treasurytoday

research | insight | analysis

November/December 2013

Making the most of M&A

The expanding strategic role of the treasurer gets them involved with M&A activity at a much earlier stage than before. Some argue that successful M&A transactions occur only when a high number of co-ordinated treasury activities are effectively executed.

Women in Treasury

Jennifer Gillespie

Head of Money Markets
Legal & General Investment Management

The Bank Interview

Erik Zingmark

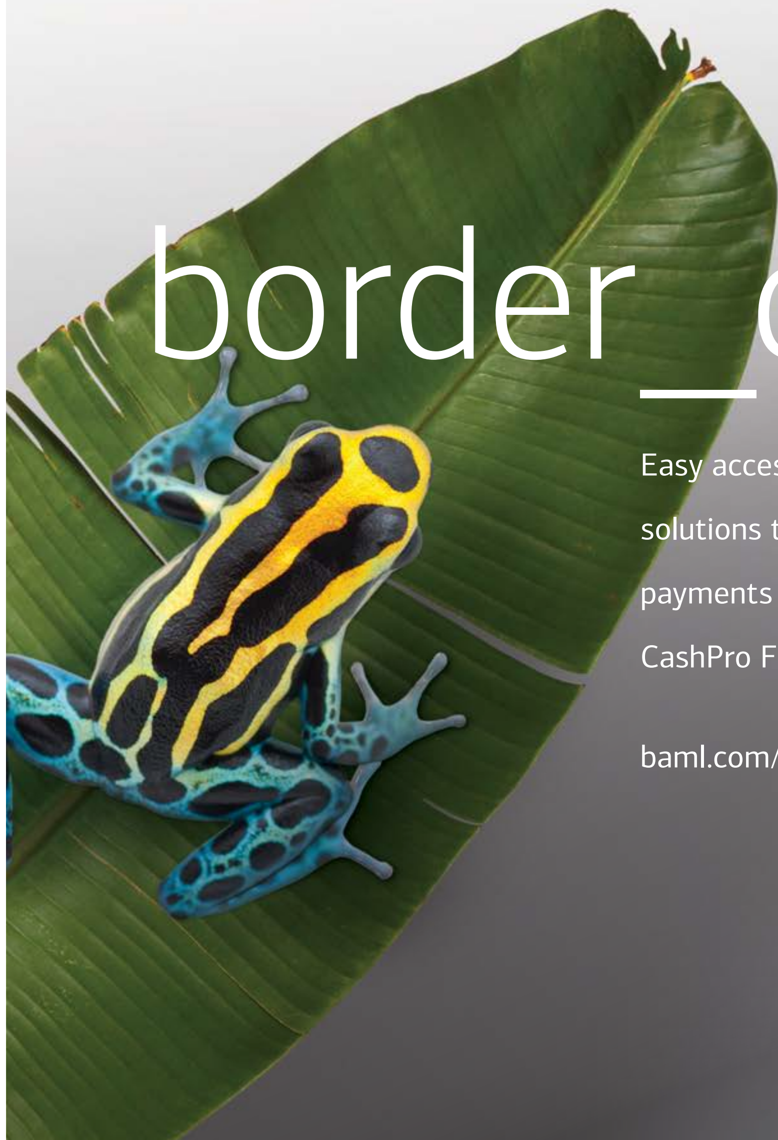
Global Head of Cash Management, SVP
Danske Bank

SME cash challenges
Tackling working capital

Technology
eBAM: another year on

Reporting challenges
Developing a system response

The key to centralisation
Getting the balance right



border_crossing

Easy access to web- and file-based solutions to simplify cross-border payments in more than 140 currencies.

CashPro Foreign Exchange Services.

baml.com/cashprofxservices

Bank of America Merrill Lynch

The power of global connections

"Bank of America Merrill Lynch" is the marketing name for the global banking and global markets businesses of Bank of America Corporation. Lending, derivatives, and other commercial banking activities are performed globally by banking affiliates of Bank of America Corporation, including Bank of America, N.A., member FDIC. Securities, strategic advisory, and other investment banking activities are performed globally by investment banking affiliates of Bank of America Corporation ("Investment Banking Affiliates"), including, in the United States, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Merrill Lynch Professional Clearing Corp., both of which are registered broker-dealers and members of FINRA and SIPC, and, in other jurisdictions, by locally registered entities. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Merrill Lynch Professional Clearing Corp. are registered as futures commission merchants with the CFTC and are members of the NFA. Investment products offered by Investment Banking Affiliates: Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed. ©2013 Bank of America Corporation 09-13-0921.E

An inspirational afternoon

The first Treasury Today Women in Treasury Lunch was held in London on Thursday 31st October. Our pioneering Women in Treasury initiative was launched in January of this year and continues to grow in ambition. In the project's first year we have profiled leading women in the industry, launched a study into the professional experiences of these women and now hosted our first Women in Treasury event.

The aim of Women in Treasury is to support, inspire and raise the profile of women in our industry. Now with the Women in Treasury Lunch we have also succeeded in bringing these women together and facilitating networking and a support structure. Only by understanding the challenges women face in our industry and highlighting them can we start to push for change and get rid of some of the barriers. Networking is such a key ingredient for a successful career and it was fantastic to see so many of the women that attended speaking with one another, sharing stories and debating the findings of our Women in Treasury study.

More than 150 women gathered at the Four Seasons Hotel in London for the exclusive release of the Women in Treasury study results. Then our panellists; Maeve Robinson, Assistant Treasurer, Omnicom Group; Marie-Astrid Dubois, Assistant Treasurer, Honeywell; Jenny Knott, CEO, Standard Bank and Pam Walkden, Group Treasurer, Standard Chartered Bank were part of a discussion that focused on four key themes that emerged from the study:

1. Job satisfaction.
2. Equality.
3. Mentoring.
4. Vive la différence.

The panel group and subsequent open question and answer session revealed some galvanising, alarming and inspiring truths and clearly support our feeling that platforms like Women in Treasury are vital if we wish to see equality in our industry.

A summary of the results from the study together with pictures and in-depth commentary from the Lunch will be published in the January 2014 edition of both Treasury Today and Treasury Today Asia.

We would like to thank all those women who took part and attended our inaugural event and would like to invite all other women in the industry who are interested or intrigued by the initiative to take part in our future events.

Audited member of BPA Worldwide

treasurytoday

treasurytoday.com
Volume 15 / Issue 10
November/December 2013

Publisher
Angela Berry

Executive Assistant to the Publisher
Samantha Cowling

Associate Publisher
Sophie Jackson

Editorial Director
Joy Macknight

Editorial
Tom Alford
Chris Davis

Research and editorial
James Hayward

Senior Relationship Manager
Shona Hannah

Research Director
John Nicholas

Business Proposition Manager
Colin Jones

Operations Manager
Lisa Bigley

Head of Circulation
Sarah Arter

Circulation Manager
Megan Coates

Circulation Assistant
Josh Thompson

Production Manager
Dawn Ingram

Production Assistant
Robert Murray

Website Manager
Luke Scammell

Website Assistant
Joanna Smith-Burchnell

Managing Director
Richard Parkinson

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

Annual Subscription Rate £285
subscriberservices@treasurytoday.com

© Treasury Today ISSN 1466-4224

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

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

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

The 2013 US annual subscription price is $588.00. Airfreight and mailing in the USA by agent named Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Periodicals postage paid at Jamaica NY 11431.

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

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

Air Business Ltd is acting as our mailing agent.

IN THIS ISSUE

INSIGHT & ANALYSIS 14

Making the most of M&A

A key driver of the success of an M&A is the performance of the treasury function, according to PwC, and many now believe that treasury departments must become involved in any M&A activity as early as possible. This feature includes a case study from Oracle treasury.

WOMEN IN TREASURY 6

Jennifer Gillespie
Head of Money Markets

True to her philosophy on life, Jennifer Gillespie has worked hard to get where she is, but always found ways to have fun along the way. As a working mum, she firmly believes in "not sweating the small stuff".

BANK PROFILE 18

Making the most of the SEPA opportunity

The Single Euro Payments Area (SEPA) is so much more than a compliance issue, says Frank-Oliver Wolf, Managing Director, Global Head Cash Management and International Business at Commerzbank. The focus should instead be on obtaining as many benefits as possible.

CASH MANAGEMENT 34

Life in the balance

SMEs are feeling the squeeze of a tough market environment, where funding is tight, if it is available at all. This has encouraged them to take a deeper look into improving their working capital cycles and cash management techniques.

BUSINESS BRIEFING

treasurytoday Business Briefing

Balancing investment return and liquidity cover

Balancing investment return and liquidity cover

Over recent years cash has certainly not lost its importance for corporate treasurers. How can they establish a methodology for liquidity management that accurately addresses the balance between safety and return?

TREASURY PRACTICE 20

Reporting necessities

There is a global trend today towards ensuring financial stability, which is in turn putting increased regulatory pressures on banks and their corporate clients. With it comes ever-increasing reporting requirements. How are treasurers coping with this challenge?

TECHNOLOGY 27

eBAM: another year on

Despite strong demand for an electronic solution, the administration of corporate bank accounts has remained rooted in manual, paper-based procedures. What is holding back the adoption of eBAM? Will 2014 be the year of mass uptake?

TREASURY ESSENTIALS

Question Answered 10
Market View 12
The Bigger Picture 24
Back to Basics 41

30 The Corporate View

Pepijn Asselberghs
Corporate Treasurer

brandloyalty

Pepijn Asselberghs' arrival at Brand Loyalty in 2010 heralded some rapid growth within the company, seeing it expand into new territories and inevitably taking on greater FX risk and cash management complexity.

THE BANK INTERVIEW 38

Erik Zingmark
Global Head of Cash Management, SVP

Erik Zingmark explains Danske Bank's philosophy and the role that its real-time technology platform plays in supporting its business objectives, as well as its customers' business aims.

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

Four survival tips for the regulation-saddled treasurer

During a session entitled 'Unravelling the risks in regulation' at last week's EuroFinance conference in Barcelona, Susan Webb, Managing Director of Pfizer's Dublin-based Treasury Centre, addressed a subject which corporate treasurers have become wearily familiar with over the past few years – regulatory compliance.

"We have found little relief," Webb said at the beginning of her speech. "Even if we are in compliance with Dodd-Frank, there is little relief from European Market Infrastructure Regulation (EMIR)." Adding to the burden Webb cites the confusion around whether the company's Irish subsidiaries are caught by the US regulation and, furthermore, how regulations seemingly peripheral to treasury operations, such as the proposed Financial Transaction Tax (FTT), might impact upon the business the company conducts with its banking partners. For a small group of people managing a significant treasury operation out of Dublin, managing the organisational changes required to meet the torrent of regulatory changes introduced in the wake of the financial crisis has presented a considerable challenge.

Drawing on her extensive experience of compliance projects, Webb offered a series of tips to the assembled treasury delegates:

1. Get the timing right

"Slow and steady wins the race," said Webb. "That is what I would say about much of this regulation." When faced with an enormous regulatory compliance project, treasurers may quite naturally wish to start at the earliest given moment. There are reasons why such projects should not be rushed into, however. As we have seen in a number of recent examples – Dodd-Frank, EMIR and the Single Euro Payments Area (SEPA) – regulation is often subject to change, and the treasury that jumps too soon will run the risk of working on compliance right up until the implementation date.

Dodd-Frank is a case example. Following the announcement of the implementation date, Pfizer's treasury worked hard to develop capabilities needed to meet the requirements originally set-out for the reporting of inter-company transactions. Then, after all the legwork had been done, the US Department of the Treasury announced a last minute exemption on inter-company lending for corporate end-users.

"That's great news, but at the same time we had spent a huge amount of energy trying to develop this inter-company reporting," Webb told the delegates. "So for me it was a lesson learned. I wouldn't be as willing to be a poster child for some of this regulation in future."

2. Manage expectations and educate

For any major compliance project it would be wise to ensure that the resources you need are secured early on. To ensure this, it is important to engage with senior management, who may not always have regulatory changes in distant jurisdictions firmly on their radar. "Because we are based in Europe with a US parent, some of these regulations are not on our senior management's radar," said Webb. However, if the FTT is introduced as it has been drafted, that would have significant implications for a company like Pfizer – and likewise for EMIR. "So you need to educate your senior management and make sure that those resources will be allocated to your project."

3. Allocate responsibility

It is also important to put careful consideration into who is going to work on the project and who is best placed to 'own' the project. If this is overlooked, a considerable amount of time and resources could be squandered. "You could spend a lot of time with everyone jumping on conference calls with your banks and legal advisors, all trying to understand this regulation," said Webb. "Instead, decide who is best placed to own it, and don't have the world exploring it."

4. Manage internal and external resources

"Do you have the skillset internally to manage the project?" Webb asks. With the exception of bringing in a consultant to write some of their reports, Pfizer had the resources to manage their compliance projects internally. But clearly not every treasury department will have the right expertise in the relevant areas to proceed in this way.

SAP's FSN: the difference a year makes

Last year's launch of SAP's Financial Services Network (FSN) at Sibos in Osaka left more questions than answers as to what made this connectivity initiative different from those that came before it. As reported in an earlier Insight, despite the big banking names involved – including Bank of America Merrill Lynch (BofAML), the Bank of Tokyo-Mitsubishi UFJ (BTMU), Deutsche Bank, Nordea, Standard Chartered, Citi and the Royal Bank of Scotland (RBS) – there was a lack of clarity on what exactly 'it' was.

Developments this year seem to have shed more light on the question, especially since the solution was made available to financial institutions and their corporate customers in March. According to Sanjay Chikarmane, Senior Vice President and General Manager

of Enterprise Information Management (EIM) and FSN, speaking to Treasury Today at this year's Sibos in Dubai, the FSN sits in the SAP HANA Cloud between a corporate and a bank, enabling the corporate's SAP enterprise resource planning (ERP) system to send transaction files to the FSN, which in turn transforms them into any bank format and routes them to the bank, and vice versa.

The FSN also leverages SAP's 2012 acquisition of Ariba, the cloud-based network that connects 730,000 buyers and suppliers, to solve three other persistent problems for corporates: poor reconciliation, staying up-to-date with master data and gaining visibility across an organisation's cash position. "With thousands of suppliers on the Ariba network, which is connected to the FSN, it is possible to merge reconciliation information with the bank statement – providing an automated 'touch-less' reconciliation," explains Chikarmane.

Secondly, when dealing with thousands of suppliers, many corporates' vendor master data can fast become out of date. "We capture vendor data through the Ariba network, so we can provide our corporate clients with up-to-date master data." Thirdly, many corporates run different ERPs across different regions which makes it difficult to have true global visibility over their cash position. SAP is planning to launch a cash visibility application in 1Q14, which will route all transactions through the FSN.

A stitch in time

As Sri Lanka's largest apparel exporter, Brandix operates 42 facilities across Sri Lanka, India and Bangladesh, employing more than 44,000 people. As a forward-thinking company, it has been credited as the pioneer of 'total solutions' provision in Sri Lanka's apparel industry. As an example of this, its venture into India – in the form of Brandix India Apparel City – is based on the 'fibre-to-store' concept, meaning goods are shipped from its facilities straight to major retail brands in the US and the UK.

But it's not just the firm's industrial processes that have benefited from forward thinking – its financial methods have also been influenced. Although Brandix's customer billing is executed centrally through a trading company in Hong Kong, as with many emerging market suppliers, it still faces a significant working capital risk especially around its receivables management.

According to Priyanke Perera, Head of Treasury at Brandix, commercial terms with its customers are predominantly under the 'Free on Board' (FOB) legal structure requiring it to deliver goods on board a vessel designated by the buyer. Under FOB, Brandix has legally fulfilled its obligations to deliver when the goods have literally passed over the ship's rails, where the risk of loss shifts from the seller to buyer. But it is still operating under payment terms broadly ranging from 30 to 90 days. To help ease the pressure, Brandix has opted into the Global Trade Supplier Finance (GTSF) programme provided by International Finance Corporation (IFC), a part of the World Bank Group.

The difference between this and other programmes is that the GTSF network is delivered through IFC via modern cloud-based technology provided by GT Nexus. Using this platform, GTSF enables Brandix to collect payment considerably faster than normal through the simple expedient of discounting its receivables.

The broad concept of supplier finance is nothing new to Brandix, the company having been something of a pioneer in Sri Lanka since 2006, using the products offered by international banks operating in the country. "The main drivers for joining the GTSF programme were the need to improve our working capital cycle time, to continue mitigating our receivables risk but also to diversify our counterparty risk with existing financial institutions on similar programmes," explains Perera.

I can see clearly now

"A lot of us saw it coming, but why wasn't anyone prepared to listen?" said Gabriel Stein, Managing Director of the Stein Brothers consultancy. Speaking at one of the plenary sessions of the EuroFinance International Cash and Treasury Management, held in Barcelona, Stein was responding to good-natured accusations that if his industry was any good it would have warned us all that the financial crisis was coming. His was a smart riposte but the damage is done, and now we all have to ensure it does not happen again.

Of course, hindsight is a wonderful thing, but foresight is better – and the strapline for this year's event was 'Forward thinking has never been so critical'. This is very much the case in terms of fending off the threat of another crisis, but preparedness is also the order of the day when it comes to meeting the threat of competition. The Barcelona event was very much geared to putting the voices of experience in front of the 720 or so registered corporate delegates to offer the latest views and methodologies formed with an eye on outpacing the competition, seizing opportunity and growing the business.

The plenary sessions over three days touched on the benefits of 'long thinking'. For example, Steve Weiner, Senior Vice President (SVP) – Tax, Treasury and Pensions, Unilever, talked of the way in which market volatility and the pace of change is creating a new environment, and how those that plan for and embrace this upheaval are those that will make it through, stronger. Weiner talked of the benefits of adopting a "responsible" business model and, of course, how treasury is uniquely placed to support the aspiration of long-term growth. He insisted that any thoughts of success with a sustainability programme mean it must be "embedded in the business, not just be an add-on". In effect it must therefore become "part of the day job" for everyone – indeed, he added, it is not someone's job to manage this, but everyone's job. ■

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

This much I know

Jennifer Gillespie

Head of Money Markets

What is your career-defining moment?

When I talked myself into a treasury job at Scottish Widows without finance or treasury experience. The company had created a bank and was in the process of setting up a treasury dealing room. As the treasurer wrote the job description for a treasury assistant, I would say "I can do this – what about me?"

Which women in business most inspire you and why?

Other working mothers. The women that tell me how they rushed home and baked a cake, then helped with the homework, etc. Seeing other mums doing it makes me think that I can do it too.

What couldn't you manage without?

My friends. I need friends to call, have a glass of wine with, laugh and moan. My de-stressing activity is being with other mums and kids from school, mums from the City, friends and family – I couldn't do without them.

What is your next major objective?

I believe I have one more career move forward left in me and am just working out what that will be. I would like to look at a non-executive role, not necessarily in business. It's nice to give back to others by sharing your experiences, explaining what you have done and how you can help them.

What advice would you give to other women in treasury?

Work really hard and have fun. You won't get anywhere unless you work hard – whether you are male or female. And have fun because the moment that it isn't fun, then you need to figure something else out.

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

Taking an objective look at my strengths and weaknesses, I might have chosen a different career. But this is an answer I could only give with hindsight – I didn't know this when I was 20.

Do you agree with current proposals for a quota of women on the Board?

This is a forced solution to the problem of not having more women executives. On the flip side, however, fixing a quota puts it on the agenda and makes people do something. But it needs to be more than a tick-the-box exercise – we need a plan to change the status quo.

"Mentoring can be really effective, but a good mentoring relationship is based on personalities not gender."

ON THE WEB

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

As a working mum, Jennifer Gillespie has to be incredibly organised. "My kids laugh at me because I will email them about putting something in the diary that is three months away. But I know that if we don't then it will get close to the day and I will have forgotten," she says. She finds inspiration in other mums that are juggling similar workloads. "However, it's important to always remind yourself not to sweat the small stuff. I can't do everything, so I am only going to accomplish what is absolutely necessary."

Legal & General Investment Management (LGIM) is "great" when it comes to work-life balance, according to Gillespie, for working mums and employees with other commitments. She comes in early in the morning but leaves at 5pm in order to have the chance to see her children. "It is nice to work for a company that respects that you are a working mum and agrees to work through it with you. They recognise that getting the job done and parental responsibilities are not mutually exclusive. They acknowledge that you have other priorities in your life and are willing to work with you to get the best out of you," she explains.

Canadian by birth, Gillespie came to the UK in 1994 after completing a History degree in Soviet Studies. She wrangled herself a job in treasury at Scottish Widows in Edinburgh, first as treasury assistant and then treasury manager. She stayed with the company for 14 years, every few years moving into new spheres as the company changed and grew, re-inventing herself along the way. Five years ago, Gillespie decided to move from Edinburgh to London and join LGIM.

She fits well in treasury and money markets because she is good at numbers and loves the fast pace and talking to people. "In the early days, you could spend your whole day on the phone talking to people; certainly in those days you did a lot more telephony work. Although Bloomberg was available, it wasn't quite the same automated system it is today. So I started working my way through different jobs and then realised four or five years later that this was something that I really wanted to do.

> "Fixing a quota puts it on the agenda and makes people do something. But it needs to be more than a tick-the-box exercise."

"I didn't see this as a stepping stone into fixed income or CFO roles, but stayed within money markets and watched the whole industry change with the invention of the euro and new products," she explains. "I keep saying to myself that I have been through it all – up yield curve, flat yield curve, down yield curve – and there is nothing I haven't seen. But then something comes up and I will realise that I haven't seen that yet."

Gillespie's day-to-day tasks include looking at the markets, the fund and some things that the team may or may not be doing – effectively getting up to speed each morning. Then she does client meetings, presentations and participates on a number of committees. Together, the operational and investment trading sides take up most of her time. "And chatting to people on the phone. I love talking to the market and finding out what's going on," she says.

Although proud of her career and achievements, in hindsight there are certain instances when Gillespie believes she was perhaps too risk averse. "If I could go back, there are little points in my career that I could have said no or yes to, and maybe I should have. Sometimes women are just not as big risk takers as men are. Many men will immediately take a job when offered, move to a different location and take the chance; whereas it doesn't come as easy for women. At least it doesn't come as easy for me because I think of my kids, husband, dog, cat, etc. In that way, your choices are made for you because you are looking at the bigger picture. But for most men it is easier for them to make that quick-fire decision."

Interestingly, she doesn't think that woman-to-woman mentoring in a company quite works. "It is important for companies to have career progression paths in place, although I think that broader-based leadership programmes are the best way to do this" she explains. "Mentoring can be really effective, but a good mentoring relationship is based on personalities not gender. If a company identifies a woman or man who can come up through the ranks and be exceptional, then the most appropriate mentor is the one who believes that that person will be successful and can help them achieve that." ■

In 2008 Jennifer Gillespie joined LGIM as Head of Money Markets, moving from Scottish Widows Investment Partnership (SWIP) where she was Investment Director, Money Market Funds. Prior to this Gillespie also held the role of Treasury Manager with Scottish Widows Bank (SWB). She has more than 18 years' industry experience covering segregated cash mandates, liquidity and cash funds. Gillespie graduated from the University of Waterloo in Canada with a Bachelor of Arts (with Honours) in Soviet Studies. She is also an Associate of the Chartered Institute of Bankers in Scotland.

SUPPORTING UK BUSINESS

WE ARE DELIVERING ACROSS DEBT CAPITAL MARKETS

Your ability to raise capital is vital not only to your own growth plans but also to the health of the wider economy. So whatever the market conditions, our commitment to business continues.

PRIVATE PLACEMENTS

AGENT ON
8 ISSUES IN 2013

$500 Million
Placement Agent
June 2013

Commercial Holdings

$260 Million
Placement Agent
May 2013

$814 Million
Placement Agent
May 2013

£ PUBLIC BONDS

BOOKRUNNER
19 TIMES IN 2013

£650 Million
Bookrunner
September 2013

£350 Million
Bookrunner
August 2013

£760 Million
Bookrunner
February 2013

€ PUBLIC BONDS

BOOKRUNNER
16 TIMES IN 2013

€500 Million
Bookrunner
July 2013

€700 Million
Bookrunner
June 2013

BACARDI LIMITED

€650 Million
Bookrunner
June 2013

HIGH YIELD BONDS

BOOKRUNNER
23 TIMES IN 2013

£440 Million
Global Coordinator
June 2013

€525 Million
Bookrunner
May 2013

£396 Million
Global Coordinator
May 2013

LLOYDS BANK

Lloyds Bank and Lloyds Bank Commercial Banking are trading names of Lloyds Bank plc and Bank of Scotland plc. Lloyds Bank plc: Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 2065. Bank of Scotland plc: Registered Office: The Mound, Edinburgh EH1 1YZ. Registered in Scotland no. 327000. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under registration numbers 119278, 191240 and 169628 respectively.

Outsourcing treasury

Tapping our collective knowledge to get better information

> *How much of treasury can be outsourced? What pitfalls are common and how can a treasurer get around them?*

Heinz Bahni, Group Treasurer, SGS Group Management:

Everything that is of an executional and repetitive nature in treasury can be outsourced. Aspects of treasury which should definitely not be outsourced include strategy, bank relationships, pricing discussions and treasury controlling – all of these services should remain under the purview of the treasury department, not an outsourcing provider.

If you are thinking about outsourcing, it is important to have your own house in order in terms of processes. I do not think that by outsourcing a treasury service you can solve your internal problems. For example if you are considering outsourcing your exposure reporting because your accounting system doesn't allow you, for some reason, to get regular information about your exposure, then outsourcing is not going to help resolve the problem. Before outsourcing, treasury must first correct issues such as these.

The second pitfall could be communication between the company and the outsourcer, such as a bank. In my experience, there can be discrepancies between language spoken by corporate treasury versus language used by the banks.

I think treasurers themselves see less of the value in outsourcing and more of the risks involved – and this could explain why outsourcing is not used more often in corporate treasury.

Eddie Fogarty, Managing Director, FTI Treasury:

If you are outsourcing a manufacturing process you would specify the end result and, whatever the product, you would hope to have returned an exact quantity to match that specification. The difference in the treasury world is that treasury is a process that must be integrated with the core business. That is why in our business we tend to speak more of 'managed treasury' as opposed to outsourcing, so as to differentiate from activity that can be contracted out to third parties.

Without overstating it, I think most or nearly all treasury processes are open to outsourcing. The key issue is: how is that done? When a core treasury process is 'outsourced', it has to stay integrated with the rest of the business. So, while I can certainly say that cash management, inter-company lending, netting, even operational foreign exchange (FX) management and transactions can all be outsourced, I would not suggest that those processes are lifted out of the enterprise and managed remotely by the service provider.

One of the greatest challenges is at the very outset with the decision itself. In my experience, some enterprises are comfortable with the concept but others see risk in going down that route. Clearly it is a significant decision. Everyone realises that treasury is an area of high risk, yet there are benefits to the business if outsourcing is done the right way.

Developing the correct analysis of what is proposed, what is envisaged and how it can be structured so that those risks are taken out of the equation is one of the biggest challenges. In our experience at FTI Treasury, the clients that work with us often say that they don't know why many other companies don't do it when they see how it runs in practice.

Having taken the decision, there will be further challenges but those can be dealt with by ongoing management. If a large US multinational company (MNC) is looking to set up a treasury centre in Europe – for example in Dublin or Brussels – then they are going to recruit people and acquire systems. In a sense, doing that through a managed treasury is not vastly different than doing it 'in-house'. The key difference is that the staff, in that example, are on the payroll of the company itself. But the start-up process itself can be quicker, and you have an easier wind-down option, if necessary.

However, fundamentally the business is going to be conducted in a broadly similar way, albeit with stiffer terms and conditions, and stronger reporting, more contact points, more reviews, reporting and so on. Fundamentally, the management task from a treasurer or CFO perspective is not hugely different in a treasury operation run at a distance from that of one managed on an outsourced basis.

The treasurer has to engage with the service provider and the service provider will have to customise the solution. As each company is different, off-the-shelf products have limited appeal in this area. If the solution is developed properly, it will enable the level of confidence to be built that will allow the decision to go ahead.

At FTI Treasury, we think it is essential that we engage strongly with the parent treasury – that is good for the relationship, it is good for the business and it is good for risk management on both sides. Also, it is important to remember that it is never a question of 'out of sight, out of mind'. The problems are not off your desk if you are the treasurer; all of the same issues are there – the only difference is the work is being done on your behalf by other people.

Brad Maclean, Vice President, Business Development, SunGard AvantGard:

The most frequently cited reasons to outsource include cost savings, technology changes, flexibility of operations, access to skilled talent and scalability of operations especially for growth organisations. The pitfalls and potential dangers are harder to quantify, but from our experience they are centred around several core challenges including loss of control, layers of communication, lack of support from the wider organisation and over-dependence on providers.

Expectations also trip up many major initiatives, with some of the best and brightest firms setting themselves up to fail by building unrealistic expectations.

In making the decision to outsource, key issues include:

- *Be specific*. Understand your exact needs by creating a balanced value/risk proposition mapping out your strengths and weaknesses across the treasury operations. Don't limit the scope of this analysis as this will limit the scope of your perspective – most see outsourcing only for low value transactional operations, but many banks and advisors also provide higher-value services.
- *Set expectations*. Be realistic and set them early on in the planning process. Revisit them often.
- *Be critical and merciless in managing your timelines*. The smallest glitches can have wide-reaching knock-on effects.
- *Set KPIs and measure them religiously*. Continue to refine them throughout the year.
- *Consider the alternatives, including shared services*.
- *Know your exit strategy*. Failure to thoroughly plan your exit leaves you open to being held hostage by your providers.

Outsourcing is really a build or buy choice and, as with any organisational restructure, policy and planning will be crucial but the only opinion that matters is yours. While vendors and advisors will provide countless estimates and ROIs on the value/risk benefits, if you don't consider all of the options fully, mistakes could prove to be costly, if not catastrophic, in the future. ■

The next question:

"What will 'SEPA phase II' look like for your company?"

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

ecr research

Europe: a safe haven for investors?

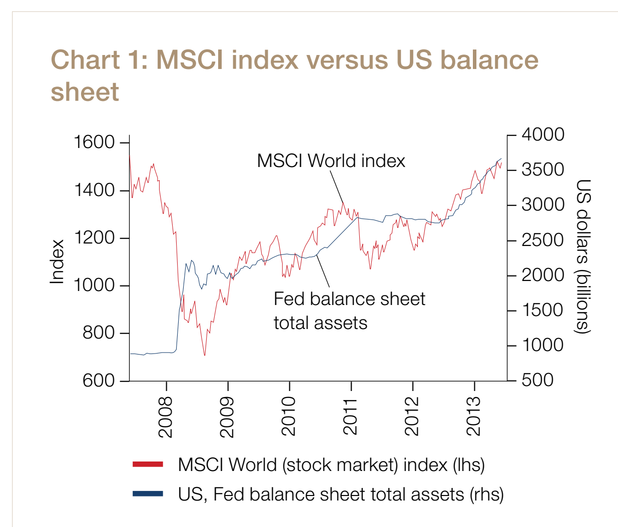
Despite a stable currency, the Eurozone economic situation still contains many hazards that have yet to be resolved. As a result, the region remains in a period of tension, which could quite possibly have a downward effect on the euro in the future.

Lately, various economists and analysts have suggested that Europe is – or will become – a safe haven for investors. This is most probably premature: the Eurozone is still on shaky ground. Over the coming quarters, the Economic and Monetary Union (EMU) countries will have to navigate dangerous quagmires and patches of quicksand.

Along the way, these countries face many dangers that could throttle the fragile recovery in one fell swoop, for example, mainstream politicians who are afraid of reforms, anti-European populists, obstructive judiciary, central banks saddled with impossible tasks, floundering financial sectors, and conflicts between national and international interests. And all these issues are compounded through combination and overlap with the other issues.

The political landscape

Beginning with politics, it is clear that populist parties are on the rise and on the march. They make promises that appeal to voters who are disenchanted with the incumbent political elite. There is no denying the pull of populism. All the more so as knee-jerk reactions, such as resentment against immigrants and an aversion to Brussels, often go hand-in-hand with progressive goals, such as the protection of pensions and generous social welfare systems.



Source: Thomson Reuters Datastream/ECR

Many analysts and mainstream politicians fear that the populist movements will stand a good chance at the upcoming elections to the European Parliament. For example, Alternative für Deutschland (AfD) did not make the threshold (5%) during the recent national elections in Germany, but for the European elections the threshold has been lowered to 3%. Other small, populist, and anti-euro parties could also be voted in, while the larger parties (Front National, PVV) will probably sail through.

The Lisbon Treaty, which entered into force on 1st December 2009, has increased the power of the European Parliament and many Eurozone decisions and regulations require its approval. This means that following the May elections, the populists could be in a position to scupper any concerted effort to tackle the euro crisis.

The courts of justice

The judiciary also plays a part in encouraging a piecemeal approach to the euro crisis, particularly in Germany and Portugal.

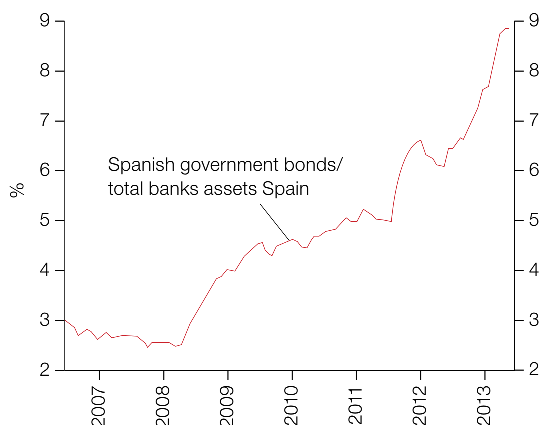
The German Constitutional Court in Karlsruhe has clamped down on several attempts by the German government to give up sovereignty in favour of European institutions. For example, German judges have reviewed and imposed restrictions on the European Stability Mechanism (ESM) – aka the Eurozone bailout fund – and on the Outright Monetary Transaction (OMT) programme of the European Central Bank (ECB). In the past year, Portugal's Constitutional Court has struck down various austerity measures, which is hampering the government's attempts to lower its budget deficit.

This won't be the last time that national judges rule on European initiatives that are intended to defuse the economic and political crisis. Each time, investors will have to nervously wait and see – especially when it involves the Karlsruhe court – if the judiciary will put obstacles in the way of further fiscal, economic, and political integration. So far, this interference has not been disastrous but who knows what the future will bring as more powers are transferred from the national to the EU level.

The role of the central banks

Meanwhile, central banks (including the ECB) seem to have become political 'megapowers' and the dominant drivers of the financial markets. To date they have managed to prevent

Chart 2: Spanish government bonds versus total bank assets



Source: Thomson Reuters Datastream/ECR

a total collapse of the global economy through ultra-loose monetary policy and unconventional instruments such as quantitative easing (QE).

In 2012, ECB President Mario Draghi calmed the markets – and staved off chaos in the Eurozone – by stating that the ECB was fully committed to the euro. However, in reality Draghi – plus Federal Reserve Chairman Ben Bernanke in the US and Bank of Japan (BoJ) Governor Haruhiko Kuroda – can do little but buy the politicians time to address the structural problems that stymie sustainable economic growth.

At the same time, the politicians and the markets seem to expect miracles from central bankers, who are supposed to contain inflation, avert deflation, guarantee the stability of the financial system, and promote growth. Everyone knows that, sooner rather than later, central banks will have to taper their asset purchases. That will not be easy.

Last summer, Bernanke only had to hint at a more neutral monetary policy to trigger market unrest around the world, particularly in the emerging economies. Apparently, both politicians and investors have become so addicted to the monetary 'drugs' supplied by the 'dealers' behind the increased money supply that nobody can think of a roadmap that would allow the ECB, the Fed and the other central banks to retreat into the shadows as politicians take over the helm.

One reason is that many banks are still reeling from the after effects of the 2007 crisis. In some respects, the banks have grown more vulnerable compared to a few years ago. The Italian and Spanish banks have gorged on domestic government bonds. Across the Eurozone, the percentage of government securities on the bank balance sheets has increased from 4.0% (five years ago) to 5.4% at the time of writing.

In Italy and Spain, 10% and 9% of bank assets respectively consists of government debt. This increases the dangerous interconnection between the governments and the banks. On top of this, many banks are sitting on bad debts. According to a recent International Monetary Fund (IMF) report, Italian and Spanish banks could face €230 billion of losses on credit to businesses in the coming two years.

Waning appetite for a European banking union?

All the problems that plague the Eurozone – ever more popular populist parties, dissatisfied voters, legal impediments, an overly dominant ECB, and faltering banking systems – seem to converge in the debates about the banking union. Not so long ago, it appeared that everyone who was someone in European politics agreed that the only way to solve the euro crisis was monetary, banking, fiscal, economic and political integration.

The banking union was seen as a first essential step. On the agenda for next spring are stress tests and an Asset Quality Review (AQR) for European banks. At the end of 2014, the ECB should be regulating the 130 largest banks. However, the EMU states are already at loggerheads about this proposal, especially now the markets are no longer driving up interest rates to unsustainable levels and the pressure on the politicians has eased.

The fading appetite for the banking union is not an isolated development. Euro scepticism is on the rise across the Eurozone. People want to 'claw back power' from Brussels. In this respect, the UK goes farthest, with a referendum about EU membership re-emerging constantly. Even founding members and driving force of the EC, the Netherlands, has issued a report stating that Brussels should do less and national governments should do more.

The Eurozone faces challenging quarters and the euro is unlikely to stay at its current level. Or if it does, the Eurozone will again come under pressure from – or be mocked by – the markets. The political stability premium that has been calculated into the exchange rate of the euro of late (partly because of the US budget battle and the restive emerging markets) will likely slowly disappear. Plus, in a climate of rising Eurozone tensions, the politicians will put pressure on the ECB to ease its policy. This, too, will have a downward effect on the euro. ■

Unique approach for time pressed decision makers

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

Making the most of M&A

With the amount of cash allegedly sitting on many corporate's balance sheets, it is only a matter of time before M&A activity picks up. Some are already on the acquisition trail. What role does treasury play in M&As and what areas need to be addressed to ease the pain of change?

The global economic downturn, along with the European sovereign debt crisis, political uncertainty in the US and slower economic growth in India and China, has dampened global merger and acquisition (M&A) activity. In the first three quarters of 2012, M&A activity had fallen by 17.4% compared to the comparable period in 2011, according to the paper 'Merger and Acquisitions – 2013' posted by Andrew Brownstein, Partner in the Corporate Department at Wachtell, Lipton, Rosen & Katzon, on the Harvard Law School Forum. However, in 4Q12 a number of large transactions pushed global M&A levels up to their highest in four years.

The paper cited a continuing, post-recession emphasis on deleveraging and strengthening corporate balance sheets, which made cost-saving M&A initiatives particularly valuable. "This is especially true for the many companies that have already exhausted their own cost-cutting opportunities, even as they have accumulated arsenals of deployable cash," according to the paper. "And global market pressures, economic volatility and industry-specific factors across a wide array of industries put pressure on corporations to increase scale, diversify their asset base, seek operational synergies and spread costs across larger platforms."

While the global picture for M&A is positive, it is patchy. In the UK, for example, the total number of domestic and cross-border M&A transactions fell by 42% in 2Q13, compared to the same quarter in 2012, according to the Office for National Statistics (ONS). The value of acquisitions of UK companies made by foreign companies in 2Q13 increased sizeably from £3.5 billion in 1Q13 to £23.4 billion. The number of transactions in 2Q13 also increased to 30 from 19 recorded in the previous quarter. However, the number fell when compared with the same quarter a year ago, which saw 48 transactions taking place.

The value of majority ownership acquisitions made by UK companies abroad (outward acquisitions) fell from £1.1 billion

Ed Paterson

Vice President and Assistant Treasurer

ORACLE

At EuroFinance Miami earlier this year, Ed Paterson, Vice President and Assistant Treasurer, Oracle, presented a session entitled 'The science of M&A'. He went through a checklist similar to the AFP's explaining how Oracle maximises its success in integrating new companies. The company is highly acquisitive and has successfully brought on board 85 companies since its first acquisition of PeopleSoft in 2005 – this equates to almost one a month. Paterson's first tip for the treasurers in the audience was: "Although you can develop a blueprint for M&As, you will always need to refine it because no two companies are alike."

In order to cope with the number of integration projects, Oracle treasury created a dedicated team of three people whose sole job is to focus on M&A activity. "They are involved in the due diligence process to understand the companies that we are buying at a granular level," explained Paterson. "The key is early participation of treasury. It is easy to get into the mind-set of jumping into the whole integration piece after the company is bought, but it is important to get involved early on as part of an holistic approach."

He identified two key integration milestones: change in control (CIC), which includes having the governmental approvals needed to close the transaction and pay the shareholders of the company; and the legal entity combination dates, which is the point at which the local subsidiaries are combined, including sales, payroll, etc, so that is just one balance sheet and one P&L statement. The team prioritises subsidiaries in terms of size and works closely with the company's attorneys and tax department to ensure a smooth transition.

Paterson stressed the need to integrate quickly. "The longer integration takes, the more uncertainty begins to creep in and new priorities crop up. With 85 acquisitions over an eight-year period, we have had to move pretty quickly to integrate these companies.

"In order to do this, we focused on the important elements in each integration. We don't sweat the small stuff. We focus our time are the main areas of finance such as cash management and banking, investments, debt, inter-company loans and FX. That is the bread and butter of all operations."

Paterson identified the target timelines for each item on treasury's checklist:

- Adding Oracle signers to bank accounts: 45 days for global banks; 90 days for local banks.
- Sweeping cash to Oracle, where possible, within 45 days.
- Close AR accounts within 90 days; close AP accounts within 60 days.
- Investments: liquidate investment programmes within a week; do not roll into Oracle investment portfolios.
- Debt: outstanding credit lines and revolver agreements are paid off within 30 days.
- Inter-company loans: scrub the balance sheets before legal entity combination dates.
- FX hedging: terminate non-material hedging programmes within a month; or roll into Oracle programme within a quarter.

And the results are phenomenal. Oracle treasury acquired 1,870 accounts through acquisitions and the team has managed to close 1,648 – this leaves only 222 accounts that remain open and most are related to more recent acquisitions. "We report this metric to the Board and it is always an area of interest for them," said Paterson. Treasury also has no outstanding investments nor term debt. There are 25 different bank lines outstanding related to bank guarantees, but this is where Paterson doesn't "sweat the small stuff". Oracle inherited more than 500 different inter-company loan combinations and at the time of the conference in May had reduced this number down to 50.

in 1Q13 to £0.6 billion in 2Q13 (current price basis). This was the lowest value for outward acquisitions since ONS first collected quarterly data in 1Q1987 (£1.7 billion).

Online information portal Statista reports that the total value of global M&As during the first half of 2013 was $896 billion, the majority of which took place in the energy, mining and utilities sector in the US. This high figure is despite the fact that, says Statista, "the M&A process is notoriously complicated and deals often fall through – empirical data shows high failure rates of M&A deals across the spectrum".

As a result, corporate treasury and finance teams within global businesses are being called on to take a more strategic role in the whole process. Increasingly, they are tasked with supporting other parts of the business in decisions involving engagements with new markets, the development of new products and M&A activity.

Role of the treasury

This is certainly true for a European Treasury Manager at a global retail eyewear company, which has been expanding both organically and through M&A activity. Most recently it acquired two companies in Europe, which are currently being integrated into the company's structures. Treasury was involved in the merger process from the outset, providing capital injections and liaising with the legal departments, as well as staff within the new companies in order to ensure a smooth integration process. This can involve a lot of travelling time for treasury teams, in order to truly understand the new companies' operations, as well as comprehend the banking and payment requirements if these acquisitions are located in new jurisdictions.

> The total value of global M&As during the first half of 2013 was $896 billion, the majority of which took place in the energy, mining and utilities sector in the US.

Not everyone agrees that treasury is on the frontline when it comes to M&A activity. "Whenever an M&A – or some other change in leadership – occurs, the focus tends to be more on the CFO, rather than on the experts in the finance function," says Suzzane Wood, Leader, Financial Officers Practice at global recruitment firm Russell Reynolds Associates. "The treasury function has more exposure in its relationship with banks, ratings agencies and advisers."

However, most agree that treasury's participation in the process is crucial for success. According to Lilian Burke, a Partner at PMC Treasury, fruitful M&A transactions occur only when a high number of co-ordinated treasury activities are effectively executed.

The treasury consultancy has been involved in a number of interim treasury operations. At US Clinical Supplies, for example, PMC was engaged after the company was divested from a global multinational corporation (MNC) and acquired by two private equity sponsors. The transaction was an asset purchase and PMC helped to establish the new business's treasury and banking arrangements.

This work involved the establishment of operational banking for all the global businesses locally by organising banking arrangements in North America, Europe, Middle East and Asia, as well as Asia Pacific in terms of relationships, bank accounts and facilities for letters of credit (LCs) and guarantees. In addition, the company developed a reporting framework for short and medium-term cash forecasting together with liquidity management. It created a debt management model to manage covenant compliance, debt baskets and debt servicing requirements and helped to define treasury policy to govern all activity around the group. Finally, it managed various ancillary projects such as advising on interest rate risk management.

> "The technology available today can allow treasury employees to devote more time to managing risk and banking relationships and to become more involved in business development and M&A."
>
> Carina Ruiz, a Partner at Deloitte & Touche LLP

In another similar transaction, a large Germany-based manufacturer of industrial compounds – with extensive international operations – was carved out of a major industrial conglomerate. Again, the company was acquired by private equity firms, which asked PMC to provide an interim treasury to manage the new business's treasury affairs. Among its tasks, PMC reviewed the group's foreign exchange (FX) exposures and recommended a new approach; organised and executed a redenomination of some of the group's debt financing; implemented comprehensive debt forecasting; rationalised banking facilities; and developed several models to manage a leveraged debt package, including covenants, debt baskets and payments. Finally, PMC designed the new company's target treasury structure and recruited the appropriate resources.

Change management

According to consultancy PwC, a key driver of the success of an M&A is the performance of the treasury function. The financial importance, operational significance and organisational complexity of the treasury function make it a bellwether of a deal's success. PwC says it is critical for a treasury function to manage the risks inherent in a large scale transaction while also capitalising on the opportunities to strategically transform the newly formed organisation.

In a recent webcast, Carina Ruiz, a Partner at Deloitte & Touche LLP, said many treasury departments were now focused on how they can better use technology to spend less time on day-to-day tactical work; how they can shore up resources to be able to tackle the more complex global issues that companies face; and how they can think more externally to broaden their range of customers.

Standardisation and automation of transactional processes are reducing the amount of time needed for traditional treasury interfaces involving transactional processes for accounts payable (AP), accounts receivable (AR) and other areas. "The technology available today can allow treasury

employees to devote more time to managing risk and banking relationships and to become more involved in business development and M&A," she said. "This is a good time for treasury to be taking a closer look at how technology can be used more extensively to bring value to the business."

In addition, the discipline of change management is very relevant to M&A activity. Any activity will bring about change, particularly at the top. Moreover, it is unlikely both treasuries will survive an M&A transaction.

Successful change management requires a management-wide approach before, during and after the process. Senior management must ensure that staff are mobilised and engaged in the change. Positive expectations need to be set and a communication strategy – whereby all employees are aware of the change and its implication – needs to be thought through. Any change can generate anxiety and uncertainty among staff and management need to address this from the outset.

It is incumbent on the corporate treasurer to understand the needs of the newly changed company and develop a strategy of how the treasury function will support those needs after an M&A transaction is closed.

Senior managers responsible for implementing the change often experience different types of resistance to change which can directly reduce the pace, intensity, effectiveness and value of end results of the change process.

Most companies struggle to successfully accomplish change processes, according to Accenture. It says a variety of studies suggest that between 50%-80% of change programmes do not live up to expectations. The consultancy cites a number of capabilities that should be in place – and integrated – to ensure a change, such as a merger or acquisition, is successful. These include:

- Change strategy and planning.
- Leadership alignment and development.
- Stakeholder engagement and communications.
- Change measurement.
- Organisation readiness.
- Cultural or behavioural change.
- Ongoing capability to change.
- Training and performance support.

Key to success

Many observers now believe that treasury departments must become involved in any M&A activity as early as possible. Treasury is responsible for managing cash generation, financial risks and access to capital markets – all of these aspects are critical to a successful merger or acquisition. If treasury staff are omitted from decision-making around M&A transactions, a company risks setting unrealistic goals or misaligning expectations when it comes to transforming the treasury.

It is incumbent on the corporate treasurer to understand the needs of the newly changed company and develop a strategy of how the treasury function will support those needs after an M&A transaction is closed. Areas to consider include IT requirements, external debt financing covenants, organisation structure, business models and operational inputs and outputs.

The Association for Finance Professionals (AFP) in the US has published a checklist for treasury's role in M&As, from an acquirer's perspective. The idea of the checklist is to provide a list of the different areas that could affect treasury during the due diligence and integration phases. The AFP says the checklist should help to alleviate some of the burden treasury departments face in making sure they have met and mitigated their concerns around the uncertainty of collecting important information.

The categories in the checklist are:

- Bank relationships and accounts.
- Debt.
- Investments.
- FX/commodities.
- LCs, bank guarantees and comfort letters.
- Benefit plans.
- Insurance-related items.

During the due diligence phase, corporate treasurers should never assume that the buyer, acquirer or advising bank has ticked all the boxes. Pension liabilities and medical insurance obligations often are overlooked or not fully taken into account during an acquisition. Such liabilities can have a significant impact on the financial aspect of a merger or acquisition.

The role of treasury is also intrinsic to the financing aspects of a merger or acquisition. Acquisitions are by their nature complex and can be financed by a range of different structures. These need to be fully examined, as do the debts held by the acquisition target. Pre-arranged credit lines and structured finance arrangements must be controlled and understood.

Also, treasurers need to ensure that working capital finance is available, all banking mandates are changed through authorised signatures and that all banking accounts are properly arranged. "Treasurers are critical to ensuring continuity of banking relationships," adds Wood. ■

Making the most of the SEPA opportunity

SEPA was always intended to be a benefit and not a hindrance and yet the conversation leading up to the compliance deadline in February 2014 would have many believe the intentions were purely negative. Commerzbank has the view that corporates should be getting ready to enjoy the fruits of SEPA.

Much of the talk about SEPA over the past few years has centred on meeting the initial February 2014 deadline. However, Frank-Oliver Wolf, Managing Director, Global Head Cash Management and International Business for Commerzbank urges corporate treasurers to refrain from viewing it purely as a compliance issue. Instead it should be seen strategically, focusing energy and resources on obtaining as many benefits from the initiative as possible, creating what he refers to as a "SEPA+" strategy.

Essentially this means corporates should recognise opportunities to move towards payments centralisation, standardisation of accounts payable and accounts receivable processes, as well as a single technical interface in terms of all payment instruction formatting.

Advantages to corporates of payments standardisation

What is often overlooked by treasurers is SEPA's potential to realise initial cost savings. For example, Wolf notes that corporates can reduce outgoings by using low-cost markets for European payment transactions. Furthermore, cross-border payments can be substituted for SEPA transactions that are priced as domestic transfers only.

Elsewhere, as the initiative uses largely uniformed XML ISO20022 messaging formats, treasurers will be spared the technical inflexibility, complexity and cost of having to handle a number of different file standards. Uniform settlement periods and exception processes (such as returns) for all European countries will contribute to these savings by replacing cumbersome legacy processes.

SEPA payments can also improve security. By only accepting an IBAN (international bank account number) as the account identifier for SEPA transactions, treasurers can be more sure that their money is transferred to the right account and that they receive payments when due.

Beyond the short-term cost, efficiency and security advantages, SEPA will open up expansion opportunities. "By increasing the feasibility of new trade routes powered by new payment instruments, such as SEPA Direct Debit, it encourages small and medium sized enterprises to do more cross-border business within the Eurozone," says Wolf. For corporates already trading on a European or global scale, SEPA will allow them to consolidate their bank accounts, enabling optimised liquidity management and perhaps the establishment of payment and collection factories.

SEPA can also improve straight through processing levels, not least thanks to the improvements in referencing that it entails (eg. fields for end-to-end reference, originator reference and transaction reference). Wolf further argues that companies and institutions can use SEPA migration as an opportunity to optimise their cash and treasury management processes and structures "above and beyond" euro bulk payments, which are the focus of SEPA. "There are significant efficiencies that can be garnered from optimising priority payments, payments denominated in foreign currencies and third-party bank payments".

Key challenges to SEPA adoption

In general, the migration to SEPA is a strategic opportunity for optimisation of processes and structures in the cash and treasury management of business groups. For a limited number of corporates – usually those only settling domestic payments, with no foreign debtors or creditors – there will be no direct strategic advantages derived from migrating to SEPA in its present form. However, these companies will benefit from a handful of functional advantages, too (eg. the new reference files).

These companies will also be faced with considerable implementation challenges, too. For example, sales divisions will have to revise their contractual wording in order to replace direct debit authorisations with a SEPA mandate. Accounting departments will be required to replace old account numbers and bank codes with an IBAN and a BIC (business identifier code). And IT departments will be responsible for updating their companies' hardware and software to make sure that the more memory-intensive XML data format can be processed.

 in association with COMMERZBANK

In these cases, the onus lies with their bank and IT-vendors to ensure that the transition is as smooth as possible. "Certainly, purely domestic-focused corporates have become used to the efficiency of national payments, which rely heavily on domestic bank identifiers, account numbers, clearing and settlement systems," notes Wolf. "Now, from a corporate perspective, SEPA payments have to achieve the same level of efficiency including special issues such as r-transactions (refunds, returns and rejects) and investigations."

In particular, the transference of domestic payment codes to SEPA codes is a key, yet daunting, task for corporates to execute, especially when they have little to gain from doing so. Tasks such as converting account numbers and bank codes into IBAN and BIC and identifying errors in their transaction administration can be especially time-consuming. Many corporates may find that their actual data error rate is higher than the percentage of rejected transactions they experience as it is common practice for banks to fix these problems when settling payments unbeknown to corporates.

The need for action

While corporates with global aspirations should be moving towards payments standardisation regardless of SEPA – or risk falling behind to more progressive competitors – the need for SEPA compliance has added urgency to the situation. Indeed, notes Wolf, the past few years have seen a continuing battle to catch the best resources and specialists in consultancies, vendor companies for electronic banking, enterprise resource planning (ERP) and treasury management systems (TMS), as well as experts in banks, all continue to be in high demand. Certainly, the right banking partner will be equipped to help corporates assess their existing operations against the new regulatory requirements and create the scope of their SEPA planning, but the speed of migration is also crucial.

Corporates should complete the remainder of the journey as quickly as possible in order to avoid maintaining two separate sets of data in parallel. Given the limited banking resources available in the market to help with the migration, the time for corporates to act is now.

The sushi principle – SEPA solution components for companies

Quick solutions are called for but companies should also contemplate what their "emergency solutions" might look like should their migration projects not meet the deadline. "When a company is looking for external support for their in-house SEPA project, their first port of call should be their primary bank," suggests Wolf. Indeed, he acknowledges that many banks provide support not only in the form of advice, but also through rigorous test and migration services. "This brings to mind the image of a sushi conveyor belt, where the best solution components can be hand-picked from the wide selection on offer to meet individual requirements."

Wide variety to choose from

Using the 'sushi belt' analogy, the conversion of account master data is the hosomaki among the solution components. This is when local account numbers and bank codes are converted into IBAN and BIC. Depending on the bank offering, multiple countries may be supported.

As you work your way down the sushi menu, the next item is the more intricate futomaki, which equates to the validation of account data. As part of this process, banks check the debtor and creditor account master data stored in the systems of their clients to make sure they are valid. This helps avoid r-transactions and incorrect bookings, which need to be rectified for the submitting party not only in the case of transfers, but also in the case of direct debits – "a time-consuming and costly procedure", Wolf notes.

Sushi aficionados know that temaki offers a very special taste experience. Within the context of the SEPA test and migration service, this is the equivalent of the account information test data used to check whether in-house systems are compatible with SEPA. To do this, banks provide test files that contain diverse SEPA transactions. "In an ideal scenario, the files are created using account master data that are as realistic as possible so as to enable production-like downstream processing tests," explains Wolf.

Almost the polar opposite of temaki is gunkan maki, which in SEPA terms makes it possible to check test files relating to payment orders. "It has proven worthwhile to arrange test file transfers with the bank before SEPA payment orders are transmitted for the first time," says Wolf. "Ideally the bank will send back a meaningful and understandable protocol so that any necessary changes can be made as quickly as possible."

For companies faced with the challenge of converting existing direct debit mandates into SEPA direct debits, the nigiri among the solution components could provide a special indulgence; ultimately the submitting party has to send the payer a one-off notification before the first SEPA direct debit is executed. Here, too, banks can provide support in the form of individual solutions where appropriate.

The sashimi solution: format conversion

In spite of the best possible preparations, should the SEPA project not be finalised by the SEPA cut-off date, banks can offer "emergency solutions" where required. "Even if the thought of this speciality may appear particularly appetising to some, the company's top priority should nevertheless remain an on-time migration," Wolf advises. Ultimately conversion solutions may prove only a fleeting indulgence, because sooner or later a "real" migration will be necessary. In addition, conversion solutions require some effort in terms of implementation and should therefore be planned with ample lead times. "At the end of the day, it is all about buying time – something that, returning to our sushi analogy, unnecessarily delays the enjoyment of the typical post-sushi dessert, daifuku."

Reporting necessities

Most of the new regulations coming into play have an element of greater transparency embedded in them. This means that corporate treasurers are having to report in greater detail and depth in order to satisfy this demand. Technology can ease the pain of reporting, provided that the systems in place are flexible and robust.

Historically, there has been something of a culture in which 'treasury does, and then finance reports'. It was something of a macho attitude – a little freewheeling without being irresponsible – of taking, balancing and managing risks that the rest of the organisation barely grasped.

But of course that was in the past, before the succession of corporate and financial industry scandals in the 1990s and early years of the 21st century – culminating in the global financial crisis. Today, all corporate and financial dealings are governed by a raft of legal and regulatory provisions, largely led by the US and the EU – and many more are coming down the line.

The universal impetus is towards the prevention of further scandals or disasters by tighter regulation and oversight, in the process protecting consumers and investors. There is political pressure in most countries to try to ensure financial crises are avoided in the future. The Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 is the exemplar legislation in the move towards reform of the global financial system.

As in so many financial matters, US law and practice tends to become global at least in influence. In Europe, the European Market Infrastructure Regulation (EMIR) is just over a year in force and is similarly aimed at mitigating risk across financial services and markets. The impact of all of this on corporate treasury operations is increasing both in terms of the range of regulations and restrictions of which treasurers must be aware and in the reporting obligations which result.

The devil is in the detail

A corporate treasury operation that masterminded the largest ever deal by a non-US entity in the US private placement market is headed by Dympna Donnelly, Vice President of SAP

US-Ireland Financial Services, the arm of the SAP Group treasury responsible for all of the company's US dollar financing. Last year's $1.4 billion placement earned that record, with the funds directed principally towards SAP's acquisition of Ariba. "That was our third successful foray into that private market in recent years, raising a total of $2.65 billion so far," explains Donnelly.

The SAP Group has over 65,000 employees worldwide but the treasury team consists of just 20 people. "In terms of reporting obligations, our concern is really what is coming directly at us, such as EMIR," Donnelly says. "Although there are elements of Dodd-Frank that affect us, they are not difficult and are looked after by our treasury colleagues in the US.

"On the other hand, the Foreign Account Tax Compliance Act (FATCA) will have direct implications for us and we are not yet clear about what we will have to do. With FATCA, there will be direct bilateral agreements with the US in all major financial markets, effectively Germany, UK and Ireland for SAP. The national revenue authorities have agreed to co-operate with the IRS – it is in everyone's interest to avoid any potential mess – but the arrangements will not be identical in all of those agreements."

That is a constant difficulty with new regulation, Donnelly says. "You know about it well in advance and can see the broad overall plan, but then you do not know enough about the detail of the implementation required. It happened with EMIR, for example, which covers internal foreign exchange (FX), although I don't think that is related to what it was designed to achieve. Yet the implementation covers internal hedges within our group, which is not in financial services and the movement of funds within the group is entirely for trade-related purposes. That's the kind of issue that arises when measures are made very broad and designed to catch all activity that might be in breach."

She adds that trying to design and test reporting systems in advance can be a problem. "You have to wait for the detail of required formats before you can make the system changes and report templates, but the actual implementation time tends to be telescoped. What's more, the sheer volume of work and time that has to go into extracting the relevant information and adapting the systems in big diverse groups is generally underestimated."

Developing a system response

"We look after both the treasury operations and all the relevant reporting," says Sean Grace, Group Treasurer at Securitas, a world leader in security services and systems. Listed and headquartered in Stockholm, it employs over 300,000 people in 52 countries. The group treasury centre, based in Dublin's International Financial Services Centre (IFSC), is responsible for all of the funding and treasury activities of Securitas globally.

Grace explains: "Everyone in any role related to finance is highly aware of the growing importance of reporting requirements and in a way it's quite circular – Boards and top management want to be assured that the organisation is doing everything it should. No one wants to be caught at some stage having to say 'We didn't know this was happening.'

"Since Lehmans, the buzzword is 'derivatives' and the authorities on both sides of the Atlantic are very wary. But they are then casting their nets very wide indeed, perhaps because they really have not figured out where the real risks are or where the next risk is coming from," he adds.

That wide-cast net is now bringing in the corporates, says Grace. "Traditionally, we only had to worry about accounting standards and our Boards, now we're being dragged into the general mess. It's true that global enterprises are often managing larger sums of money than some banks, but we are doing it to manage and minimise risk, not to make profits per se. Banks have a longstanding – and now growing – set of compliance obligations and have been set up to deal with that. Corporate treasury has not, so now we have to set up special systems.

"In our own case, we rely on smart treasury management and reporting systems, and we think we have good skill sets in both treasury and systems."

> "We developed very sophisticated internal management reporting systems, precisely because our rapid growth posed massive challenges in retaining oversight and control."
>
> Michal Kawski, Head of Treasury, Gazprom Marketing & Trading Ltd

Grace is a firm believer that systems should reflect the organisation's business rules rather than be driven by the software design. "The ideal system is one you design yourself, choosing what you want to do and what you want to get out at any time. You need to know in advance of every deal what data is required and where it will end up in your reporting at a later stage. Then you are not going to be surprised, and you can pull together whatever report is needed. You certainly want to avoid rigid systems that cannot easily adapt to fit changing circumstances and reporting is definitely in that category these days. Actually, in some ways a positive result from this new regulatory climate is that it forces you to think everything through in a fresh way in the light of both the compliance and the reporting on it."

The Russian oil and gas giant Gazprom has made a world impact in recent years. Trading in billions, its subsidiary Gazprom Marketing & Trading (GM&T) is a UK registered company with a unique suite of products from gas and electricity marketing, trading and supply, to liquid natural gas (LNG), liquefied petroleum gas (LPG), oil, carbon and FX deals and a retail business, trading as Gazprom Energy. GM&T treasury and commodity broking operations are headquartered in London, with seven other offices globally. Head of Treasury is Michal Kawski, who is happy to acknowledge that today's reporting obligations are from his organisations' point of view relatively modest additions. "We are a relatively young organisation but have been growing rapidly in scale and range of business, and have developed the systems to manage all of that. We started in 1999 with two people in a London office, really got going in 2004 and now have over 1,000 staff."

The Gazprom management systems were developed to report on a daily transactional basis, not strictly treasury. But a key point is that the company has robust centralised information systems for all of its transactions and activities across the full range of accounting and other compliance requirements, internationally, in specific jurisdictions and internally. "We developed very sophisticated internal management reporting systems, precisely because our rapid growth posed massive challenges in retaining oversight and control," Kawski says. "We

placed a strong emphasis on visibility and very strict control of corporate risk management from the beginning. That is now a great strength when new reporting obligations are placed on treasury, as they are also growing in other financial areas."

Another great need from a treasury perspective, according to Kawski, even apart from EMIR and Dodd-Frank and other such specific requirements, is to monitor the market and be prepared to act and react quickly from a liquidity perspective. "The necessity to keep up with increased reporting actually has a positive impact. The more centralised but also fluid and flexible the systems are the better. Our systems were designed and built on an integrated model, and so the burden on us is significant but probably less than in many organisations with legacy systems."

The nuts and bolts

"Has regulation become an increased burden? Absolutely," says Neil Fleming, Director of Treasury Solutions in Capita Asset Services, one of the largest independent treasury service providers in Europe, administering over £300 billion of client assets. "Bear in mind we have over 250 clients globally, so we have to manage all of their relevant reporting obligations." Capita has over 100 staff providing a comprehensive suite of treasury solutions such as deposit and FX trading, intragroup loans, cash pools, netting plus cash advisory, counterparty analysis, valuation and accounting services.

"We are very conscious that a number of countries such as Australia, Japan and Switzerland are planning new reporting regulations that will affect our clients. They will each be different and country-specific, however much they have in common. FATCA is coming in, Foreign Bank and Financial Accounts (FBAR) is another US regulation and there is also the whole money market funds (MMFs) valuation issue, which may impact on Europe. Some have been delayed or are still being finalised, like EMIR, and International Financial Reporting Standards (IFRS) 13 is already with us. The key point is that there is a growing volume and range of regulation in place and on the way, all of it inter-related in many respects and with knock-on effects on what treasury and other financial operations have to do to comply and report."

Understanding the totality of the risk is at the core, Fleming says, both direct counterparty and any underlying risk. "In the EU everything is heading in broadly the same direction. The MMF valuation issues have not been decided in an EU context yet but the European Commission (EC) proposals are diverging from the Federal Reserve's. From a reporting point of view, they will all in a sense be pulling from the one general database. So the context from our point of view moves on to the required fields and the construction of the reports. You can only report where you have the information and EMIR requires something in the realm of 80 fields – but your existing treasury system may not have all of them.

"Banks have traditionally built data warehouses to cope with their various reporting requirements, but by and large corporates have not yet gone down that route," Fleming says, returning to Grace's point. "We are seeing a lot more smart business intelligence software coming in on top of treasury platforms. Yet a recent survey showed that over half of corporate treasury operations were still using spreadsheets to manage their cash. The smart tools available today are a lot more flexible and user-friendly, and they will be essential not just for external reporting but to keep the Boards satisfied."

For the system's preservation

There is a universal urge today towards ensuring financial stability, which is in turn putting increased regulatory and other pressures on ensuring liquidity. In many practical respects, liquidity is more important than capital in ensuring stability. That is the start point for all reporting requirements and in turn for new ways of managing treasury, says Leonard Orlando, Finance and Enterprise Performance Manager at Accenture UK. "Companies need to put in place more sophisticated tools and processes, as well as structured analytics, to accurately predict cash flows in order to understand their liquidity risk more thoroughly. In the future, we will be looking at risk aggregation, effectively putting all of the risk profiles together in a consolidated view.

"The challenging regulatory environment is making the measurement and management of risk more complex. Traditionally, treasury has not been fully integrated with other functions in the business. But now we need to see across treasury, finance and risk management and the correlation of different risks. The question is whether we have the information to aggregate and analyse the full spectrum of risk?"

Although the process and system challenges are complex, there is enormous potential value, Orlando believes, in that aggregated risk picture from the pooled information – not least in preparedness for the future. "I also think that treasury will become increasingly important in corporate strategic decision-making, because it will be the only place with deep insight into the future cash and liquidity position."

In the ordinary course of daily business treasurers are not really concerned about reporting for external requirements, says John Byrne, Managing Director of treasury management system (TMS) vendor, Salmon Software. "You can simplify treasury to buying and selling money, in more than 1,000 different ways. As a treasurer, I want to know exactly where all my money is right now, as well as currency, jurisdiction, counterparty and all of the other risk and exposure levels across perhaps hundreds of bank accounts in a large multinational. That is the daily task: to see the overall corporate position, clearly and accurately. I will then have the data to furnish accounting with what is needed for regulatory reporting, but it is not my primary concern. I will also be able to show that I am complying with the set corporate policies across all of the areas."

Treasurers are aware of the regulatory parameters they face and the management systems they use have the rules built in with automatic alerts if any position gets out of line. "On a day-to-day basis, complying with their own corporate policies may well be a stronger imperative. On the simple and often quoted basis that 'treasurers look forward and accountants look back', the actual mandatory reporting tasks fall to the accounting function. The onus of compliance, of course, remains with treasury. Once the information is in the systems, reporting is – or should be – relatively straightforward and capable of being automated to a high degree."

That is the theory, Byrne acknowledges. In practice the rise of new reporting requirements continues to uncover elements that were not provided for in the past, or that are not immediately compatible with existing systems. But he echoes the view that the solutions to these challenges will come in pooled, common data and systems that provide an aggregated view across treasury, accounting and risk management. "Once all of the information is there, you can use it for advanced 'what if?' modelling just as readily as a mandatory monthly report." ■

"Taking our business global is complex. Making global payments isn't."

Citi's payment services: global solutions tailored for your company's needs.

- payment services in 135 currencies across 190 countries and territories
- proprietary network with consistent global platform
- global reach, on-the-ground expertise and cross-border capabilities generate business efficiencies

Find out how our award-winning solutions can give you a competitive edge at **treasuryandtrade.transactionservices.citi.com.**

© 2013 Citibank, N.A. All rights reserved. Citi and Arc Design is a registered service mark of Citigroup Inc.

Alan Greenspan

For 19 years, Alan Greenspan was the single most important individual in global economic policy. As Chairman of the Federal Reserve, he oversaw the longest sustained period of economic growth in US history and, when he eventually stepped down from the post in 2006, it seemed that he had barely put a foot wrong. But then, just over two years later, the worst financial crisis since the 1930s erupted.

On 23rd October 2008, former Chairman of the Federal Reserve, Alan Greenspan, returned to Capitol Hill in Washington to appear before the House Committee on Oversight and Government Reform. It had been just one month since the investment bank Lehman Brothers had filed for bankruptcy – a move that had sparked turmoil across financial markets worldwide and which now, five years later, continues to reverberate.

Although he had retired from his position as Chairman a few years earlier, there was no denying that it was Greenspan who was at the wheel when the US economy began to veer towards the subprime precipice – he had held the position for 19 years from 1987 to 2006. The Committee wanted answers. Why had he not spotted the bubble forming in the housing market? Did he now accept that, for his unshakable commitment to free markets and antipathy towards nearly all forms of market regulation, he should shoulder some of the blame for the imploding economy?

"Dr. Greenspan, you were the longest-serving Chairman of the Federal Reserve in history and during this period of time you were perhaps the leading proponent of deregulation of our financial markets. Certainly you were the most influential voice for deregulation. You've been a staunch advocate of letting markets regulate themselves," said California Democrat Henry Waxman and Chair of the Committee. "And my question for you is simple, were you wrong?" "Yes," replied Greenspan, pausing briefly. "I've found a flaw. I don't know how significant or permanent it is. But I've been very distressed by that fact."

The 'maestro' finds a flaw

It was a startling admission. Had the financial crisis and ensuing recession never occurred, Greenspan would, in all likelihood, have remained one of the most highly regarded central bankers in history. Once lauded as the 'maestro', he had guided the US economy through some testing periods – the dot-com boom and bust, for example – leading the economy to one of the most prosperous periods in American history. Now this man, who for decades had been one of the most entrenched, powerful figures in Washington, sat before a Congressional committee conceding that the emerging crisis had forced him to question his most fundamental assumptions about markets.

But what was the flaw he had discovered? Years later, Greenspan would explain that the Fed's sophisticated forecasting models proved to be faulty because they disregarded those basic elements of human psychology – fear, euphoria and greed – that Keynes once called "animal spirits". These factors, he says, have always been difficult to quantify and tend to defy algorithms. That, he argues, is why the Fed, the International Monetary Fund (IMF) and many large, highly-sophisticated financial institutions failed to see the coming crisis.

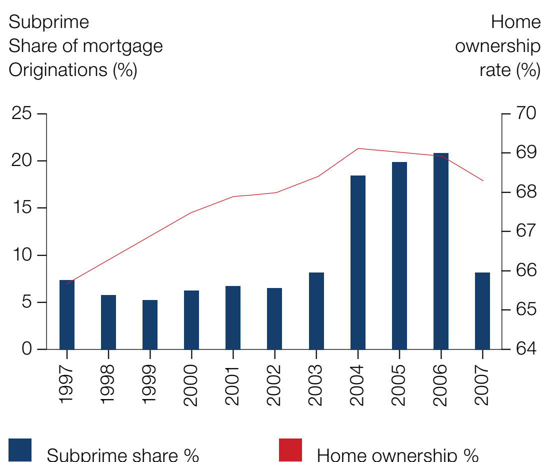
A love of mathematics

Talk of the impact of so-called 'soft' issues, such as human psychology, on markets is not something one would normally expect to hear from the mathematical model-worshipping former Chairman of the Fed.

From an early age, Greenspan had been infatuated with numbers. Born in New York in 1926 to a family of east European Jewish ancestry, he showed a precocious talent for mathematics from an early age – so much so that his mother would often have him demonstrate to neighbours his ability to add three digit numbers in his head. While many young children tend to exhibit a strong aversion to learning sums and times tables, Greenspan considered these activities as hobbies. "His idea of relaxation was doing calculus problems," his wife, TV reporter Andrea Mitchell, once remarked.

In September 1944, at the age of 18, Greenspan's passion for figures took him to study at New York University where he went on to earn a Master's degree in Economics and, many years later, a Ph.D. In the 1950s, Greenspan worked as a researcher at the National Industrial Conference Board, before becoming a partner at Wall Street Consulting firm Townsend-

Chart 1: U.S. subprime lending expanded significantly 2004-2006



Sources: U.S. Census Bureau; Harvard University - State of the Nation's Housing Report 2008

Greenspan. In these roles he was able to put this enduring obsession with numbers to practical use.

Political animal

Despite holding for 19 years what is intended to be an explicitly apolitical role, that of Chairman of the Fed, Greenspan made no secret of his life-long conservative, free-market beliefs. Greenspan has acknowledged on a number of occasions that his conservative ideological convictions were cemented during his association with Ayn Rand, the objectivist philosopher and radical libertarian novelist whose biographer Anne Heller describes as "probably the most important communicator of conservative ideas to the American people".

Rand and Greenspan met in the 1950s. Greenspan, at the time a self-avowed positivist, took some convincing before coming around to Rand's objectivist philosophy, eventually becoming one of her most loyal acolytes. He came to accept – although not in its entirety – Rand's libertarian ideology, which held individualism to be the highest ideal and advocated unfettered free market competition with little role for the state – save the preservation of law and order.

In the early 1970s Greenspan, determined to use his aptitude for economics to further the cause of conservatism in America, became involved in the Republican Party in an advisory capacity. He began by working as an advisor for the then presidential candidate, Richard Nixon, pressing on him his ideas for reducing government expenditure and restraining the budget. He quickly earned a reputation within Nixon's inner circle and the wider Republican Party as a man who could advise on a range of issues – energy, agriculture and welfare policy – far beyond the borders of his usual domain, economics.

"In terms of raw influence he was a resource matched by almost no other," Dick Allen, Nixon's Foreign Policy Communicator, later recalled. "The guy has a concept of how the world should be organised and he pursues it relentlessly."

Greenspan's reputation within the Republican Party continued to grow and, in 1974, he accepted his first role in government, becoming a member of the President's Council of Economic Advisors. Fittingly, Greenspan invited his mentor Rand to stand at his side for the ceremony in which President Gerald Ford swore him in to the role.

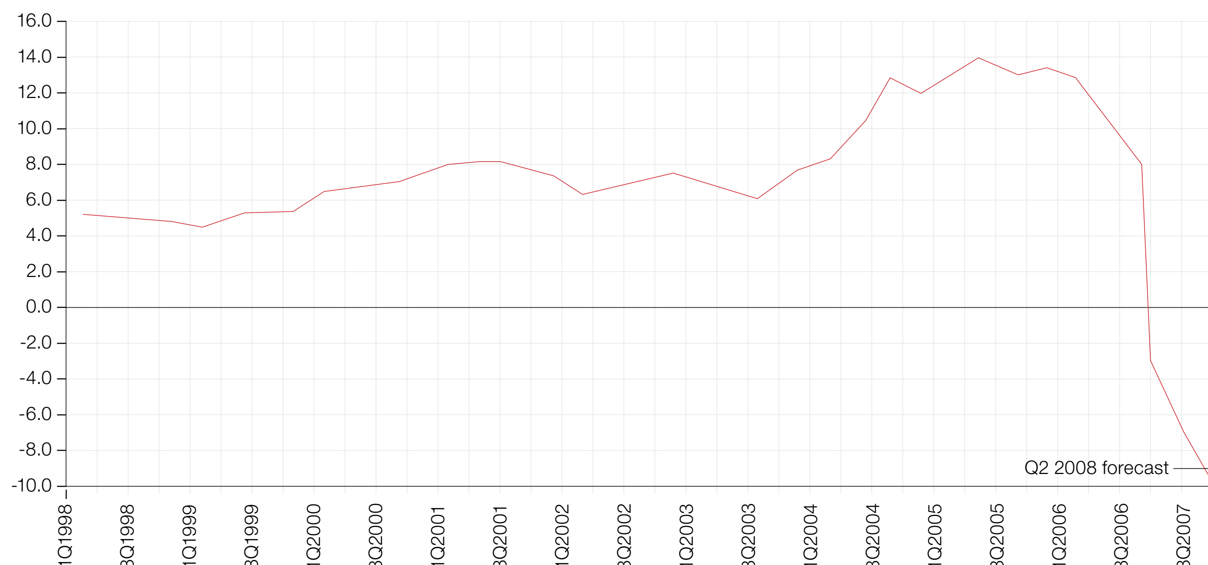
After Gerald Ford was defeated by the Democrat Jimmy Carter in the 1976 US presidential elections, Greenspan took a long sabbatical from governmental service and did not return to Capitol Hill in any official capacity until President Ronald Reagan nominated him to replace Paul Volker as the Chairman of the Board of Governors of the Federal Reserve.

Although Greenspan was chosen, in part, because of his conservative background, the Republican's soon found out that conservative beliefs didn't necessarily equate to loyalty to the Republican Party. As a conservative economist, his ultimate allegiance was to a balanced budget – and the political party who delivered that was, to him, almost an irrelevance. It was for this reason that he eventually came to hold Bill Clinton in much higher esteem than either Reagan or George Bush Senior. Clinton, after all, ended his two terms as President with a sizable budget surplus, while in the course of Reagan's eight years in office, the national debt tripled, growing from $930 billion to $2.6 trillion.

In his role as Chairman of the Fed Greenspan came to amass considerable political power, using his influence over financial markets as leverage to help him to achieve political objectives. For example, following Clinton's election victory in 1992, he arranged a meeting with the president-elect. On the campaign trail, Clinton had indicated he would introduce a progressive tax to fund a programme of ambitious social policies – something which Greenspan naturally opposed. In the end, Clinton was persuaded to introduce a tax not targeted at the rich when Greenspan offered, in return, a cut in interest rates to boost the economy and his support for the budget deal opposed by congressional Republican's.

Chart 2: US house price trends

% increase/decrease year-on-year



Source: Center for Responsible Lending/OFHEO/NAR

The "Greenspan put"

During his stint as Chairman of the Fed, Greenspan also developed his own, distinctive approach to monetary policy. Whenever the US economy was in trouble, Greenspan believed he could recharge it by cutting rates sharply. It became to be known as the 'Greenspan put' – and he exercised this policy approach on a number of occasions, beginning with the 'Black Monday' stock market crash in 1987. On Monday 19th October 1987, stock markets around the world crashed. Greenspan, who had begun his tenure at the Fed only months before, lowered the Federal Funds rate in order to pump liquidity into the markets. The policy was a success, allowing investors to borrow funds more cheaply to invest in the securities market and, thereby, stimulating a strong rally that won back a portion of the earlier losses.

However, as Greenspan himself later came to admit, short-term successes can sometimes have long-term repercussions for central bankers. In 2002, Greenspan resorted to the same tactic in an attempt to kick-start the US economy following the 11th September terrorist attacks on the World Trade Centre. The target Federal Funds rate was cut again, this time to 1%. It was the lowest the rate had been since the 1950s and it would remain at that level until mid-2004. As before, the policy achieved its objective. The stock markets recovered and the US economy was soon booming again.

However, low interest rates became the source of the housing market bubble. With interest frequently negative in inflation-adjusted terms, investors and lenders were pushed to take bigger risks to get better returns. In this search for yield, financial intermediaries extended credit to homebuyers with limited financial means and often poor credit records. These homebuyers, in turn, were easily seduced into taking out adjustable rate mortgages (ARMs) by the combination of a low interest rate environment and, at least on the face of it, perpetually rising house prices.

Never saw it coming

The rest, as they say, is history. Greenspan raised rates back up in 2004 and, two years later, billions of dollars of ARMs began to be reset at upwards. As house prices began to plummet and mortgage defaults rose, the enormously leveraged banks and brokers of Wall Street incurred huge losses as a result of all the subprime assets on their balance sheets. By 2008, the resulting contagion had spread across the globe and caused the collapse of some of the world's largest financial institutions and the bailout of banks by national governments.

Naturally, Greenspan's actions – and inactions – during his tenure as Chairman of the Fed came under intense scrutiny in the wake of the crisis. That his approach to monetary policy played some role in the forming of the US housing bubble is now widely acknowledged, including by Greenspan himself. However, as the Financial Times columnist Martin Wolf wrote in Greenspan's defence back in 2008, the housing bubble was not unique to the US. On the contrary, during this period housing bubbles formed in more than two dozen countries around the world, a phenomena that appears to demand an explanation that is global and not focused entirely on the decisions taken by one individual.

Another argument is that the subprime asset bubble could have been prevented if Greenspan had adopted a tougher regulatory stance on derivatives and shadow banking. Furthermore, with all of the Fed's sophisticated forecasting technology at his fingertips, he should have spotted the bubble forming and done something to prevent it from growing. On these points, it is difficult to absolve the former Chairman.

Greenspan, like many of his peers in the US government, subscribed to the efficient-market hypothesis. Essentially, this is the belief that the financial sector would always act in rational self-interest and, therefore, the technologically advanced financial markets of what he called the 'new economy' were best left to police themselves.

In his recent book and mea culpa, 'The Map and the Territory: Risk, Human Nature and the Future of Forecasting', he concedes that this rationale had proved to be deeply flawed. While markets often do behave in rational ways which forecasting models can easily predict, they can also become irrational when driven by 'animal spirits'.

But Greenspan is adamant that this doesn't necessarily mean such models should now be dispensed with. In his book, he explains that it is possible to measure and factor in such things as 'fear' and 'euphoria' into models alongside traditional variables such as interest rates and corporate earnings. "September 2008 was a watershed moment for forecasters, myself included," he writes. "It has forced us to incorporate into our macro models those animal spirits that dominate finance." ■

Greenspan in quotes

"Since becoming a central banker, I have learned to mumble with great incoherence. If I seem unduly clear to you, you must have misunderstood what I said."

Speaking to a Senate Committee in 1987, as quoted in the Guardian Weekly, November 4, 2005

"American consumers might benefit if lenders provided greater mortgage product alternatives to the traditional fixed-rate mortgage."

February 2004 speech on the benefits of adjustable-rate mortgages

"Rising interest rates have been advertised for so long and in so many places that anyone who has not appropriately hedged this position by now obviously is desirous of losing money."

November 2004 speech in Frankfurt

"Everybody is hurt by inflation. If you really wanted to examine who percentage-wise is hurt the most in their incomes, it is the Wall Street brokers. I mean their incomes have gone down the most."

At a conference on inflation in Washington D.C., September 1974

We generally did not talk about the stock market very much at the Fed.

Chapter Eight, 'Irrational Exuberance', p. 165

eBAM: another year on

The long awaited arrival of electronic bank account management (eBAM) has yet to fully materialise. One year on after SWIFT announced the cancellation of its eBAM Central Utility (ECU), this article looks at what progress has been made and whether next year will finally produce a fully functional multi-bank solution.

The treasurer's responsibilities have broadened considerably in the wake of the financial crisis. But while many traditional treasury duties have increased in relative importance, recent advancements in technology have automated much of the work, freeing up more time for the treasurer to provide strategic insight to other executives within business, in particular the CFO.

There is one area which remains an exception. Despite strong demand for an electronic solution, the administration of corporate bank accounts has remained rooted in manual, paper-based procedures.

Cutting out the paperwork

At present, many of the routine processes treasurers undertake – the opening, closing and managing of global bank accounts – involve much manual input. It can be time-consuming, labour intensive and, above all, inefficient. Documents are printed, signed, scanned, mailed and filed, before being double-checked for accuracy on a separate data-tracking sheet. Then the process begins all over again for a different account in another jurisdiction, governed by different laws and regulations. "We seem to be doing the same things over and over," says Jackie White, EMEA Banking Manager at Xerox. Indeed, it must feel a little like the labour of Sisyphus.

Is there another way?

At present its availability is limited, but electronic bank account management (eBAM) promises to revolutionise these processes by allowing them to be carried out electronically in the future. It has not, however, caught on as quickly as some

corporates would like. Treasury Today's annual benchmarking studies revealed that in 2012 in both Europe and North America corporates using the technology remain a small minority, 11% and 15% respectively.

Interestingly, at the recent EuroFinance conference in Barcelona, the 'Treasury Verdict' polling session found that 18% of respondents were already using eBAM. Almost a quarter (24%) reported that they wanted eBAM, but weren't being offered it by their banks, while 28% said that they wanted it but the current options don't satisfy their needs. 30% on the other hand, stated that they didn't need it.

Patricia Greenfield, Director Treasury Operations, AstraZeneca, said: "I want it and need it – it's on the project list for 2014. We have people moving around the organisation a lot and sometimes the signatory card is not there when you need it. Therefore, it's high up on the agenda for next year."

Xerox is one of the many multinational companies (MNCs) interested in eBAM who are on the cusp of implementing a solution. In Europe, Xerox investigated SWIFT's eBAM offering but ultimately decided that Citibank's proprietary eBAM solution suited them better. They are Xerox's primary cash management bank in EMEA and, given that many of the company's accounts are with a single banking partner, using a single bank portal for eBAM was not considered to be an issue. In addition, most of the software and integration is already in place and they could be confident their signatory information is correct on the basis that they are using the bank's database.

Things would have been very different using SWIFT, she explains. "If we are sending messages down a pipe which does not update at ours and the bank's end at the same time, in the same way and with the same data, then we would all end up in a muddle. It would be like replacing one headache with another."

Although White feels very positive about Citi's eBAM solution, the company doesn't plan to begin implementation until later in 2014. Proceeding immediately would have placed an enormous strain upon resources, she explains. It is not necessarily the software and testing that is difficult, it is the 'housekeeping' that needs to be done before a solution can be implemented. Signatories on a mandate have to be agreed with the bank, and with hundreds of accounts across the globe, this is an unavoidably time-consuming undertaking and one which we would be foolish to contemplate when the company, like most of its peers, is busy preparing for the 1st February 2014 deadline for migration to the Single Euro Payments Area (SEPA). Once the dust has settled from SEPA migration, the company will truly begin its eBAM project.

Building an eBAM for everyone

If, like Xerox, your company has one main bank for cash management in a particular region and that bank offers eBAM, then electronically managing your accounts in the near future is a real possibility. However, if your company has relationships with a significant number of different banks, then the prospects are less certain. Most industry experts agree that multi-bank eBAM is something that will be the standard at some point in the future. The problem is that these experts have been predicting the same for some time now and it seems as though with each year that passes the concept is hit by another setback.

Last year, it seemed the final technical hurdle had been overcome when SWIFT announced it had successfully piloted a mechanism called the eBAM Central Utility (ECU). The ECU was expected to resolve the problem of the different legal and documentation requirements in place across different jurisdictions.

It is easy to understand why legal and documentary requirements could undermine the value that a corporate would hope to derive from a multi-bank eBAM solution. In order to open up an account with a bank in the Ukraine, for example, a corporate would need to speak to somebody in that branch, or perhaps ask a colleague in a subsidiary to speak to the branch, in order to determine the documentation requirements. This unnecessarily protracted process is then likely to be repeated the next time, when a different corporate decides to open an account at that particular branch.

Corporates wanted something better, and with the ECU it looked like they might get just that. To address the problem, the ECU was intended to operate as a database for storing all the necessary bank- and country-specific account information, allowing corporates to know in advance the different documents required by banks across the globe. This, it was hoped, would ensure that all messages between treasuries and banks comply with the correct rules and guidelines, thereby accelerating the flow of information.

Disappointingly, for some corporates, this was not to be. In October 2012, speaking exclusively to Treasury Today, SWIFT confirmed that development of the ECU had been put on ice. The problem was that for a project of this nature, SWIFT required the co-operation of a majority of the large cash management banks; outside of North America this was, for reasons that have yet to be revealed, not forthcoming.

Since then, SWIFT has been at pains to downplay the importance of the ECU to advancing eBAM adoption amongst corporate treasurers. Andre Casterman, Head of Corporate and Supply Chain Markets at SWIFT, does not believe that the decision to limit SWIFT's role in the delivery of standards and the messaging for eBAM will be fatal to the development of multi-bank eBAM. Others will surely take over from where SWIFT left off. "I think that those corporates who want a multi-bank solution will be able to get that functionality from established vendors, such as SunGard, in the future," he says.

Recent developments do appear to substantiate Casterman's assertion. Weiland, now a part of Fiserv, already has one client – a large insurance company – in production with one of its banks and in test with two others. "Last year, the only companies doing eBAM were those using the single bank portals – but that's not really what I call eBAM," says Dan Gill, Senior Vice President of Weiland Corporate Solutions.

Through BAweb, the bank account management application provided by Fiserv, corporates can send and receive messages over the SWIFT network to any of the banks which are capable of sending and receiving eBAM messages. Although, Fiserv's offering is still in the pre-production pilot stage, it does provide the clearest indication yet that multi-bank eBAM is beginning to become a reality. The only snag is that, at present, only three big US-based banks have this capability; many outside of North America have made very little progress on developing such functionality.

Once the remaining banks are able to offer fully developed eBAM solutions to customers, treasury management systems (TMS) vendors, such as cloud-based platform provider Kyriba,

are poised for a surge in enquiries about eBAM from their corporate customers. Bob Stark, Vice President of Strategy at Kyriba, adds to Casterman's assertions that SWIFT's withdrawal of the ECU will not act as a damper on corporate demand once they begin to understand that multi-bank eBAM is achievable without it.

"As long as you have the ability to connect to all of your different banks – that is all you need," says Stark. "The difficulty we are having at the moment is that many banks have merely been developing their own solutions and have not felt it necessary to connect to the outside world. But that is the main thing that a vendor like us is waiting on – for it to be more widely available and move beyond a pilot phase."

Coming together

Gill is also convinced that the various technicalities of eBAM have mostly been resolved. All that is left to do now, he says, is to convince more banks across the globe to come on board with the project. And to this end, he says, a lot of progress is being made.

Recently, the three US banks involved in the eBAM project from the start, came together with SWIFT and a selection of software vendors to form the CGI eBAM Working Group, with the objective of promoting eBAM globally and encouraging adoption across. Through this group Gill hopes that more banks will be encouraged to come on board and, once that stage has been reached, eBAM will really begin to take off.

"We are going to see more banks working together to drum up industry collaboration. We've been a big part of that and we are very supportive of it. So even though the ECU is no longer there, there is still a lot of work being done to drive eBAM forward from a collaboration perspective.

"It's a marathon, not a sprint," says Tom Durkin, Global Head of Integrated Channel Solutions, at Bank of America Merrill Lynch (BofAML). The cancellation of the ECU does represent a set-back for multi-bank eBAM, he says, but not one of a technological nature. The real issue was that it concerned corporates who believed that the utility was essential to the development of a multi-bank eBAM solution.

"We are having a lot more dialogue with corporates than we had a year ago. I think corporates are now taking a broader view of all their systems and that is slowing uptake a little. Essentially they are realising that there are many things they need to improve on before they begin to implement eBAM – their data repository, account database, signer database, etc – and so it creates a bigger project to focus on.

"However, I think that is appropriate," he adds. "It is important for clients to get the foundations in line first, and that is what we have been advising our clients."

2014: the year of eBAM?

After so many false dawns, corporates might understandably feel sceptical about pronouncements heralding the imminent arrival of eBAM as a widely used, off-the-shelf solution. Nevertheless, there is a growing sense now that 2014 could be the floodgate moment. In Europe, there is anecdotal evidence to suggest that the resource constraints Durkin speaks of have been exacerbated, as Xerox explained, by the looming deadline for migration to SEPA. Once the February deadline is out of the way and corporates have finally managed to put their taxing migration projects to bed, one would therefore expect interest in eBAM to begin to intensify.

In recent weeks, the three big banks with existing eBAM solutions –

- Citi.
- J.P. Morgan.
- Bank of America Merrill Lynch.

have all been ramping up their offerings.

As recently as October, Citi announced it has expanded its eBAM service footprint to 55 countries across North America, EMEA and Asia Pacific. Evidently this is good news for companies such as Xerox, to whom a proprietary portal solution appeals, as these companies will now be able to bring the benefits of eBAM to a majority of their global banking customers.

However, as we have seen, the future prospects for multi-bank eBAM hinge on the willingness of the rest of the global banking sector join these three frontrunners in establishing the capability. Until now, many organisations have been reluctant to do so, perhaps on the basis that the technology still requires further developing.

Given all the previous disappointments it is still too early to declare with any confidence that 2014 will be the year eBAM arrives. But now, with all of the standards and infrastructure in place and with corporate interest stronger than ever, one could argue that the time is right for the remaining large cash management banks to begin jointly planning the transition. ■

THE CORPORATE VIEW

Pepijn Asselberghs
Corporate Treasurer

brandloyalty

A rewarding career

Brand Loyalty is a global leader in short-term consumer loyalty programmes, offering the full service from initial strategic advice through to management, logistics, implementation and analysis. Founded in Hong Kong in 1995 but now with its headquarters in the Netherlands, the company is active in over 50 countries. It has loyalty programmes running in more than 20,000 stores for a roster of clients that include Tesco, Auchan, Rewe and Metro. With the acquisition in 2012 of Dutch firm, IceMobile, Brand Loyalty added the digital dimension to consumer loyalty with 'Bright Stamps', a unique app-based system for consumers to collect and redeem points.

Customer loyalty in the food retail sector is all about creating consumer engagement. Retaining customers, increasing the frequency of their shop or site visits, driving up average spend and generating more profitable sales can make a huge difference to the bottom-line of any business – but how can customers be drawn into a profitable relationship when there is so much choice?

This is where Brand Loyalty offers a solution through its short-term loyalty programmes, typically based on exchanging collected 'points' for free products or services. The company is now pushing forward with a new app-based offering that allows consumers to collect and redeem points using their mobile device; a digital collecting system which is intended to appeal to new customers whilst offering the

possibility to communicate one-to-one and generate insights in real-time consumer behaviour.

But running multiple programmes around the world for some of the most recognisable brands requires skill and judgement, not just in tailoring the right programme at the right time for the client but also in managing the funds to be able to set up and run so many concurrent schemes in the first place. Taking charge of financial matters for Brand Loyalty is Pepijn Asselberghs, its Den Bosch-based Corporate Treasurer.

Asselberghs took on the role in July 2010, the financial function having been managed by the company's CFO until it was apparent that employing a permanent professional treasurer was essential to take the business forward. Indeed, his arrival heralded some rapid growth within Brand Loyalty, seeing it expand into new territories and inevitably taking on greater foreign exchange (FX) risk and cash management complexity. For Asselberghs, this was the challenge he had been seeking.

> "I'd seen during the interview that there were many possibilities to make improvements."

With almost 15 years of professional treasury experience under his belt, Asselberghs started his career with a six-year stint on the treasury desk at computer manufacturer, Packard Bell (since 2008 a subsidiary of Acer), where he specialised in FX trades. He then moved in April 2006 to the Dutch treasury operations of the Nasdaq-listed manufacturer of scientific instruments, FEI Inc. He remained here for the next three years as Cash Manager, managing the working capital team. During his time at FEI, Asselberghs implemented several new treasury processes and systems, introduced a credit insurance agreement and assumed responsibility for international cash management, tackling FEI's significant currency exposures.

The role of Senior Treasury Manager at another US-owned business, the biopharmaceutical company, Amgen, beckoned in June 2009. This saw Asselberghs run the firm's international treasury team, again out of the Netherlands, and gave him a place on the management team of Amgen's international Shared Service Centre.

The next phase of his career saw Asselberghs intent on joining a Dutch corporate where he could stamp his own authority on treasury. When the call to Brand Loyalty came, having discussed the role at length with the firm's CFO, Asselberghs was already clear in his mind that the position would offer him what he needed. "I'd seen during the interview that there were many possibilities to make improvements," he comments, adding that the promise shown by the company and its almost clean sheet of treasury opportunities has indeed been born out. "I'm very happy here."

The single view

Brand Loyalty has always been a financially de-centralised organisation. It has multiple entities based around the world, each undertaking a similar role in its respective country. Each has its own financial team charged with managing its own core activities, mostly around working capital, such as payments and collections. "When I arrived it was my goal to place more of a central focus on those activities," recalls Asselberghs.

He discovered that the firm had a multiple bank/multiple account structure which has since been halved in size. Indeed, one of his first "quick wins" was to consolidate a number of existing accounts onto the platform of a single cash management provider. As a result of this, at an operational level, Brand Loyalty's liquidity management in Europe is now modelled on a notional pooling structure where on a daily basis the combined credit and debit balances of all its accounts are used to calculate interest. Beyond Europe all excess cash is currently managed manually, mainly with domestic banks. These institutions are able to offer essential local services, local knowledge and expertise especially where Brand Loyalty's main bank or another primary bank does not have reach.

Taking to technology

As part of the central team, Asselberghs' treasury is joined by a corporate controller's office (which oversees accounting operations) and a group reporting function (for internal and external reporting) – all requiring consolidated financial data from the entities. All reporting is thus channelled via a "limited" roll-out of an ERP system which was implemented two years ago alongside the vendor's Business Intelligence (BI) module.

Since go-live of this system, Asselberghs has added new reports, mostly around working capital (such as days sales outstanding, days payable outstanding and days inventory outstanding data) which are extracted to Excel. This, he notes, enables him to easily drill down into the detail to analyse the company's positions and exposures worldwide.

With the international expansion of Brand Loyalty continuing unabated, Asselberghs does not rule out the possibility of installing a proprietary trading system such as 360T or FXall, but this is not currently on the agenda. For now, his preference is voice-trading across a panel of several banks. He uses a Bloomberg terminal as a lever in price negotiation but also draws on the benefits of long-established working relationships with his banks to achieve the most appropriate price; Asselberghs is quick to point out that this is not always the cheapest. With entities spread across the world, he is more than happy to work with his providers, to draw on their local knowledge, experience and advice, rather than against them, extracting the lowest possible pricing every time. "There are only a few banks in our syndicate; we all know what we are doing and they are all happy to participate in our business."

> "As a company, Brand Loyalty is focusing on technology and mobile solutions – so treasury should be in line with the business!"

Technology is clearly a treasury front-office enabler for Brand Loyalty. Because middle and back office management of the company's bank accounts, FX and forecasting functions are currently spreadsheet-based, Asselberghs is keen to automate here too and is working towards the implementation of a treasury management system (TMS). With experience of a variety of systems from previous employment, and having

seen some vendor demonstrations as part of the current search, planning for this outcome will move up a gear in early 2014. "I'm already thinking about fitting the new system into our processes," he says, adding that the system will enable him to create a worldwide automated netting process. In addition, as the only treasurer in Brand Loyalty his work tends to follow him wherever he goes and so the prospect of acquiring a mobile treasury solution as part of the TMS implementation has piqued his interest. "As a company, Brand Loyalty is focusing on technology and mobile solutions – so treasury should be in line with the business!"

Managing the global crisis

Many businesses have felt the keen edge of the financial crisis; some have collapsed, some have struggled on bravely but a few have found themselves in a rather interesting situation; Brand Loyalty is such a company. "We develop loyalty programmes for retailers and many of these sell essential goods; things that consumers will always need. People have less to spend but they still need to buy these products. If we can combine the purchase of essential goods with savings programmes, people like it," explains Asselberghs. The net result is that during the crisis Brand Loyalty has experienced continued growth and has been able to expand. Europe remains the stronghold but the fastest growth regions for the company are Asia and South America.

For Brand Loyalty, cash management is closely linked to funding. As the company is set on a heading for growth and the number of loyalty programmes it runs increases, it needs to stock up on promotional materials. To help with inventory management and to lower its working capital requirement, Brand Loyalty offers a 'sale or return' option to clients which means once a programme with a retailer has ended wherever possible any goods left over can be re-used for another programme with a different client in another country.

> "What I see now is greater difficulty in bringing new entities into our notional pooling structure."

Where funding is required the company's main source is the debt facilities it has arranged with its banks. It has not yet tapped the debt capital markets or alternative sources of funding (such as a US private placement).

Facing up to regulatory change

As Brand Loyalty continues its expansion, the focus of attention on Asia and South America has seen the business face a range of legal and regulatory hurdles, some of which can add complexity to cross-border liquidity management. For example, the trapped cash situation (not easily being able to repatriate profits) is slowly being addressed by China's central bank (the Peoples Bank of China) but in the meantime although traditional models of repatriation such as dividend, royalty payments and service payments (and even cross-border lending to related companies) can be used these still come with many restrictions, sometimes even requiring approval from the country's governing body for foreign exchange market activities, State Administration of Foreign Exchange (SAFE).

Of course, China is not the only market where financial change affects corporates. Much of the global bank regulatory landscape has shifted in the last few years with notable impact from Basel III. "What I see now is greater difficulty in bringing new entities into our notional pooling structure," says Asselberghs. He explains that under Basel III a bank needs to consider the risk perspective of each new entity Brand Loyalty wants to bring into its centralisation programme because it must place a certain amount of equity on the balance sheet to support the arrangement. "It costs the banks more, so they are less willing to take on new entities," he states. To counter this, he plans to establish an in-house bank as part of Brand Loyalty's TMS implementation. This will enable him to move cash between entities without the need for the notional pool structure.

> "My goal was to have live SEPA payments before the end of October so we can avoid the rush."

Another regulatory push in the banking space is SEPA. With a number of operations and clients in Europe, Brand Loyalty will be affected; at least on the credit transfer side (it has limited use for the direct debit aspect, which Asselberghs believes to be the most onerous element). An internal team has been working towards the migration deadline of February 2014 for around one year, alongside consultants. "My goal was to have live SEPA payments before the end of October so we can avoid the rush," he says. "A lot of companies are waiting until November or December – they may have internal resources available but they will also be dependent on the resources of the bank; if a lot of companies have issues and they are one of them, they will have to wait." Brand Loyalty's first tests have been completed successfully within ERP and the banking systems. "We are," he confirms, "ahead of the game".

New blood

With every new entity formed within Brand Loyalty generating ever more spread sheets, the "nightmare" of Excel Hell is becoming a reality for Asselberghs. Much of his energy is now focused on the TMS project. Indeed, a lot is riding on the success of this, with the expectation that the technology will enhance treasury and risk management processes significantly and help the business grow. But there is another change in treasury that is planned and that is to take on a Treasury and Reporting Assistant within Group Finance. The role is intended to release Asselberghs from some of his operational duties, allowing him to focus more on the strategic side of corporate finance and on core projects such as the TMS implementation, as well as enabling him to offer more support to the overseas entities which, given their rate of expansion, he admits can be rather testing at times.

Between balancing working capital and FX risk, moving into new markets, sourcing new technologies and meeting regulatory demands, Asselberghs is kept on his toes. But then he wouldn't have it any other way. Every day is different, he says, "and that is what keeps it interesting". ■

THE ART OF CASH
WELL MANAGED

CONFIDENCE

IS THE ULTIMATE ASSET CLASS

We believe cash management requires a unique set of skills, perspectives and insights that separate it from other investment management disciplines. Which is why cash management is a distinct asset class within State Street Global Advisors. One with more than 30 years of experience and over $391 billion* in cash assets under management — which accounts for nearly 20% of SSgA's total assets. The global scale to create efficiency. The best-in-class service to create long-term relationships. The experience to understand the challenges that treasurers face. The ability to create confidence even in today's uncertain markets. That's the art of cash well managed.

Contact SSgA to learn how we can help address your cash management needs. **ssga.com/cash**

BOSTON LONDON MONTREAL SYDNEY TOKYO

STATE STREET GLOBAL ADVISORS | **Global Cash**

*AUM as of 6/30/13. State Street Global Advisors (SSgA) is a global leader in asset management, entrusted with more than $2 trillion in assets. This AUM includes the assets of the SPDR Gold Trust (approx. $37.1 billion as of June 30, 2013), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors, serves as the distribution agent.

This communication is directed at professional clients (this includes eligible counterparties as defined by the Financial Services Authority who are deemed both knowledgeable and experienced in matters relating to investments). The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication. State Street Global Advisors Limited. Authorised and regulated by the Financial Services Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ Telephone: 020 3395 6000 Facsimile: 020 3395 6350 Web: www.ssga.com

GCB-0280 Expiration date 3/31/14

Life in the balance

Many of the cash management processes and issues faced by companies operating in the SME/ MME sector are the same as for their larger counterparts, but there are differences too. Treasury Today explores the life and times of treasury within a smaller company.

When the market place is squeezed, the level of competition amongst businesses is ratcheted up to even greater intensity. The creative energies in a company have to deliver the right goods or services, the sales people have to pull out all the stops, and production has to seek ever greater efficiencies. But it all comes to nothing unless the financial team, and particularly the treasury, take their game to a new level too because if the business runs out of money – even if on paper it is making a profit – it is the end of the game. Nowhere is this more evident than in the small and medium-sized enterprise (SME) community and the mid-market enterprises (MMEs), where capital buffers are often less well established and the market for funding is tight, if it is available at all.

Cash management, and in particular the efficient management of working capital, therefore can stand between success and failure for many smaller firms. Accounts receivable (AR) is the major source of working capital, which in essence is the money needed to carry out day-to-day financial operations derived from the difference between current assets and current liabilities (a major outgoing, of course, being accounts payable (AP)).

But proper cash management is more than just optimising the payments and collections cycle; it also demands a thorough consideration of a host of essential liquidity management processes such as forecasting, short-term investments, funding and foreign exchange (FX) management, as well as technology and regulation and taxation, and of course managing bank relationships.

The AR challenge

Forty-one percent of firms surveyed in a recent American Express Global Corporate Payments survey said that their customers often pay late. "Clearly, this has a significant impact on cash flow and a company's ability to effectively manage its working capital, as well, of course, as having a

detrimental impact on an organisation's relationship with impacted suppliers," says Brendan Walsh, Senior Vice President (SVP), American Express Global Corporate Payments Europe. "Many businesses are using a combination of payment solutions and tools to try and improve their cash flow – from working capital loans to customer discounts for early payment." However, he claims, when implemented, a number of these can be detrimental to the supplier, eroding the value of the payment considerably.

His suggestion, naturally, is to implement a card programme, where companies are essentially outsourcing the payment dimension of their supplier relationship. Beyond the obvious bias, Walsh makes the valid point that such an arrangement can help smaller businesses because the card company processes payments with the supplier, typically making payments after five days, "which of course is far earlier than payment via the traditional invoice system that typically sees suppliers paid at any time between 30 and 90 days".

Walsh further points out that SMEs should be thinking about how they manage and forecast expenses in order to gain full visibility of where company cash is going. "Detailed reporting makes forecasting easier and helps businesses to see where costs can be consolidated, putting them in a far stronger position to negotiate with key suppliers," he states. In addition, it enables companies to identify negative trends quickly, enabling them to take corrective action and ultimately free up funds.

A shining example

For a smaller business to survive let alone thrive in this economy, it is clear that it needs a set of well-defined cash management processes. Some smaller corporates excel at this. Hollister Incorporated, an independently-owned US-based global company that develops, manufactures and markets healthcare products for sale across 90 countries, is a prime example.

Sheila Johnson, Vice President and Treasurer, classifies the company as "middle-market sized". Even so, according to a highly experienced client manager at Bank of America Merrill Lynch (BofAML), "Hollister's treasury operation is the most disciplined I have ever seen – anywhere." It is some claim, but Johnson and her team were Highly Commended in the Best MME/SME Treasury Solution category of the 2013 Treasury Today Adam Smith Awards.

So, do the pressures of managing cash differ for a player in SME/MME space from those of a larger business? "I would expect some of the considerations to be the same across companies of all sizes," says Johnson. "Potential differences could exist in how companies raise capital through public markets, bank credit facilities or through internal funding," she notes, but adds that the Hollister treasury goal is traditional in that it seeks to provide confidence to the Board and enable the company to implement its investment strategy. "We have business cycles that require differing levels of liquidity. We also need to consider the location of cash and the funding requirement to determine if repatriation is required."

To facilitate this, cash flow and forecasting has always had a disciplined planning process in Hollister. But over the past few years the treasury team has focused on enhancing these aspects; this is where the company may mark out the difference between itself and other smaller and mid-market players. The fact that the current economic crisis has not deflected Hollister from its goal certainly indicates treasury's resolve.

"We have maintained similar investment objectives and practices for many years," states Johnson. "But the emphasis over the past five years has been to gain visibility of and access to all cash, globally." This required the firm to allocate staff to build a global banking platform. Treasury has consolidated its banking partners and by doing so Johnson says it has been able to improve the quality of relationships and the service provided to it. It has also created an inter-company netting process and established notional pooling structures for euro and sterling transactions. The goal is clear: from a cash perspective, the team is aiming for 100% visibility; today it is already well above 90%.

On the P&L side, it has implemented SAP's Business Objects business intelligence system for planning and consolidation, with the Oracle Hyperion Strategic Finance tool providing a seamless interface with P&L input. "We leverage our SAP Treasury platform as the hub of our treasury technology platform," says Johnson. The company links global banking, FX trading and netting platforms to SAP Treasury to streamline processing "as much as possible".

"Managing working capital is an important initiative for our company," states Johnson. "Treasury takes a leadership role in managing the working capital committee and utilising working capital levers to benefit the company's liquidity position."

Preparing the ground

Getting to this state of preparedness is no accident and Lothar Meenen, Deutsche Bank's Head of Trade Finance/Cash Management Corporates for Germany, has seen at close quarters how cash management skills within smaller businesses can draw a line between success and failure. "SMEs in many cases do not have the opportunity like the large corporates, to maintain state-of-the-art treasury centres or outsourced shared service centres (SSCs)," he says. Without the economies of scale or the complex technological infrastructure, these businesses may struggle to follow the same path as their blue chip counterparts.

In addition, many smaller firms will not necessarily have the broad sweep of internal cash management skills to be able to exercise financial control. As such, Stuart Bailey, Head of Products for SMEs at Lloyds Bank, notes that the core concerns of the smaller business will typically be "simplicity, transparency and timeliness". This, he says, often leads to a call for help to the banking community.

Of course, selecting the right banking partner thus becomes ever more important for the SME. When in selection mode, the process is quite different from that of the large corporate. The latter will often look to multiple banks to provide the balance sheet before deciding what proportion of its total wallet it will assign to its final panel. For the SME, it is more about assessing if a bank has the right product set and whether it will be a reliable partner because this sector is often looking for a provider with a "comprehensive proposition", says Bailey "in terms of the relationship, provision of credit and core banking services".

There is a high degree of trust required in the relationship and this, he adds, must be demonstrated through the strength and quality of the bank/client relationship where the bank will support the client through its lifecycle, not just on a moment-by-moment approach. There must also be "absolute clarity" of communication, especially around billing, the return achieved on credit balances and the cost of funding. It is, he stresses, "incumbent upon banks to ensure the client understands the value that we are providing".

Simplicity, speed, service but not always cost

The expectation might be that smaller businesses are driven almost entirely by cost. Meenen argues that whilst pricing is often a concern for large and multinational corporates it is not necessarily the case for SMEs. "Of course, they do look at price but I do not see the kind of cost pressure in the market we see from the larger companies." Whilst SMEs are clearly not going to tolerate being over-charged, often they want flat fees because predictability assists with their forecasting and planning.

That said, Meenen believes large banks understand charging per-transaction can add up to a very expensive way of operating. If a smaller company can provide meaningful business across its total banking requirement, fee-structures can be reassessed especially, he notes, as parts of the SME sector are now looking increasingly attractive to some major institutions.

Another critical aspect, according to Bailey, is service; not just the skill and judgement of the relationship manager in offering the right products and services at the right time but also how well the bank steps up when additional services are required to support day-to-day banking and of course the ease with which contact with the right person can be made at any time. As well as being extremely service-demanding in terms of timeliness of delivery and individual attention, Nick Diamond, Head of Cash and Payment Sales, Commercial Banking, Lloyds Bank, believes the smaller corporate ultimately displays sensitivity to value.

Technology and consultancy

Corporates often use their banks in an advisory capacity, especially where internal resources are not available to manage long-term projects. Nowhere is this better illustrated than with the migration to the Single Euro Payments Area (SEPA). In Germany, for example, the Bundesbank requires its banking system to provide the SEPA format not just for cross-border payments, but for every payment. It is a major programme, but many SMEs are not at the right stage of preparation for the deadline; they have no project teams and no deep understanding, says Meenen. Deutsche Bank has carried out an in-depth study of its client base and most say they will be ready, with perhaps 10% opting to use third-party SEPA conversion services (Equens, Experian or CGI, for example) to avoid a breakdown in their payments flows. However, at a broader level of SEPA implementation, whether the wider community of corporate counterparties will be ready is another matter and this is why many institutions have rallied round their customers, establishing lobby groups and informal networks to share information.

SEPA is just one aspect of technology and banks and vendors can offer a range of sophisticated cash management tools. The main consideration for the SME is to understand what is the most appropriate technology at a given time and then to manage this through the growth cycle of the business. If, for example, a company is at a point where it is trading internationally, it may be easier to manage this through one domestic account. But if the exchange rates offered are not favourable, it may find it more prudent to set up a complementary series of local accounts and use the structured trade finance services of its bank (as well as its core working capital facilities). This means that the systems, architecture and services offered must be configurable and scalable to meet the changing needs of the client. It must also be proportionate to need – a cross-border pooling structure may be overkill. To this end, comments Meenen, "a bank needs to be honest and make that differentiation between what it can and cannot provide".

Direct access to an online banking system may be sufficient for a small business – the smaller businesses will most likely deal with just one core bank – but as operational complexity is introduced, regular contact with a bank's relationship managers is more likely to facilitate the bank's understanding of its client's progressive needs and enable it to provide the right services.

The number of cash management personnel may increase with the size of the business but in a small company the cash manager is likely also to undertake a number of other treasury-related roles. On the surface, says Diamond, this may seem like the ideal structure to reach the heart of the company's needs quickly and have direct access to the decision-maker. "But the challenge can sometimes be the capacity, focus and priority of that decision-maker. We may wish to talk about a specific topic but they may have conflicting priorities; whilst we have to understand the client's agenda, in a smaller company their own management of priorities is much more difficult than in a bigger organisation."

Desirability of the SME as a bank client

Independent research published in April 2013 by the UK's National Institute of Economic and Social Research has found that bank finance has become more difficult for SMEs to obtain following the financial crisis and, it notes, credit "has remained relatively difficult to obtain since, compared to the period before 2008", and rejection rates for loans and overdrafts increased after 2008 and have not dropped back yet. The report also says "economic uncertainty appears to affect bank lending to SMEs disproportionately compared to large firms".

This relates to the UK only but all the same suggests that smaller businesses are not in favour with the banks. Not so, says Meenen. He argues that the appeal of the smaller corporate for a large bank is very much alive and driven by the regulatory environment. Dealing only with the major corporates, he explains, arguably could make the banks slightly less stable, at least seen through the lens of Basel III and Capital Requirements Directive (CRD) IV which seek greater diversification and stability in the funding base of banks. SMEs provide one source of diversified funding which meets with regulatory approval.

"There has been an interesting trade-off between lending-growth, to ease us out of recession, and the deleveraging and liquidity and cash increasing in the market," notes Bailey who adds that it will be interesting to see how this situation will play out. The past few years may have been difficult for a lot of businesses, but as growth returns (albeit very slowly) to some markets it will bring new challenges for the smaller business. One of the main issues, he believes, will be around working capital cycles because as the smaller business seeks to expand, the greater demand for their products will require increased funding of all the elements needed to meet that demand. For the treasurer of the smaller business, it seems a finely tuned balancing act focused on maintaining working capital and bank relationships is never off the agenda. ■

treasurytoday
research | insight | analysis

Filtering what matters

Treasury Insights

Bringing the important and relevant news to your inbox every week

Register at treasurytoday.com

THE BANK INTERVIEW

Erik Zingmark
Global Head of Cash Management, SVP

Danske Bank

Setting new standards in cash management to make the customer better

Technology as an enabler is very much how it should be. Within Danske Bank this view is a fundamental belief driving an approach to solution, process and service delivery that, combined with a unique advisory methodology, places it ahead of the pack. Erik Zingmark, Global Head of Cash Management, SVP at Danske Bank, explains the rationale.

Can you define what it is that sits at the heart of Danske Bank's philosophy and how this approach influences your cash management offering?

Danske Bank is a bank with a long history, having been around in one form or another for more than 140 years. Being a Danish bank it also has a strong tradition of trade and, like the country itself, we cover a lot of ground with a small footprint. From an early stage we understood the importance of having sophisticated technology and took a major decision almost 20 years ago to deliver upon that understanding, giving us that reach with one technology platform.

Coming to Danske Bank in January 2013 has enabled me to fully appreciate the implications for the bank and for our customers of having this one real-time technology platform; it gives economies of scale that are seldom found in other banks, it provides a quicker time to market for products and services and it allows us to provide solutions to customers

that are more bespoke than they would normally expect to find, simply because we can make the changes in one place for all the markets in which we are present.

This can come as a surprise to customers, especially those with a parent company or group treasury outside of our part of the world. A truly multinational company may look at Northern Europe or the Baltic rim and see almost ten of everything – from legislation to regulation, from language to currency and so on. But then they find they can operate – transferring and receiving data and even from a terms and conditions perspective – through one point of entry with Danske Bank. It can be a genuine positive moment for them to realise our technology and our service which, as a mid-sized bank, is genuinely based around the formation of longer-term relationships, can help them become more efficient, lower their costs and be more flexible.

It can be extremely difficult for banks of all sizes to make this kind of leap forward with service and technology, especially in today's environment. But Danske Bank took that difficult decision to centralise on a single platform and it paid off; we have created, and continue to create, a lot of opportunities for our customers and ourselves.

The discussion around tailoring cash management solutions for customers scared me at first because I always equated it to high cost and high operational risk. But I have learnt that because of this technology we can do it in an efficient and risk-controlled way, and work for the customer across the entire wholesale division.

In essence then, our success is achieved through a unique technology platform across our markets and a customer-centric approach. This ensures that we cater for customers in an 'holistic' manner. As a wholesale bank we offer solutions for customers within a wide range of areas and solve tasks ranging from the highest complexity to the most basic transaction, and all points in between.

However, it is our belief that we create most value when the relationship with the customers goes beyond single transactions to becoming long-term partnerships. In that way our ability to discuss strategic matters, the quality of our products and our advisory and solutions-based services give the maximum benefit to the customer.

Given the depth and breadth – and the unified approach to your offering, what is the process of discovery you use to find most appropriate opportunities and solutions for customers?

Our driving ambition is to have a long-term relationship with the customer where they are open with their targets and strategy, especially around treasury and the financial processes of the company. That open dialogue is necessary in order for us to understand their pain-points and the opportunities that lie within. We have established an advisory methodology where we run through the different processes of the treasury – 'walking the process' – which has at least two unique features. The first is that we do not provide the customer with a generic financial value-chain as the starting point for the discussion but instead we together establish the key aspects of the customer's value-chain, exactly how they work and how they will work in the future and thereby also the opportunities which should be realised. We will then run through a number of questions to establish where the customer is in terms of quality and efficiency within these operations. Once we have made that assessment, the customer will be able to benchmark their processes against best-in-class if they wish.

With all this information we are able to deliver the second unique feature and that is quantifying the benefits of these improvements and stating how much effort will be required to achieve them – an R.O.I approach. We want to put numbers to our claims, to make them real, but they could be realised in a number of ways such as stronger financial net, release of tied-up capital, lower IT costs, number of staff needed etc. We know that cash management initiatives within companies have not always been top of the agenda.

The financial crisis has pushed it to the forefront but if treasury is able to submit hard numbers for return on investment, a stronger business case is immediately created. With agreement, we establish a joint agenda with the customer defining the responsibilities of both parties from the outset. To see the process through, we look for a shared commitment to quickly realise each step, but every customer is different so timing varies accordingly.

Does the Danske Bank methodology influence the way in which you manage the rising tide of regulation, particularly where it impacts upon corporate customers?

We have strategic dialogue with the customer to look at opportunities to improve processes, where we discuss industry events such as regulatory change. As a bank we are of course ready for SEPA but with our customers we have chosen to focus on the opportunities that it can present, not the disasters that may befall them if they don't comply. SEPA has been discussed in the industry for so long people have switched off, even as the deadline fast approaches. We are delivering to those that are ready and helping those that aren't because there is no upside to scaring our customers. We explain that having a harmonised and streamlined payments infrastructure is a great opportunity to improve efficiency.

The whole process falls into line with the Danske Bank philosophy of using technology to achieve the most appropriate solution and part of what we offer, born out of that, is true real-time information. This means our customers have full control of liquidity, which is a vital source of efficiency on the corporate side, especially nowadays.

Your transaction banking unit set up is characterised by use of virtual teams – what does this mean for the customer?

There has been a trend in transaction banking for many years where banks have been searching for a 'magic recipe' that will allow them to organise themselves around the customer's need. I've always been sceptical of that quest; there are customers where both trade finance and cash management is core or businesses where custody and cash is core. But there are even more companies where cash and FX are twins; each need is very different and it is almost impossible to rigidly organise a bank's units to meet every customer's individual needs. So I think it is a mistake to try and organise and move people around because the world is changing constantly; there is uncertainty in the market and events can happen so fast it is hard to keep up.

But Danske Bank has organised its entire transaction banking unit to be very flexible, enabling us to look at a customer's specific needs and then work together as one team to meet those needs. This goes for the transaction banking product areas, but also along the delivery chain where the daily customer support is a key component to keep our customers satisfied. That is also true for the way the entire wholesale banking division operates. It means we do not have to constantly think about how we are organised to meet customer expectations. It really is much better for customers that we, as a provider, can quickly adapt to their specific needs at any time.

If we broaden out this flexible and co-operative model to the industry, I believe significant improvements could be made for all parties. One aspect of banking that often surprises me is how, with all the regulations being imposed, many banks are still trying to address them individually; there is very limited discussion on how, without limiting competition, we can co-operate on non-core processes and investments. The airline industry has a number of major alliances around shared infrastructure. Banking has occasional partnerships springing up and Danske Bank has what we call our 'Network Extension' scheme giving customers one point of entry across numerous countries, aside from the 13 we cover with our own branches. But if we look at SEPA preparations in Europe, there are thousands of banks making the same individual investment, pouring money into the same commoditised services.

It need not be like this. It is an ambition here at Danske Bank to find new, simple and streamlined ways of increasing geographical reach for our home-market customers using smart, industry-aligned thinking. SWIFT and global IT companies have a role to play here, but it is something banks seriously need to discuss. I think the solution will be found in what I call a 'rent infrastructure'. Under a reciprocal agreement, and of course without impacting rules of competition, banks could agree to access each other's infrastructure in a seamless way to complete a transaction, with the initiating bank taking care of everything under its own brand so as not to confuse the customer. It is complicated to make it work, but the banking industry needs to be smarter to solve customers' problems. Other industries have.

Given the obvious importance of technology, how will it shape the future of treasury – or does treasury shape the future of technology?

Danske Bank's 'One Group – One System' concept, which describes our single technology platform across all the countries in which we operate, has shaped the course of our IT strategy for several years now. It has certainly been one of the cornerstones for our growth through acquisition and integration of other financial services providers. But also I believe the technology platform differentiates us from our Nordic – and perhaps even northern European – peers, and allows us to offer unique solutions to our customers, such as true real-time cross-border cash pooling.

Treasuries today are justifiably very demanding when it comes to technology. The right technology allows for a higher degree of process automation, standardisation and communication with partners, including banks. At Danske Bank, we believe that customers should be involved in shaping the future of technology. Earlier this year we ran a series of round tables in the Nordic region, inviting treasurers to tell us what they may need in the coming years so that we know we are focusing development in the right places.

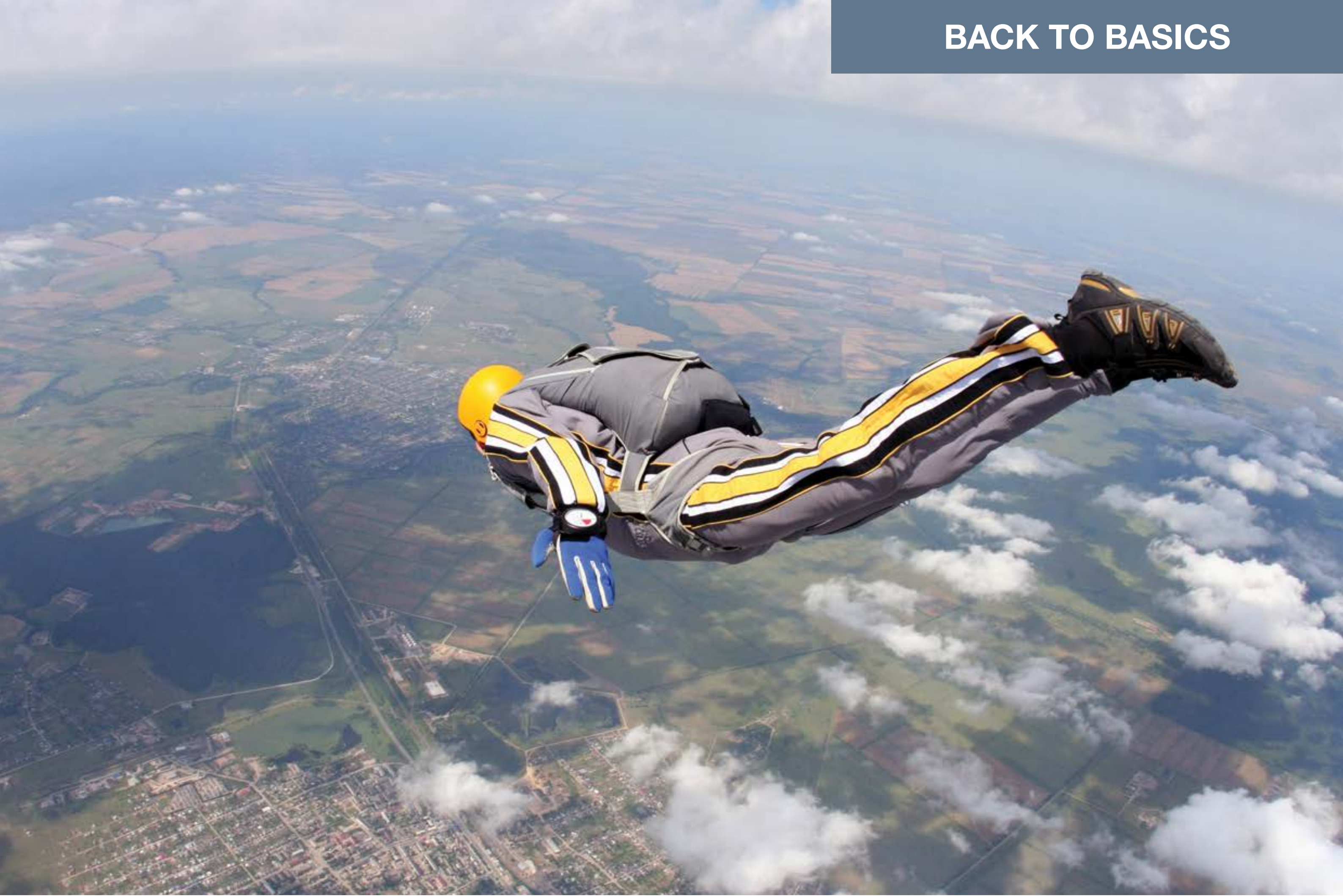
Treasurers increasingly take on assignments within their companies and having ready access to data can be vital for these projects. The real-time information that we can deliver can, for example, reduce the need for intraday credit lines – and credit lines in general – by giving quicker access to information for forecasting liquidity requirements. It will thereby enable a stronger financial net of the company. By knowing the targets and KPIs of the treasury, we are trying to fully understand the pain-points and to respond with solutions that can make the life of the treasurer as easy as it can be. In fact, the more sophisticated, reliable and robust the technology we can provide the easier and better the treasury will perform its many tasks, freeing up time. It's about competency and pro-activity on our side but it is also about harmonising technology to make it as simple and reliable as possible. But reliable systems and high quality solutions must in turn be accompanied by competence and commitment from us. Customers require guidance and recommendations from banks in regards to strategic matters, setting up complex cash management solutions and regulatory issues as well as a high level of operational quality and customer service in daily operations.

I have noted that there is an ongoing industry move towards standardisation of processes and we fully support such a move. We are, for example, a member of the SWIFT Common Global Implementation initiative (CGI) for ISO 20022 bank-to-corporate messaging. We were also the first bank in Europe to support the Transaction Workflow Innovation Standards Team (TWIST) solution for unified bank billing; it is surprising that there is not more discussion about TWIST in the market place because many banking customers say they are frustrated by complex charges.

Ultimately, our mission is to provide our customers with a positive singular experience, where the treasurer can look at his or her screen and have a complete overview of everything that matters. To achieve this, technology needs to be simple and of course to work on a daily basis. We need to continue listening, being flexible and being able to balance economies of scale with our ability to tailor-make solutions. We also believe that there should be even more involvement from customers in solution development and for that, strategic dialogue is essential.

Your transaction banking promise to customers is that by leveraging technology and competence "we make you better". What does this say about the customer experience and how you work with them to differentiate from the pack?

That promise is not a slogan but something we use on a daily basis within cash management and transaction banking. We also have a goal of making our treasury counterpart an 'internal hero' by finding ways of making that person and their treasury department successful. It is about being competent and proactive, but it is also about building relationships so that the customer is comfortable telling us what their goals are. I would say the majority of our customers, once they realise and understand our genuine eagerness to do that, tend to reveal their goals; I think this reflects the positive mind-set of every individual within Danske Bank to be better too. ■



Spotlight on centralisation

For many treasurers, embarking on a centralisation project is a white-knuckle ride, with many points to potentially derail it along the way. But the prospective efficiency and cost benefits make the end result worth the ride. Treasury Today provides some tips for ensuring a smooth journey.

Centralising treasury operations is sometimes like riding a rollercoaster, according to Michael Spiegel, Global Head of Trade Finance and Cash Management Corporates, Deutsche Bank, speaking on a Corporate Forum panel entitled 'Best practices in the centralisation of treasury functions: are corporates and banks aligned?' at Sibos 2013 in Dubai. "And that is fine if, by the end of the ride, there is a smile on your face and the only thing you remember is that it was very exciting."

Industry research shows that treasuries across both the developed and emerging markets are increasingly looking to centralise their operations. Based on the results from its Treasury Diagnostics Benchmarking Survey, Citi identified three key trends that reflect the growth in scope and influence of the corporate treasury, the second being an increased adoption of centralisation structures. The report, entitled 'Navigating headwinds in 2013: top priorities for corporate treasurers', stated: "The rise of emerging market multinational companies (MNCs) and expansion of their Western counterparts into these markets has accelerated treasury centralisation: 66% of respondents operate a centralised treasury, 60% use netting structures and 48% use an in-house bank (IHB). Of the companies with a centralised treasury, 72% use a TMS."

Yet many treasurers are sympathetic to Spiegel's analogy because the fear factor is very high in such projects. The act of pulling together the many different strands of treasury activity across a multitude of subsidiaries worldwide is daunting to say the least – "Where to start?" is the first question that comes to mind. It takes a lot of time and effort to design a plan and map out the path to centralisation.

A number of barriers are thrown up from the outset. Often local operations put up resistance out of fear of losing control over their cash flows. Then there is the material issue of losing local knowledge and expertise. In addition, as Spiegel pointed out in the Sibos discussion, the decentralisation of the

regulatory environment is not supporting the centralisation effort, as jurisdictions implement their own interpretation of global regulations. The 'spaghetti junction' of technology systems that most corporates have inherited through mergers and acquisitions (M&As) can also be a barrier to effective centralisation.

The biggest and most overwhelming issue, however, is the right strategy and cost consideration. Anita Prasad, General Manager – Treasury, Microsoft, speaking on the same panel as Spiegel, said: "We have gone through a few of these projects and the cost can be sizeable given the size and complexity of what we are trying to achieve."

For Microsoft, the expense was well worth it. "As a treasury professional, I look at the return on investment (ROI) which has been tremendous – after the first wave of implementation, a third party was brought in to do an assessment and they estimated that we were reaping benefits that were approximately 45 times the initial outlay," said Prasad.

Satisfying its main objective, treasury is able to tell the Corporate Vice President and Treasurer, George Zinn, exactly how much cash the company has, which allows senior management to make the right strategic decision in the moment. "That ability to drive strategic decisions pays for itself and is where the value is," she said, adding that it is not just about driving the data but also about business intelligence.

Also speaking on the Corporate Forum panel, Alawi Alshurafa, Treasurer, Saudi Chevron Phillips, a Certified Treasury Professional, said that he thinks of centralisation as an operational necessity. "Cost may be an issue for some companies, but this is the nature of your business. It is a critical project because at that point in time you just can't run in the same old way anymore – you need to get out from under your legacy systems," he said. "It is also a project where you can't completely quantify how much benefit you will receive; but in terms of a qualitative difference, it was an easy sell for me."

In an interview with Treasury Today, Tatiana Nikitina, Senior Cash and Banking Analyst, British American Tobacco (BAT), says that some of the biggest benefits of centralisation from a treasury perspective is greater process consistency and efficiency, which in turn gives treasury greater control. "In addition, through centralisation you also achieve benefits and savings due to economies of scale. This is probably one of the driving factors in any treasury transformation project because you need to have a business case behind any change or project proposal."

But centralisation is not for every treasury, thinks Nikitina, and depends on each company's structure, systems, business model, geographical mix and internal culture. There is also the option to centralise selected parts of treasury. For example, although she would centralise most processes, such as bank account maintenance, payments and receivables processing, Nikitina would not think of centralising strategic decisions such as bank relationships, projects and risk management.

Prasad similarly believes that centralisation is not necessarily the end game for every company. During the panel session, she made the point: "It may or may not make sense for you. There is centralisation of policies, compliance and processes, but then there is centralisation of cash management, such as how we pool or bring the cash together, and those are two distinct areas. Having a dialogue with your peers or banks, those which are willing to share with you what other companies have done and what they can offer, is a great place to start."

Microsoft's story

Microsoft has long operated a centralised treasury – the entire infrastructure, which includes more than 80 banking relationships, 190 countries, 45 currencies and 98 employees, is managed through Redmond, Washington. The only team that is not part of its centralised infrastructure is the credit services team because they support the sales team; as a result they are based in the same locations as the sales teams. In a separate interview with Treasury Today, Prasad said that the credit services staff also serve as treasury's eyes and ears and can provide insights with local regulators and banks, retaining that local knowledge needed to understand changes in domestic regulations.

The trigger for an increased level of automation within this centralisation framework was when the treasurer asked his direct reports a simple, but which in reality turned out to be, difficult question – how much cash does the company have? With a global footprint, treasury needed to have information as to where the cash is, what currency it is in and what Microsoft entity owns it. "Each one of us went back to him with a very different answer; the answers reflected the functional area of his directs. For example, the portfolio team looked at total investments, while the cash management team came back with a number that reflected total cash in bank accounts," Prasad explained during the Corporate Forum. "Because we couldn't come back with a single answer, we started searching into how to attain consistency in defining cash, and how to automate and ensure we can put a finger on the exact number." This was the beginning of treasury's journey towards business intelligence capability within the centralised treasury, so that today it can answer the question in real-time.

As part of this process that involved ensuring all its banking partners are on SWIFT's ISO 20022 XML format, Microsoft treasury wanted to rationalise its banking relationships. It has now consolidated with approximately 80 that have strong commitment to SWIFT roadmap and have migrated to bank-agnostic connectivity through SWIFT, using a common implementation methodology with all its banking partners. Prasad believes that having a common implementation has created a win-win for both sides. "It has helped the corporate side in terms of ease of use, cost and efficiencies. It has also helped the banks employ the same methodology with all their corporate clients, which allows them to bring value-add activity to the fore."

Electronic bank account management (eBAM) is the next big step for Microsoft because it will enable the centralisation of all bank account management processes. "I know we have all been talking about eBAM at Sibos for the past three years, so it is now about making it a reality and working on the digital identity and authentication," she said.

Saudi Chevron Phillips' journey

SCP's Alshurafa told a similar story about centralising bank connectivity. SCP's treasury and shared service centre (SSC) supports five Chevron-Phillips ventures in Saudi Arabia and UAE and effectively looks after of all aspects of cash management for the group.

Its centralisation programme was driven by the need for greater efficiency. Throughout the history of different ventures, treasury had various offshore and onshore banking relationships, with bank accounts in London, Saudi Arabia and UAE. "In the past, we were managing each relationship separately through a dedicated platform with each bank,

which wasn't efficient. Therefore, we needed to develop a solution, which is a payments factory concept," Alshurafa explained to the audience in Dubai.

Two years ago SCP treasury began searching for a solution to increase its efficiency and help it to streamline the cash management processes across the whole group, as well as the day-to-day payments plus the liquidity needs of separate ventures. SCP decided to go with SWIFT in order to have greater visibility over its cash and went live in January this year.

Despite many banks leaning towards host-to-host connectivity, Alshurafa, like Microsoft's Prasad, wanted to be bank-agnostic. "With the devolvement in the credit market, you need to look holistically at your bank relationship. You want to have the flexibility of delinking if and when you need to."

He agrees that centralisation is "a wild ride". "Banks have different technical capabilities. With some banks we went smoothly through the SWIFT implementation in a couple of weeks, but with others we really struggled.

"One of the problems we encountered, and it could have been our fault as well, is that we didn't include enough technical people from the bank side in our initial planning meetings – and this is very important. If you only talk to a relationship manager, you wouldn't necessarily get enough details about what the bank is or isn't capable of – for example, specific interfaces with SWIFT. You need to put together a checklist and go through implementation and planning with the technical people on both sides," said Alshurafa.

BAT's transformation

BAT's centralisation project touched many more areas than solely banking relationships and like SCP went down the SSC route. In her presentation entitled 'Treasury transformation: a way towards centralised treasury' at the EuroFinance International Cash and Treasury Management conference in Barcelona, Nikitina detailed BAT's decision in 2005 to move from a partly decentralised treasury structure to a centralised treasury operation with streamlined and integrated processes, which is "fit for servicing our global business". BAT decided to consolidate treasury transaction processes into financial shared service centres (FSSCs).

According to Nikitina, treasury wanted greater effectiveness through:

- Full overview of group funding and foreign exchange (FX) exposures.
- One view of global treasury risk profile.
- Optimisation of cash management across the group.
- Automation to reduce manual treasury controls.

The aim was to reduce financing costs through leveraging bank relationships and infrastructure, cash mobilisation, improved multi-currency cash flow forecasting and reduced funding lines.

The project was rolled out in four phases:

- Phase 1: included standardising treasury processes, banking standards and master data; facilitating FSSC migrations; and building new key systems enablers, such as multi-currency cash flow forecasting (MCFF).
- Phase 2: involved implementing key system enablers, such as MCFF and SAP Treasury; rationalise bank relationships and infrastructure; and transform skills and capabilities.
- Phase 3: implementing treasury line organisation.
- Phase 4: embedding transformation and drive continuous improvement.

The company completed seven request for proposals (RFPs) over the past five years resulting in:

- Facilitation of the move to FSSCs in Romania, Kuala Lumpur, South Africa and Costa Rica.
- Standardised and simplified banking processes.
- Improved control and security around banking.
- Reduction in the number of banks globally by approximately 80 (33%).
- Significant reduction of group banking fees.

In the future, the company plans to roll out SAP ECC6, move to one format (XML) and SWIFT, take advantage of the new opportunities for centralisation that the Single Euro Payments Area (SEPA) opens up, migrate more markets and processes to FSSC and continue bank rationalisation.

Tips for success

Before embarking on a treasury centralisation project, both Spiegel and Prasad encourage treasurers to identify what they want to accomplish and what the end business goal is, and then bring in the technology and resources to help reach that goal. In answer to Alshurafa's problem, Prasad explained how they brought their banking partners together for a three-day workshop. "Ten banks came with their relationship managers and cash management and IT experts. We also had a SWIFT team as our neutral 'Switzerland' in the room. Because of this, we could agree a single implementation of the connectivity via SWIFTNet, as well as message formats."

Nikitina's advice includes getting stakeholder buy-in, which is true for any change management programme, and beginning with some system consistency, because a SSC can't efficiently process payments coming from hundreds of different small systems. "In addition, I think that it is important to challenge everything that has been done from the very beginning. Ask why it has been done this way and if there is a better way of doing it, because this will enable a much bigger step forward. Centralisation is a huge project and it is more worthwhile doing that when the end game provides more benefits than incremental ones."

She believes that SEPA has shown many treasurers just how many ways of doing the same thing exists, even within a centralised treasury – for example different file formats and ways of processing payments. "Once they have overcome the initial technical problems, there is a huge opportunity to centralise much more and make all payments from one euro account for example, or move to one format for payroll. During the SEPA migration, many treasurers discovered a lot of inefficiencies that could be eliminated or streamlined in future."

Before the centralisation project begins, Alshurafa suggested starting with original research, including market study and visits with vendors, to see what is available; once the research is complete, conceptualise a plan and then shortlist preferred vendors or service providers. Scorecards and a RFP process based on company requirements and compliance are both useful. "It can be a tedious process but I encourage anyone who is embarking on a centralisation project to spend time researching and planning, because it is critical to get this right and any mistake in this process will be very expensive in the future," he warns. ■

COMING NEXT MONTH

INSIGHT AND ANALYSIS

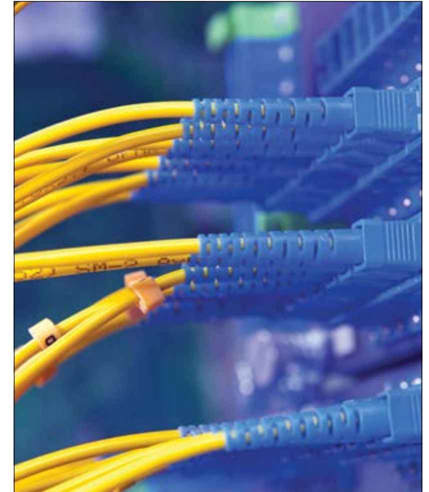
The threat of unwinding QE

The Fed's Ben Bernanke only had to murmur the word "tapering" with regards to the US quantitative easing (QE) programme for many emerging market currencies to nosedive. However, most agree that QE unwinding has to happen at some point. What is the best possible outcome scenario?

TREASURY PRACTICE

Streamlining receivables

Slow collections can be extremely costly, in the form of squandered labour, poor cash flow and inaccurate financial forecasts. Particularly in Asia, a combination of high incidence of cash/cheques and fragmented remittance information has made accounts receivable (AR) a challenging discipline.



COUNTRY PROFILE

The road to Cairo

As the third anniversary of the Egyptian revolution approaches, it is an opportune time to explore the new dynamics at play in the country and uncover how Egyptian corporates and multinationals have successfully operated in such a tumultuous environment.

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

Alawi Alshurafa, Treasurer, Saudi Chevron Phillips; **Pepijn Asselberghs**, Corporate Treasurer, Brand Loyalty; **Heinz Bähni**, Group Treasurer, SGS Group Management; **Stuart Bailey**, Head of Products for SMEs, Lloyds Bank; **Lilian Burke**, a Partner, PMC Treasury; **John Byrne**, Managing Director, Salmon Software; **Andre Casterman**, Head of Corporate and Supply Chain Markets, SWIFT; **Nick Diamond**, Head of Cash and Payment Sales, Commercial Banking, Lloyds Bank; **Dympna Donnelly**, Vice President, SAP US-Ireland Financial Services; **Tom Durkin**, Global Head of Integrated Channel Solutions, Bank of America Merrill Lynch; **Neil Fleming**, Director of Treasury Solutions, Capita Asset Services; **Eddie Fogarty**, Managing Director, FTI Treasury; **Dan Gill**, Senior Vice President of Weiland Corporate Solutions, Fiserv; **Jennifer Gillespie**, Head of Money Markets, Legal & General Investment Management; **Sean Grace**, Group Treasurer, Securitas; **Patricia Greenfield**, Director Treasury Operations, AstraZeneca; **Sheila Johnson**, Vice President and Treasurer, Hollister Incorporated; **Michal Kawski**, Head of Treasury, Gazprom Marketing & Trading Ltd; **Brad Maclean**, Vice President, Business Development, SunGard AvantGard; **Lothar Meenen**, Head of Trade Finance/Cash Management Corporates for Germany, Deutsche Bank; **Tatiana Nikitina**, Cash and Banking Analyst, British American Tobacco; **Leonard Orlando**, Finance and Enterprise Performance Manager, Accenture UK; **Ed Paterson**, Vice President and Assistant Treasurer, Oracle; **Anita Prasad**, General Manager – Treasury, Microsoft; **Carina Ruiz**, Partner at Deloitte & Touche LLP; **Michael Spiegel**, Global Head of Trade Finance and Cash Management Corporates, Deutsche Bank; **Bob Stark**, Vice President of Strategy, Kyriba; **Brendan Walsh**, Senior Vice President (SVP), American Express Global Corporate Payments Europe; **Jackie White**, EMEA Banking Manager, Xerox; **Frank-Oliver Wolf**, Managing Director, Global Head Cash Management and International Business, Commerzbank; **Suzzane Wood**, Leader, Financial Officers Practice, Russell Reynolds Associates; **Erik Zingmark**, Global Head of Cash Management SVP, Danske Bank.

EuroFinance

Real world treasury training

To improve the accuracy of your forecasts, identify the real risks to your business and understand the impact of regulatory change you need practical skills, not just theory.

EuroFinance training courses deliver just that.

Our expert tutors teach you the latest treasury techniques being used today by the world's leading companies.

Wherever you are in the world, all EuroFinance training courses:

- Cover the essential elements of international cash management
- Use real world examples to give you practical skills, not just theory
- Are updated in line with the latest global trends and best practice
- Are led by treasury experts who work with the world's leading companies

www.eurofinance.com/training

Need help?

Our customer services team is on hand.

T: +46 8768 4955
E: info@eurofinance.com

Nordea

Understanding your direction

Point out your destination
Let us help you navigate

nordea.com