Taylor sums up the essentials of the current approach well by stating that a solution should answer a specific treasury need without harbouring "distractions that detract from the usefulness of the device". And, he adds, it should never be seen as a means of replacing an entire existing traditional platform. At least for now. ■

THE BANK INTERVIEW

Claudia Colic
Head of Transaction Banking

Risk management has become a crucial component of the corporate treasurer's day-to-day job. Claudia Colic, Head of Transaction Banking, UBS, delves into how treasurers are coping in the challenging environment and how their banks can assist their clients.

Describe the changing approach by corporates to risk management.

Counterparty risk remains a high priority for our corporate clients. As an example, UBS's institutional clients today are demanding thorough reporting of their securities deposits in order to gain a better understanding of their exposures to individual custodian banks. Corporates are also displaying an enhanced awareness of operational risks, as demonstrated by treasuries who divide their operational execution between multiple providers as a way to avoid concentration risk. Due to the historically low interest rate environments, interest rates are another area of increased focus. Centralising risk management and control functions within a group of companies also remains a key topic. Indeed, the majority of projects UBS is involved in with its corporate clients start by centralising the visibility of their positions and foreign exchange (FX) management.

What changes have you seen in the way corporates approach risk mitigation? What do you see as the big issues?

Since the credit crisis began in 2007, CFOs are strongly focused on treasury control and mitigation. This has led to a desire for more detailed information on, and understanding of,

their firms' global cash positions, expected cash flows and associated risks.

Pre-crisis, the aim was to maximise return on cash within certain risk limits. Corporate clients thus tended to concentrate the majority of treasury flows through a limited number of banks in exchange for better pricing. During and after the crisis, the key requirement was to minimise risks while accepting only marginal returns, if any at all.

As a consequence, tools and reporting processes were implemented to aggregate critical data and take remedial action in case of risk excesses. In addition, corporate treasurers began to split their positions and distribute business to several banks, so as to diversify operational and counterparty risks.

The all too apparent tightening of control over the banking environment, via more regulation, has seemingly been driving corporate client centralisation and efficiency programmes. Is this your perception?

Corporate clients face a challenging competitive environment every day and are under permanent pressure to improve their cost base. If a company is forced to change its processes, this is always associated with additional costs.

As a result, corporate clients strive to leverage change to eke out margin improvements with each adjustment. On the other hand, every regulatory change compels banks to review their existing product portfolios and benchmark the expected returns under the future regulations against their capital costs.

This process often leads to alterations or even discontinuations in their offerings which oblige corporate clients to either adapt or switch banks altogether. With the widening availability of standardised data formats and channels, corporates – if forced to change their processes – will in return increasingly drive banks to standardise in order to exploit efficiencies on their side and realise centralisation programmes.

Can you give us some examples of efficiency programmes, such as working capital optimisation based on supply chain finance (SCF), cash pooling, shared service centres (SSCs) and payment factories? How banks can step in to help?

Depending on the business model and degree of centralisation within a corporate group, we have seen a wide variety of programmes. Corporate clients are very pragmatic when it comes to finding solutions that require little effort but create a big impact. Central cash visibility can unlock unused excess cash balances that can be reduced, for example, using manual intervention. Or they can centrally manage FX exposures by centralising non-functional currency management.

In Europe we see many programmes that take the mandatory Single Euro Payments Area (SEPA) migration as an opportunity to centralise payment and collection flows in one European location. Particularly in the business-to-business (B2B) environment, programmes to centralise the collection of accounts receivables (AR), for example in Switzerland via SEPA, are interesting ways to simplify operational cash collection.

Banks can help by having sales staff who understand their clients' needs, offer feasible technical solutions and deliver what they have promised.

How have technological advances enabled treasuries to improve operational efficiency around areas such as cash flow forecasting, cash management or multi-banking?

The emergence of enterprise-wide ERP systems and global connectivity standards has opened the door for higher levels of automation in corporate treasury centres. Multi-bank capability and efficient end-to-end processing marked an important step in aggregating and processing data at group level. This technological leap allowed companies to centralise treasury functions in a single hub and empowered the treasurer with insight into the company's cash positions, projected cash in- and out-flows and steer the group-wide liquidity in near real time.

The on-going standardisation of payment and reporting formats furthermore enabled the establishment of SSCs, thus eliminating redundancies across the firm and consolidating tasks in those business units that have the highest subject matter expertise. The consolidation of volumes in specialised units did not only decrease the internal unit cost per transaction but also enabled companies to negotiate better terms with suppliers and reduce their external cost of services.

What does corporate technology-enabled efficiency (such as multi-banking or bank agnosticism) mean for banks?

The advance in technology we've just discussed in combination with the prevalent standardisation trends fostered by legislative change, such as SEPA ISO 20022 XML pain/.camt messages, has not left banks unaffected. Large and mid-sized corporate clients can now interact with banks through a single channel and become independent of proprietary bank systems at a fraction of the price tag compared with just a few years ago. Banks are thus facing two major trends: firstly, large corporate clients are switching to bank-agnostic channels and diversifying banking relationships; and secondly, smaller corporate clients are consolidating relationships with a few key banks and benefiting from automated solutions, while virtually outsourcing treasury processes to the banks. To cover the needs of the first group, banks have to invest in upgrading their backbone infrastructure so that it can seamlessly accept globally adopted standards and process large transaction volumes with a high level of automation. This is the only way to remain economically competitive.

Addressing the demands of small and medium-sized enterprise (SME) clients requires banks to build integrated transaction banking product suites, ideally coupled with a sophisticated front-end, providing SMEs with the tools they need to focus on their core competencies, which lie outside of treasury management.

Please tell us about changing approaches to the treasury centre and the global versus regional question. How has this impacted banks' service offerings?

For corporate clients operating across the globe who have a certain regional footprint, a regional treasury centre (RTC) set-up is still the most popular option. For example, there is increased focus on Asian RTCs. In addition to this, we are seeing an increased readiness by corporate clients to bank with multiple banks, instead of just one bank, within a region.

For us as a bank, this means that we need to build on our local strengths in our domestic markets, enhance our capabilities in selected core markets and build up co-operative relationships with other service providers. Our goal is to deliver solutions that fit our corporate clients' needs, even if UBS does not directly provide all the services they require.

How is Switzerland uniquely positioned to offer international treasury centre services, thinking for example, about its political, financial and infrastructural readiness?

Switzerland is governed by a multi-party political system that fosters an environment where decisions generally have widespread support across the political spectrum. The checks and balances in this type of system prevent inconsistent swings, such as those seen in two-party systems, where it is not uncommon for decisions implemented by one government to be reversed by its successor in power.

As well as having this framework of political stability, Switzerland has weathered the financial crises of the past few years with astounding success. Against its peers in the western hemisphere, the country has one of the lowest debt levels today, and its gross domestic product (GDP) has grown at above-average rates. This combination bodes well for the country to retain its attractiveness for both employers and employees in terms of future taxation levels and a low tax wedge.

All this, plus Switzerland's reliable infrastructure services and well-connected geographic position in the heart of Europe, make it a prime location and domicile for global and regional headquarters and their highly skilled staff.

What is the role of banks in taking on overworked and under-resourced SME treasury functions in Switzerland, for example?

Switzerland has such a small home market that most Swiss SMEs are heavily engaged in worldwide activities. Since SMEs have neither the personnel nor the systems resources to run complex and expensive projects, the key requirement is to simplify operational processes through easy solutions. This is why UBS, for example, provides a treasury management package in co-operation with an external provider, which meets most SME needs. SMEs can execute their renminbi (RMB) payments directly to the Chinese mainland through an account with UBS Switzerland. They can also reduce documentation by taking advantage of a UBS EUR Gateway Accounts, and access euro markets from an account with UBS in Frankfurt.

How are banks facing up to their own issues, including new regulations, the financial environment, and bank and non-bank competition?

Currently we are seeing two major trends in banking to address change and cope with the increased complexity of regulations, higher costs and pressure on margins: firstly, some are specialising in certain premium services (for example, best-in-class import/export trade advisory and execution services); and secondly, some are focused on highly standardised and scalable mass volume services (such as fully automated straight through processed (STP) execution for securities services).

This brings us back to the trends identified earlier regarding the different requirements of large, globally operating clients as opposed to those firms in the SME market segment. Banks need to revisit their strategies and determine which target segment or segments they intend to cover, and adapt their end-to-end business models and operational processes accordingly. In terms of infrastructure, institutions must decide whether to embrace a buy-or-build strategy, and whether to provide part of their services via a white-label offering, or maintain their own in-house service capabilities.

How are banks managing to overcome current pressures without negatively impacting upon client offerings?

This is one of the biggest challenges. Some regulatory changes affecting banks will inevitably have a knock-on impact on our clients. One major example is increased documentation. Another is Basel III, whose enhanced liquidity provision requirements for banks will impact investment solutions for short-term liquidity. Banks' efforts towards industrialisation mean that co-operation will be key in the years to come. At UBS, we are constantly reviewing which processes and services other partners can perform more efficiently, so that we can provide even better services through these partners to our corporate clients.

Where do you see the next set of issues for treasurers coming from – and how will banks be able to assist?

Maybe we should speak about challenges rather than issues. One aspect is that corporate treasuries need to be more integrated into their firms' business units, achieving this by implementing solutions across the entire corporate supply chain, for example through SCF or working capital optimisation. This requires persuasiveness to get internal stakeholders on board, and it is often underestimated how many internal processes need to be changed, people trained and detail level issues to be resolved in order to do this. Technology itself is not the solution, but a tool that must be embedded and managed within the company.

Another challenge will come from enhanced globalisation and movement into emerging markets, where the need to handle regulatory complexity will increase, not least because what is acceptable today may not be allowed tomorrow.

On the market side, predictions are difficult, but with the deleveraging going on in the financial world, liquidity and funding will remain challenges in the near term. Above all, all these challenges need skilled and knowledgeable people, so the fight for talent will continue. ■

Political risk

Following recent events in North Africa and the Middle East, political risk is being examined more closely than ever. Political risk cannot be completely avoided in today's increasingly volatile world, yet companies can still learn how to manage it effectively.

Political risk is a salient issue in international business, with the ongoing turmoil in the Middle East and North Africa; the recent spate of nationalisations in Latin America; and diplomatic incidents, such as the Iranian government's threats to close the Straits of Hormuz, which negatively impacted a number of large energy multinationals earlier in the year. What is political risk? In basic terms, it can be defined as any political event or decision with the potential to impact negatively upon commercial activities. The risk is often grouped and analysed on macro and micro levels:

- Macro-level risks are those which impact all businesses operating within a specific region. Such risks are widely discussed in the media, and include political and civil unrest, energy-price volatility, terrorism, and civil or cross-border conflict.
- Micro-level risks are firm or industry-specific risks. These types of risks are, by their very nature, discriminatory. The category includes the risk of a government nullifying a contract with a certain business, or that a terrorist group will target a certain company's operations.

Why manage political risk?

Most successful multinational companies (MNCs) now recognise that the way in which political risks are managed can have a substantial impact upon performance. This awareness is particularly acute amongst businesses that have had their fingers burnt by political events in the past.

"I think there is a discrepancy between companies who have been operating in highly volatile, highly opaque markets for a long time and those who have not," says James Smither, Head of Political Risk at global risk analytics company, Maplecroft. Predicting the types of companies that are going to be good at managing political risks is not always straightforward, Smither cautions, but there does seem to be a strong association

Table 1: Different types of political risk

Risk types	Examples
Bribery.	• Forced hiring of third-party consultants for contract bids. • Unforeseen border 'taxes'.
Capital controls.	• Limits on profit repatriation. • Administrative delays in approving capital transfers.
Contract default.	• Politically-driven debt default. • Politically-driven failure to deliver on a contract.
Expropriation/nationalisation.	• Confiscation of a plant due to 'unpaid' taxes. • Forced sale of asset(s) to government buyer at below-market prices. • Politically-driven increase in state ownership of joint ventures.
License cancellation.	• Change to organisation's license to operate (LTO) ahead of an election. • Loss of social LTO ahead of an election.
Protests/strikes.	• Industrial action and work stoppages at key supplier(s). • Anti-government or anti-company protests and road-blocks.
Regulatory change.	• Complex new environmental or labour standards. • Regulatory enforcement authority handed to a state-owned company.
Taxation.	• Windfall taxes levied over 'excessively high' profits. • Duplicate tax claims by/between central and local governments.
War on terrorism.	• Border and road closures due to inter-state fighting. • Politically motivated terrorist attacks against foreign investors.

Source: Accenture 2012

between those that pay most attention and those who have had negative experiences in the past. "If you went through a very traumatic expropriation in Iran or Latin America during the 1970s, then you will most likely have very rigorous systems in place to make sure that it doesn't happen again," says Smither.

For most companies, managing political risk to avoid the types of negative experience is the priority. But effective risk management can also help businesses to seize new opportunities which otherwise may have passed them by. Anticipating policy developments, for example, might provide a window to gain first-mover advantage in a particular region.

Political risk assessment and analysis

Before a company can begin to manage political risk, first it must find a way of identifying and quantifying the different threats it faces, and then analyse how these threats might impact upon strategy and its ability to access and operate in different markets.

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

Maplecroft's annual Political Risk Atlas (PRA) includes 50 risk indices for 197 countries which are embedded in interactive maps. The atlas includes short-term risks, such as the rule of law, political violence, and regime stability, in addition to longer-term factors such as economic diversification, resource scarcity and human rights.

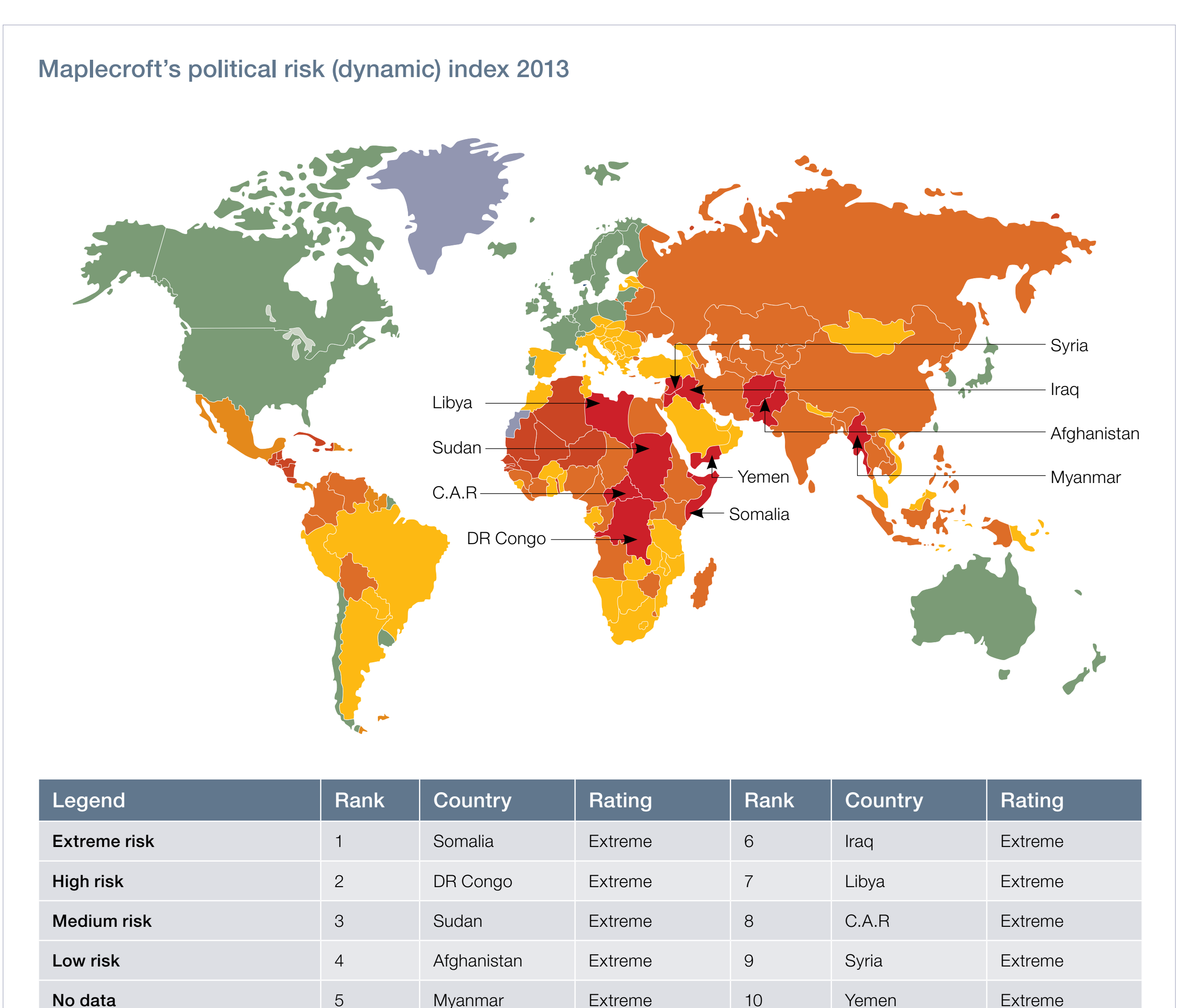
For the risk manager or CFO, the changing values of such indices can provide a useful starting point for identifying future risk events. For example, if one wished to look at the probability of large-scale social unrest breaking out in a particular country, you might look at indicators such as youth unemployment or the level of government oppression, where any change could indicate a rise or a fall in the level of risk.

Managing political risk: the four Ts

Now that the risk has been identified and evaluated, companies can begin the process of managing it. As is the case with other types of exposure, there are four main ways for a company to manage political risk:

- One option is to tolerate the risk – companies may conclude that the level of risk they face is acceptable and decide to proceed as normal, while monitoring it to make sure that it does not increase in the future.
- On the other hand, if a company decides that the level of risk they face is too high, but wish to continue operating in a particular region or country, then an alternative approach would be to transfer the risk by taking out political risk insurance (PRI) in order to provide a form of financial recourse should the worst happen.
- The third pillar is treatment. Treatment involves taking actions that will reduce the likelihood of the risk occurring in the first place. That could mean lobbying a government in the hope of achieving a more favourable legislative outcome or, alternatively, taking certain steps to mitigate the impact of a damaging policy decision.
- In cases where the level of risk is deemed to be unacceptable a decision may be made to terminate a certain activity. What is determined to be an acceptable

Maplecroft's political risk (dynamic) index 2013



Legend	Rank	Country	Rating	Rank	Country	Rating
Extreme risk	1	Somalia	Extreme	6	Iraq	Extreme
High risk	2	DR Congo	Extreme	7	Libya	Extreme
Medium risk	3	Sudan	Extreme	8	C.A.R	Extreme
Low risk	4	Afghanistan	Extreme	9	Syria	Extreme
No data	5	Myanmar	Extreme	10	Yemen	Extreme

Source: Maplecroft ™

level of risk may vary between industries and companies. For instance, companies in extractive industries such as mining often have little choice regarding the countries or regions in which they operate. A company which mines for platinum has to go wherever the deposits are, leading them sometimes into more volatile environments.

A growing concern

The ongoing social and political unrest in the Middle East and North Africa has begun to reshape the way companies and investors consider political risk. "The Arab Spring was a sort of '9/11 moment' for political risk," says Maplecroft's Smither. "It was a seminal event for companies because even if you were not investing in Egypt or Tunisia, the chances are that your supply chain passes through the Middle East and you would have experienced some form of disruption." Many of those countries, Smither points out, had been stable for extremely long periods. Their leaders – the likes of Mubarak, Ben Ali, and al-Assad – had in many cases been in power for decades and, furthermore, were seen as friends of the West.

"So that proved to be a big wake-up call for everyone," says Smither. "People began to realise that just because they know the president of a country and have a good relationship with the administration doesn't necessarily mean that they are politically safe. What it showed was that even long-standing governments can fall suddenly, leaving companies to deal with a bunch of new faces."

Lee Garvey, Vice President at Marsh's Political Risk Practice, agrees with Smither that there has been an upsurge of corporate concern around political risk in recent years. "It is an age-old problem – like with all insurance – people tend to come to market once the house is already on fire."

Garvey does note signs of a more conscious approach to political risk emerging, with an increasing number of clients now considering the product for all of their investments and projects going forward. "We are seeing clients address political risk in a more proactive rather than reactive way. I think historically that was the case – companies, banks and investors would consider PRI as an afterthought. Now companies are thinking about it as a way to actually enhance the proposition internally with their own credit committees and due diligence process." ■

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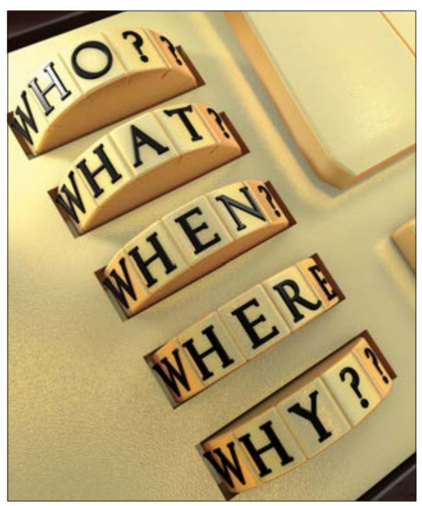

CASH MANAGEMENT

The challenge of trapped cash

In an ideal world, a treasurer would be able to sweep all their cash back to the corporate's treasury centre and maximise its utility; but today country-specific regulations and practical considerations hinder that exercise. In these instances, corporate investors must weigh up the investment alternatives which are locally available versus what's typically required (and accepted) by their investment policies.

INSIGHT AND ANALYSIS

Are you benchmarking the right things?

Benchmarking identifies what other companies are measuring, trends in the industry and also highlights best practices in various treasury disciplines. It also encourages a corporate to be open to new methods, processes, ideas and practices to improve effectiveness, efficiency and performance. But which metrics are most important in treasury?

TREASURY PRACTICE

The importance of employee morale

Low morale amongst staff can be a major problem and should never be dismissed lightly. One of the most common causes of low employee morale is lack of career development, which can leave employees feeling that they are in a rut. The key challenge for the company is how to recruit, retain and motivate high performance staff by creating a sense of pride and spirit in the organisation.

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

Jon Ashton, Managing Director and Head of eChannels, Barclays; **Rahul Badhwar**, Head of Corporate Sales, Asia ex-Greater China, HSBC; **Juan Pablo Cuevas**, Head of Global Transaction Services (GTS) for Latin America and the Caribbean, Bank of America Merrill Lynch; **Nick Diamond**, Head of Cash and Payment Sales, Commercial Banking, Lloyds Bank; **Per-Magnus Edh**, Client Executive, Head of Global Financial Solutions, FI Coverage, SEB Merchant Banking; **Maha El Dimachki**, Head of Corporate Sales, GTS, EMEA, Bank of America Merrill Lynch; **Thomas Dippold**, CFO, Semikron; **João Paulo Faria**, CFO, Microsoft, Chile; **Alexandra Foster**, Global Head of Strategy and Business Development, BT; **Lee Garvey**, Vice President, Political Risk Practice, Marsh; **Andrew Green**, Global Head of Account Management, Depository Trust & Clearing Corporation (DTCC); **Kathleen Hughes**, Managing Director, Global Liquidity Sales, Investment Management Division, Goldman Sachs; **Indrajeet Maitra**, Head of International Cash Management, Asia, BNP Paribas; **Jacqueline Martin**, Treasury and Credit Manager, Johnson Electric; **Robert Minikin**, Senior FX Strategist, Standard Chartered Bank; **Dimitris Papathanasiou**, Financial Risk Manager, Coca Cola Hellenic; **Linda Pullan**, Head of Payroll Alliance; **Petter Sandgren**, Head of Markets Asia, SEB; **Carlo Scotto**, Senior Product Specialist, SuperDerivatives; **Amit Sharma**, Director and Head of eCommerce and Channels, Asia Pacific, Bank of America Merrill Lynch; **James Smither**, Head of Political Risk, Maplecroft; **Mikko Sopanen**, Director, Global Finance and Treasury, LiteOnmobile; **Paul Taylor**, Head of Regional Sales, GTS, EMEA, Bank of America Merrill Lynch; **Nick Voisey**, Director, Loan Market Association (LMA); **Ruth Wandhöfer**, Global Head of Regulatory and Market Strategy, Citi; **Ivan Wong**, Head of Corporate Sales, Greater China, HSBC; **James Wood-Collins**, CEO, Record Currency Management; **Robert Yenko**, Regional Treasurer, Intel; **Sean Yokota**, Head of Asia Strategy, SEB.

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