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February 2014

The sharp end of currency risk

Unprecedented volatility on the FX market has highlighted the severity of currency-related risks for companies trading internationally. Reacting to volatility increases is no longer an option – corporate treasurers must think proactively about hedging and uncover the hidden FX risks in their organisation.

The Corporate View
Gary Slawther
Corporate Treasurer
Octal

The Bank Interview
Deborah Mur
Head of Treasury and
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Citi

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Question Answered
Money market fund regulation

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Regulators change their tune

While the spectre of financial regulation still looms large, some noteworthy concessions have been announced in recent weeks by various rule makers. This is good news for both banks and corporate treasurers, and suggests that the regulators are perhaps more 'in touch' than many had previously thought.

In mid-January, the Basel Committee's oversight body – the Group of Governors and Heads of Supervision (GHOS) – endorsed proposals on a common definition of the Basel III leverage ratio, with the final text including some very interesting amendments. The most significant changes revolve around the leverage ratio's exposure measure, effectively reducing the size of banks' balance sheets for calculation of the ratio. The GHOS itself admits that the amendments have been made on the back of comments received from the banking industry about the leverage ratio being too punitive. As a result, the rules no longer require 100% of off-balance sheet assets (including guarantees, letters of credit and the vast majority of derivatives exposures) to be counted when calculating the leverage ratio. This move will be particularly welcome among the trade finance and corporate treasury communities since the amendments finally recognise the intrinsically safe nature of trade finance products and their importance to the real economy.

January also saw the announcement of a six month 'grace period' for transition to the Single European Payments Area (SEPA). On the back of very poor SEPA readiness statistics, the European Commission introduced a proposal, which became applicable on 31st January, to allow market participants more time to complete their SEPA transition. Businesses and banks in the euro area now have until 1st August 2014 before legacy payment instruments are blocked. The formal SEPA deadline still remains 1st February 2014, but in reality, many corporates are likely to need the extra time. That said, regulators and industry commentators have made it clear that there is unlikely to be any further movement in the transition period cut-off. Corporates are therefore advised to stick to their original SEPA migration timetables as closely as possible.

Despite these helpful concessions, 12th February marked the beginning of another challenging regulatory requirement for corporates, namely the reporting of derivative trades (even internal ones) to a trade repository under the European Market Infrastructure Regulation (EMIR). Any company established in Europe that uses derivatives will be impacted by EMIR. In certain cases, non-EU counterparties will also come under the regulation's scope. To help readers understand their obligations under EMIR, Treasury Today held a 'Tackling EMIR' Adam Smith Best Practice Webinar in early February, during which Ahold's treasury team shared their experiences of complying with the regulation. If you missed the live broadcast, you can still hear what they had to say by accessing the on demand recording. This is an exclusive benefit of being a Premium Subscriber to Treasury Today, so simply visit treasurytoday.com/subscriptions to check your subscriber status, or to upgrade.

From there, you will also be able to sign up to Treasury Insights – our weekly delivery of independent analysis on treasury trends, straight to your inbox. Treasury Insights is not only a complimentary service, but it is also the best way to ensure you hear the full story about regulatory developments affecting the treasury function.

Adam Smith Awards 2014 – nominations now open

Treasury Today's Adam Smith Awards, the largest corporate treasury Awards programme, are designed with the thinking corporate in mind. Our panel of judges will once again be looking for solutions that demonstrate exceptional best practice and innovation in the corporate treasury arena.

Now in its seventh year, the Adam Smith Awards is firmly established as the ultimate industry benchmark for achievement in treasury. The Adam Smith Awards showcase the very best in class across the whole industry. Turn to page 17 to find out how to enter, or visit **treasurytoday.com/adamsmith**

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The $5.3 trillion a day foreign exchange market is a dangerous place for corporates, in particular given recent bouts of volatility. Whether your company is exposed to emerging market currencies, or those of the G10, a strategic approach to mitigating currency risk is a must. In this article, we examine the tools available to corporate treasurers for identifying and managing FX risk.

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Managing Director, Global Head of Transaction Services

RBS

Starting in Australia and moving to London via Hong Kong, New York and a number of other locations around the world, Carole Berndt's career can be characterised by seizing opportunities – even when that means moving out of her comfort zone. From insurance to IT and banking, Berndt firmly believes in encouraging everyone to develop their own voice.

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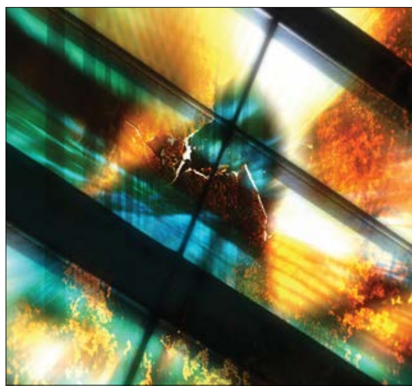

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Corporate Treasurer

OCTAL

Gary Slawther is a man who loves a challenge. His career has taken him into many troubled treasury functions to iron out the creases. In this candid interview Gary speaks about his toughest challenges and greatest achievements. Talk also turns to the ups and downs of supply chain management in Gary's current role at OCTAL Petrochemicals.

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Citi's Deborah Mur speaks to Treasury Today about the economic and regulatory challenges facing treasurers in the year ahead. She also discusses trends in technology, working capital management and what corporates can do to make the most of opportunities for expansion in emerging markets.

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

Moving on up: career tips for 2014

This year looks set to be a good one for treasury recruitment – with a number of openings for treasury professionals to progress in terms of responsibility, professional development and pay. Indeed, Mike Richards, Managing Director of treasury recruitment firm MR Recruitment, sees an improving landscape in 2014 across all levels of treasury experience and seniority. "Throughout 2013 there were a series of senior positions recruited," Richards says. "It is a rapidly improving picture for 2014."

So what can treasury professionals do to get ahead? Here are four tips from our expert commentators:

1. Diversify

It is advantageous to have a wider business background when looking to advance to senior treasury positions, believes Richards. For example, the majority of treasurers who have successfully made the transition to the CFO position have had wider experience in other areas of finance, not just treasury. While this may mean taking a lateral step outside of your comfort zone, it can give you the opportunity to learn new skills and can enhance your ability to obtain more senior/executive positions in the future.

Paul Pomroy, Senior Vice President and UK Chief Financial Officer, North West Division Financial Controller for McDonald's, is another keen believer in the benefits of undertaking a variety of different roles in the business: in 2003 Pomroy was offered a promotion in the finance department, however he chose instead to take a sideways step into the business strategy department. Pomroy believes that this allowed him to not only gain new perspectives on the business but also to progress more effectively once he returned to the finance department. "The more senior you become, the more you are expected to understand the broader business," he says.

2. Training and qualifications

Developing technical expertise is something that Pomroy also sees as crucial in a treasurer's career path and he believes it is through training that you get the chance to do this. But it's not all about technical skills. Presentation and communication skills are increasingly becoming traits which can separate you from the pack. To embed these, Pomroy believes you need a mixture of classroom learning for the basics, followed by on-the-job experience. Skanska Romania's Chief Financial Officer, Maciej Müldner, believes that, in addition to building up technical skills, training has a pivotal role to play in the development of a treasurer's soft skills, something which is essential for those looking to progress up the career ladder.

3. Stand out from the crowd

It's often a cliché (wheeled out at job interviews) to say that you go above what is asked of you in your role. However, if you are looking to move up the career ladder this year, going the extra mile will be vital.

Being an excellent treasurer is one thing, but becoming a strategic business partner to the CFO and board will help you stand out from the crowd. To achieve this, Pomroy suggests beginning to "develop a close relationship with all sides of the business and understand why the business is successful." Müldner agrees, saying: "you have to invite yourself into other areas of the business. Treasury can often seem detached from other lines of the business, so you have to bridge this gap."

4. Planning – with flexibility

Pomroy believes a plan is important when looking to define your career, however he believes that being ready to take advantage of opportunities that occur is even more vital. "You need aspirations of where you want to go, but more importantly you need to make yourself the most attractive candidate when the opportunity does arise." While there is a natural career path, "you don't know when the opportunity to take these roles will arise." Flexibility is key.

EMIR: as clear as mud

Getting set for trade reporting under the European Market Infrastructure Regulation (EMIR) remains a major agenda item for many corporate treasurers. As of 12th February 2014, corporate entities covered by EMIR must report derivative trades to one of the new trade repositories (TRs) authorised by the European Securities and Markets Authority (ESMA). A sizeable portion of the industry still seems unprepared for the change. Rather than being a case of corporates dragging their feet, some treasurers blame this unpreparedness on a lack of clarity around the minimum requirements set out in the ESMA standards. The uncertainty around EMIR, some commentators told Treasury Today, has led to industry solutions lagging behind and a general lack of EMIR groundwork among corporates.

Size matters

Another grumble treasurers have with EMIR is that there is currently no reporting obligation threshold. In practice, this will see all those (within the scope of EMIR) that undertake derivative transactions, including FX forwards, compelled to report derivative activity to a TR. Registering directly with a TR to report trades can apparently incur charges of up to €3,800.

It's hardly a surprise, then, that treasurers are finding EMIR unappealing: "I think that well-intentioned regulations for banks and major financial institutions have fallen not only on the largest of the corporates that might well expect to be covered – the commodity providers, the big oil companies – it's also falling on very ordinary trading companies and domestic commercial operations without the time and the resources to deal with them," says Neil King, Group Treasurer at Carphone Warehouse.

A helping hand

The good news is that some banks are willing to undertake EMIR trade reporting on their clients' behalf – perhaps partly out of fear that if they do not, smaller clients may simply not go to the effort of hedging at all due to the cost of direct reporting. Some of these services are being provided free of charge by banks, but it varies by provider. The majority of these so-called 'delegated reporting' services also address the issue of back-loading of old trades – which is another sore point, and source of confusion, for treasurers.

Market reacts to SEPA transition period

Throughout 2013, European authorities reiterated that there was no 'SEPA Plan B', everybody must be ready in time for the 1st February 2014 deadline or risk disruption in their handling of payments and collections, we were told. But in the end, the EC had little choice but to row back from this position and grant an extra transition period of six months.

Migration was evidently not progressing as smoothly as had been hoped. Some believed that with a large number of companies, SMEs in particular, delaying their transition until the last minute, these figures would rise rapidly as the deadline approached. But now, with just two weeks to go until the end-date, it seems that last minute surge has not been enough. In mid-January, the EC blinked and a proposal was introduced to allow market participants more time to complete the transition. Businesses and banks in the Euro area will now have until 1st August 2014, before legacy payment instruments are finally blocked for good. Note however, that the formal deadline still remains 1st February 2014 – the 'extension' is simply a grace period.

No time to relax

"Clearly they had to do something otherwise we would have been facing an economic disaster," Ruth Wandhöfer, Global Head of Market and Regulatory Strategy at Citi Transaction Services told Treasury Today. The decision should be welcomed by corporates – even by those who have managed their migrations successfully, Wandhöfer says. For them, it will at least provide some reassurance that all businesses in their supply chains will still be able to make payments for a period after February, whatever their state of readiness.

Nevertheless, companies should not take the announcement as a signal to relax. SEPA, after all, is still going to happen. "I think it is really important, particularly for larger corporates who face a more technical challenge, to continue as if we are still in a 1st February scenario," she says. "There could be a risk that people will interpret this transition period differently and decide to only switch on SDDs in August. It should not be viewed as an extension, but a grace period for those who are struggling to be compliant."

Corporates react

Gerwin Braam, Senior Bank Manager and SEPA Project Manager at AkzoNobel believes the decision to keep legacy systems running following the end-date was a sensible move given the lack of SEPA readiness in Europe. Although AkzoNobel made a huge effort in 2013 to ensure it was fully compliant in time for the deadline, treasury was concerned about the risk of payments disruption in their supply chain should a number of counterparties fail to achieve compliance in time.

"That was something which we had to warn our business units about," Braam says. "We have had a contingency plan in place for some time to deal with that scenario, but it is still a relief to know that those companies who are not yet ready will now have more time."

That opinion is echoed by Rob Palmer, Treasury Development Specialist for the UK-based optical retailer Specsavers. The company deals with a large number of third parties who collect direct debits on behalf of their stores. However, treasury has found it difficult to obtain concrete answers about how their referencing will be changing following the introduction of SEPA. "Obviously we were concerned about the possibility of collections and payments from these third parties changing and therefore leading to back office automation failing. For that reason, it was a relief to hear the news that companies will be given more time."

Palmer cites an absence of clarity about SEPA and its implications as one of the key reasons some market participants in the euro area have struggled to achieve compliance on time. At Specsavers, treasury did not learn about the full impact of SEPA, in particular as a SEPA Direct Debit Creditor, until sometime after the deadline had been set. The scale of the technological and business process changes required made the deadline they were facing extremely tight. "When we began looking into it we realised, particularly with regards to direct debits, that this was going to be a huge challenge in the given time frame," he says. "The rulebook is open to interpretation, and dealing with different counterparties in different EU countries made achieving standardisation a challenge." ■

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

This much I know

Carole Berndt

Managing Director, Global Head of Transaction Services

RBS

In your rise to seniority have you ever come up against the glass-ceiling?

For many women, I know the glass-ceiling exists. Maybe I didn't even realise it was there, but I never felt I didn't get an opportunity because I'm a woman.

How do you maintain balance in your own working life?

I have a responsibility to the business, to the people working in the organisation that I lead and I have a responsibility to myself and my family. I need to deliver across all three to be able to put a tick in the success box. At the end of the day, I have to balance and prioritise, otherwise I can't deliver on anything.

There is an element of competitive bravado that prevails in parts of the financial services sector. What qualities do women typically bring to the professional environment?

Naturally there is a degree of bias in my view, but I believe women tend to be a little more intuitive in their approach to business. Women have an advantage in that they are generally more attuned and have empathy and intuition, in addition to the ability to focus on execution that men have. When we look at all the regulations bearing down on the industry today, we could choose to see them as an obstacle course and be aggressive in our race to the finish line, or we could take a step back and ask what the industry is going to look like five years from now; what would be a different way of thinking about it. That's the perspective that we bring to the table.

Whether the various crises would have occurred at all had more women been leading the financial industry, I'm not sure. But I do believe that we would not have climbed as high nor fallen quite as far had there been the more balanced and forward-looking approach.

How much of a problem is this 'competitive bravado'?

As senior executives, we determine those barriers ourselves. But for junior staff it may be more difficult to make a stand against the cultural pressure to compete. I believe the emphasis by most good companies and leaders is on 'quality not quantity' from their employees. Many people do get confused or misdirected and think quantity is the game. Frankly, if someone in my organisation gets the job done to a high quality, how and when they work is less relevant; I'm paying for a deliverable. We have to make sure that this thinking permeates the ranks otherwise people will work for work's sake.

Based on your own experience, apart from taking opportunities as they arise, what would your advice be to young professionals?

Be yourself. People will spot if you're not genuine; they may not always agree with you and may not always like you but if you come with passion, honesty and integrity you will get the respect you need to get the job done.

"Women have an advantage in that they are generally more attuned and have empathy and intuition."

ON THE WEB

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

“My career at best has been interesting,” says Carole Berndt. As an Australian running a global transaction bank based in London, there is far more to this statement than you might think.

She describes her early career as having a “non-traditional start”, taking on a number of tactical jobs before securing a book-keeping position at Allianz Insurance. But with a steely resolve to take opportunities as they arise (one of the hallmarks of her career from that point on), she was soon working towards a degree in accounting (later following it with a second degree in computing science and an MBA in international banking).

In the early 1990s Berndt seized the chance to be at the start of Allianz’s commercialisation of the internet, a move that earned her the dubious description as “the grandmother of the internet”. “At the point I realised I had been there way too long,” she states. “I decided I needed to throw myself out of my comfort zone.” Shortly after, Berndt moved to American Express to work on the firm’s merchant e-commerce strategy. From here she moved on to Citi GTS, taking the opportunity in 2001 to run its e-business project office in Hong Kong.

The move into transaction banking saw Berndt rise up the ranks to Citi’s Global Head of Implementation, Service and Client Technology, a role based out of New York. In 2010, Bank of America Merrill Lynch poached Berndt’s now fully formed banking skills with a move across the pond to London, as head of its EMEA GTS business. Berndt proceeded to secure her position as an industry leader, a well-earned status that had not gone unnoticed by RBS’s International Divisional Head, John Owen. A chance meeting between the two placed another prime opportunity in Berndt’s path, this time as Global Head of GTS, still based in London.

One of the crucial elements she brings to the role is a more inclusive approach to discussion. “The person who has the best idea in a meeting may be the person who doesn’t feel comfortable speaking up”. Berndt feels she has the capacity not just to empathise with these individuals but also to recognise that they should be provided with a safe platform from which they can speak up. Only listening to half the room, she adds, is a big mistake.

For her own part, Berndt has more confidence than gender-stereotyping may allow for. “People have found my style surprisingly abrupt given that I’m a woman; the fact that those elements are even in the same sentence is very much reflective of the culture.” However, for anyone coming up through the ranks, male or female, she advises not to try and model themselves on someone else. “Just be true to yourself. Some organisations and some people will gel with your style, but some won’t – and that is okay.”

When it comes to her own success Berndt takes a far wider view than mere financial metrics. She runs a busy schedule and the work-life balance can suffer. “In jobs like mine there is no balance; it’s never going to happen,” she admits. For professional women who undertake to bring up children, managing the balance between home and work can be very difficult.

Berndt professes considerable respect for anyone who manages to achieve the right balance, male or female. But at her level of seniority, she feels it is the individual’s responsibility to create and control that balance. She observes an “element of bravado” that prevails in the financial sector, where people try to outdo their colleagues, for example by working more hours. “We determine those barriers ourselves. Do not expect the bank, or the government or society to give you those controls; we are the masters of our own destiny.”

Taking the lead of other women in business is not necessarily Berndt’s style, not that she doesn’t have enormous respect for some of the people she has worked with and learnt from over the years. In the corporate space, she meets many “incredible women” all of whom have been prepared to roll up their sleeves, take on a tough job to drive change within their organisations and, without talking about it or procrastinating, “just get it done”.

For the future of the industry to be assured, Berndt states a need for more women around the table. “They think differently, and the more perspectives I can get, the better I am going to direct the company.” Does she approve of positive discrimination to achieve this goal? “Nobody helped me up, so part of me still says as women we should be able to force our way through,” she states. But in the last year or so she has come back to thinking that, with deep reservations, maybe quotas are an answer. “We’re now in 2014 and there are still too many ‘dark suits’ around the table,” she explains. “It doesn’t feel right, but sometimes you have to take a bad medicine to fix the illness.”

Looking back on her own career, she suggests that the route taken to success has in fact been “a case study in unsuccessful planning”. It sounds like a harsh assessment for someone who clearly makes the most of every opportunity that comes her way – but that is precisely why the planning has sometimes gone awry; Berndt does not ignore opportunities. “Every time I have been offered an opportunity that I was unsure about that did not fit “my plan”, I have always taken the risk and it has almost always turned out brilliantly.” ■

Carole Berndt joined RBS in October 2013. As Global Head of Transaction Services, Berndt leads a global team committed to providing solutions for their clients' working capital needs. Berndt joined RBS from Bank of America Merrill Lynch (BAML) where she was Head of Transaction Services for EMEA. Prior to joining BAML, Berndt spent nearly ten years working for Citigroup in New York and Hong Kong where she led the Client Delivery team and also worked at American Express managing the Merchant Service eCommerce strategy for Asia. Berndt holds an MBA in International Business and a Bachelor of Information Technology, along with numerous professional qualifications.

Money market funds

How will treasurers be affected if all money market funds are required to switch to VNAV?

Neil Stirling, Treasury Dealer, Weir Group, responded:

If the proposed changes by the regulators are implemented and money market funds (MMFs) are forced to switch to variable net asset value (VNAV) then we can see this having serious implications with the likelihood that we will stop using MMFs going forward.

Currently, constant net asset value (CNAV) MMFs provide a very useful cash management tool and one that we favour using at Weir Group. This is primarily because we view them as a low risk, secure investment, giving counterparty diversification and easy access to our cash on a daily basis. Furthermore, we value the credit ratings provided by the rating agencies – both for the fund itself as well as the underlying assets – as they provide us with an independent evaluation and credit analysis.

Despite the current benefits offered by MMFs, the proposals, including the 3% capital buffer for fund providers, seem to suggest that all funds will be forced to switch to VNAV. I personally cannot envisage how fund providers would be able to continue to offer a CNAV fund in its current form, due to the higher costs associated with this and especially in the current low yield environment.

If all MMFs are switched to VNAV then there are a number of implications that may lead to us no longer investing in the funds. Firstly, with security of principal of paramount importance, a large problem would be posed by the fact that we would no longer be able to guarantee a full return on our investment. In addition, accounting issues may arise as we currently classify MMFs as cash or cash equivalents and if the funds were required to switch to VNAV we may not be able to continue in this way. Also, with fund providers required to mark-to-market their assets and the operational issues that this may bring, the high liquidity currently offered from CNAV funds may significantly reduce. This would have implications for corporates who want to invest in low risk, highly liquid funds. Finally, the removal of a fund's credit rating will cause a problem for corporates like ourselves who rely on credit ratings for our investment policies.

Should the changes occur, we will need to revisit out investment policy to consider whether the use of MMFs is a suitable tool for managing our liquidity. Should the decision be made to no longer invest in MMFs, then I expect we would initially revert back to using bank deposits for our surplus cash as an alternative.

Ultimately, I can see no advantages of a switch to VNAV from a corporates perspective. If the regulations are imposed as being suggested then I believe this will have serious implications for corporates investing in MMFs going forward – which will have a knock-on effect for the MMF industry as a whole.

Britta Hion, Head of EMEA Corporate Cash Sales, BlackRock, commented:

As extensive debate continues globally with regard to the regulatory reform of MMFs, it is prudent to consider that this cash investment vehicle in Europe may be required to move its accounting methodology from CNAV to VNAV. Should this happen, the impact on corporate treasurers could be significant but we do not believe it will be unmanageable or insurmountable. Further, any imposed change will almost certainly include a long lead time, giving treasurers time to adjust and adapt.

While it may appear a drastic change, we expect a VNAV MMF will be very similar to a CNAV MMF. At BlackRock, we would continue to manage our MMF portfolios with the same credit and risk process resulting in an approved list of securities and counterparties. Therefore, we do not anticipate the composition of our funds to change and there will be no change to the style of investing we employ. We will continue to minimise any mark-to-market movements in the NAV and meet investment expectations.

Enhanced reporting and disclosure over the past few years has provided investors with increased knowledge about their MMF investments and most industry providers have been publishing their mark-to-market NAVs daily for some time. This has demonstrated how little the VNAV fluctuates on a daily basis, highlighting the conservative nature of the underlying investments.

More importantly, there may be some potential operational implications for treasury functions to consider such as tax and accounting treatment as well as the trading and settlement cycles of funds. However, it is currently too early to predict the

outcome of the regulatory process and in the meantime, fund providers, industry bodies and accounting firms should work together to minimise impact on the corporate investor.

Change also signals opportunity and throughout this process many managers and end investors are working together to explore innovative solutions in the cash investment space – such as separately managed accounts or different fund structures. Even if the industry does switch to VNAV, we believe that MMFs will continue to provide many shareholders with an important source of short-term liquidity and investment diversification. We remain committed to the MMF industry with the goal of providing an investment vehicle that meets the needs of our clients whilst preserving the benefits to the broader financial ecosystem.

Matthew Tatnell, Head of Liquidity, Aviva Investors, answered:

A number of reforms to MMFs are currently being pursued by European regulators aiming to prevent another bank run similar to 2008. The most significant is the proposal that all CNAV funds start carrying a 3% capital buffer or switch their fund to a VNAV basis. We believe this is very likely to force MMF sponsors to switch funds from CNAV to VNAV.

In a CNAV fund, investors are incentivised to pull their money out first under extremely stressed conditions. If they wait there is a danger the fund 'breaks the buck' further down the line and access to cash is delayed until the fund can be wound down in an orderly manner. In contrast, a VNAV fund can essentially lift the lid off the pressure cooker, as the price of the fund will rise and fall depending on market conditions, removing the incentive for investors to pull their money out first. We believe this significantly reduces the risk of an investor run on the fund.

In the short term, investors are unlikely to see many differences switching from a CNAV to a VNAV fund. For example, the inability to obtain same day liquidity is often cited as an effect that investors will experience should the switch occur. Yet at Aviva Investors we have been running a VNAV fund for five years and have been able to offer this to our clients. I therefore believe, if asked, the vast majority of our investors would say they have seen little difference from investing in a CNAV fund.

If all the changes are enforced, then corporates may see other effects. For example, the European Commission is proposing a ban on MMF sponsors soliciting an external credit rating. Investors may be affected by this change if they have an internal credit or investment policy, which states that an external rating is needed for any fund they invest in. Under these new conditions investors may wish to rewrite their investment policies and possibly place a greater emphasis on due diligence – making sure that their MMF sponsor has policies and an infrastructure in place suitable for managing their money.

An alternative to MMFs is something we have seen become increasingly popular over the last six to nine months with our investors who ask their investment manager to manage their cash on a segregated or direct basis with banks or corporations. This strategy has two key advantages: firstly, it frees the investment manager from the constraints of a MMF to explore new ways to obtain higher returns on their investors' cash. Secondly, the strategy is bespoke, so investors can personalise their requirements and continue to enjoy piece of mind that their investment manager is using specialists to perform detailed credit assessments on their investments – after all it could take many lifetimes to recover a defaulted investment in the current low yield environment!

The proposals are not set in stone, yet the outlook surrounding MMFs is quite negative. We believe it would be of benefit to investors, the money markets, and the industry as a whole if the proposed regulations were softened in certain areas. Despite this, I do remain positive about the future of MMFs. Even if the full range of changes is implemented, the basic requirements for treasurers who have cash to invest will remain the same. Because of this, I believe we will continue to have a market that is thriving. ■

The next question:

"With more and more technology creeping into our treasury department, I'd like to know how to tackle cyber security. What are the main threats and what practical steps can treasurers take to help mitigate cyber risk?"

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

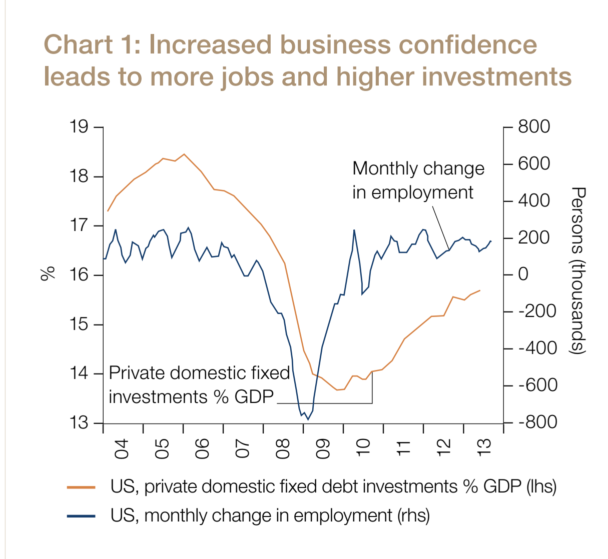
Accelerating US growth will affect long-term interest rates worldwide

Recent data suggests that the US economy is growing faster than the Fed anticipated. This high growth in the US, paired with low interest rates, could create a cycle of increased lending and still further growth that would put upward pressure on bond yields worldwide. Despite vowing not to raise the short-term interest rate, the Fed may have to act in order to stem inflation and prevent a knock-on effect abroad.

There are reasons to believe that US growth will accelerate to 3.5% or higher in the coming quarters. Firstly, the fiscal drag that hampered the economy during much of 2013 is easing. In addition, signs are increasing that businesses are becoming more confident about the future; they may well be willing to employ more staff and increase investment. In recent years, consumer balance sheets have also improved markedly. This is boosting purchasing power and consumer confidence.

However, at the end of 2013, the Fed assumed that growth in the second half of 2013 would reach levels between 2% and 2.5% and that it would speed up to 2.8% throughout 2014. If so, US unemployment would be high for the foreseeable future and capacity utilisation in the business sector would be low.

This is why the Fed was determined not to put obstacles in the way of growth until the jobless rate had dropped to levels where pay increases soar and capacity utilisation does not create bottlenecks for production (that is when inflation hovers into view). The Fed believed this would not happen until 2016 although it was keenly aware of the growing risks attached to quantitative easing (QE).



Source: Thomson Reuters Datastream/ECR

Moreover, the Fed itself has admitted – through its vice chairman William C. Dudley – that it does not really know what the impact of QE is on the economy. This is quite a predicament; seeing as the central bank has by now poured around $3,000 billion into the system. As widely publicised, the Fed announced it would start to taper in December 2013. In fact, this boils down to the start of monetary tightening.

The central bank is offsetting this move with the policy of forward guidance; it has 'promised' not to raise the short-term interest rate in the years to come. The central bank hoped that this would suffice to keep short rates – and also long rates – as low as possible until inflation risks appear on the horizon. However, as inflation is minimal, currently the Fed is more wary of deflation.

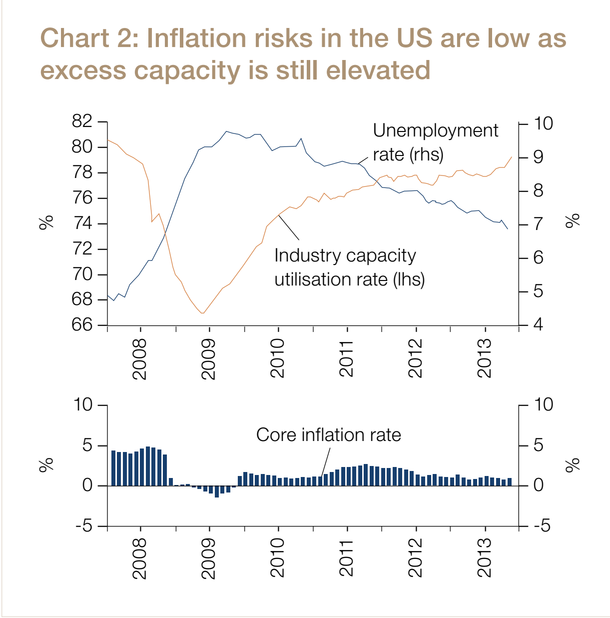
High growth queers the pitch

However, this approach is quickly being superseded. Once growth exceeds 3.5%, combined with short-term interest rates near zero and a ten-year yield around 3%, borrowing becomes very attractive. Under these conditions, an upward spiral of more lending and higher growth begins. If interest rates are low, this will stimulate credit supply, and so on. Such a 'virtuous cycle' will cause the money multiplier and money velocity to accelerate. If this happens, as the jobless rate and reserve capacity decline, before long, inflation risks would rise sharply.

Too little, too late

In theory, the Fed should be well able to control rising inflation. It only needs to remove the money from the system that it has created in the past years. Yet, this time such an operation will involve stupendous amounts of money. If we consider the enormous price rises (in the stock, bond and property markets) that have resulted from the recent liquidity creation of the past period, we dread to think what could happen if money is removed abruptly. There is a high chance that asset prices will plunge until – as in 2007 – a credit crisis erupts and a deep economic recession sets in.

Chart 2: Inflation risks in the US are low as excess capacity is still elevated



Source: Thomson Reuters Datastream/ECR

In view of this risk, investors will fear that the Fed will do too little, too late. If so, they will price in rising inflation. We think this is the most pressing risk in 2014 once the US economy begins to grow faster than expected. Hypothetically, the Fed could respond by firmly keeping its foot on the gas (some economists believe that higher inflation is desirable as it would become easier to tackle the debt mountains).

Yet the result would be that first the bond market and later the other financial markets would go haywire as they discount swiftly rising inflation. This would be very dangerous to the economy. Interest rates would spiral out of control – an extremely unpleasant prospect when debts are sky high.

A likelier option is that the Fed will take its foot off the accelerator at a very early stage. It could even apply the monetary brakes. Hopefully, this will result in a gradual 'brake path' and limited price drops. Nonetheless, in this case too we could see a period of substantial market pullbacks.

Inflation expectations the driving factor

Of course, it is imperative that the Fed responds in a timely and proportional manner. If growth exceeds projections, the central bank will take its cues from the inflation expectations and financial market signals such as the difference between the nominal yields on ten-year US Treasury Bonds and ten-year TIPS. At the time of writing, the scope of this gap is around 2.25%-2.3%. As soon as it tops 2.5% – which could occur sooner rather than later and will probably go hand in hand with additional indications that inflation expectations are rising – the Fed will have to intervene. To clamp down on inflation expectations, it will need to tighten its policy until economic growth slows to 2%. Around this rate the risk of inflation will disappear.

Outlook for long-term interest rates

In the coming period, we expect bond yields to consolidate on weaker US data. We expect the yield on ten-year US Treasury Bonds to climb to 3.25% by the end of Q1 and at the end of Q2 to 3.5%. Subsequently, it could even reach levels near 4%. We suspect that the markets will too easily assume that the short-term interest rate will stay low for a long period of time.

Without a doubt, the yields on many European ten-year government bonds will follow a similar pattern. Bond markets are a system of communicating vessels and a rise in US yields pushes up bond yields in many other markets outside the US.

For the yield on ten-year German government bonds we expect at the same time downward pressure as the ECB must consider further monetary easing as a result of slow growth and mounting debt in the weaker EMU-countries. Furthermore, we anticipate rising tensions in the EMU in the course of this year (see also our regular reports on European interest rates). All in all, the yield on ten-year German government bonds could climb to 2.25% and eventually to 2.5% later this year.

The Bank of England is already facing the same dilemma that we expect for the Fed later this year. The growth outlook for the British economy is being continually adjusted upward, in response to surprisingly good figures. The British growth outlook has now improved so far that virtually no-one believes in the Bank of England's forward guidance any more. As British inflation is already fairly high, we expect upward pressure on the yield on ten-year British government bonds as well.

We should bear in mind, though, that there are negative aspects to the higher growth of the British economy. After all, growth is chiefly being generated by extra consumer spending based on more loans. In view of the already high debt positions of many of the British, this is not necessarily a good thing. Moreover, as UK growth remains dependent on growing debts, the upward pressure on British interest rates will soon start to affect growth to some extent. This is why we think ten-year British interest rates will not rise much further than 3.75% this year. ■

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Mitigating FX volatility

In the last four years global corporations have lived through some of the most volatile times in the $5.3 trillion a day foreign exchange market. The volatility started with the global financial crisis, swiftly followed by the sovereign debt crisis in the Eurozone and, in more recent months, volatility in safe-haven currencies such as the Japanese yen and the Swiss franc. Talk of turning off the liquidity taps by the US Federal Reserve Bank also highlighted some structural weaknesses in emerging market economies such as India, which saw the rupee record some of its biggest falls against the US dollar in more than two decades.

Volatility is not just confined to emerging markets currencies. The G10 currencies have had their fair share of ups and downs too. The US debt-ceiling crisis saw the dollar depreciate against sterling and the euro and go-to safe havens — yen and the Swiss franc — were undermined by local shifts in policy. The Swiss introduced a currency floor in September 2011 and 'Abenomics' — named after Japanese Prime Minister Shinzō Abe — resulted in expansionary monetary policies, which caused the yen to depreciate.

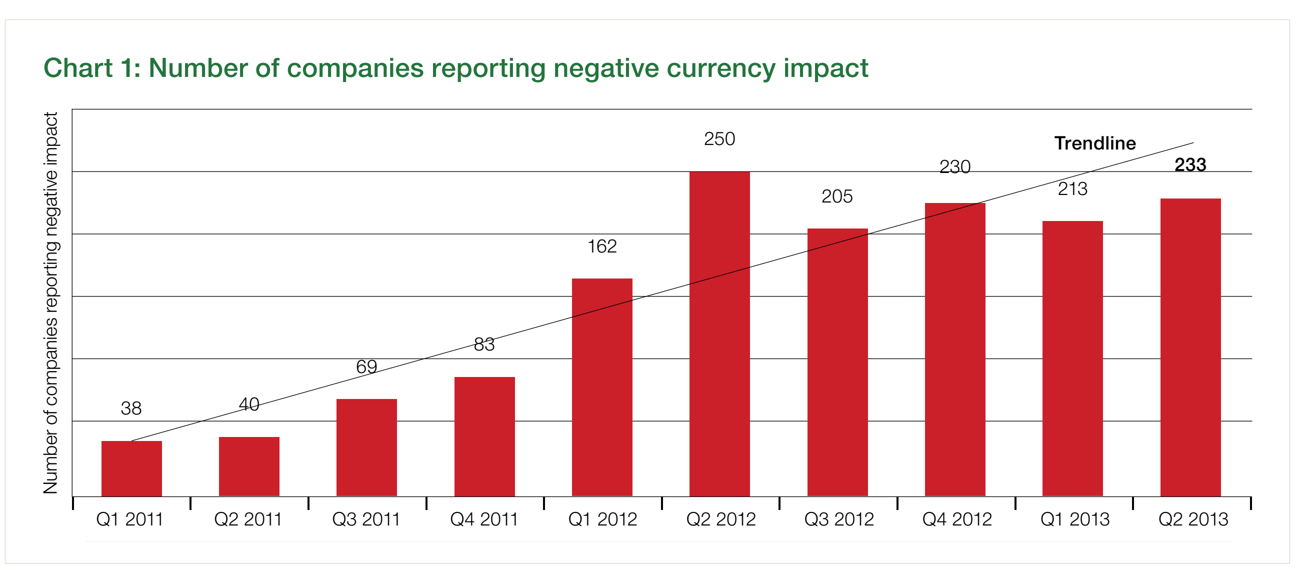
In Q2 2013, 233 companies reported negative currency headwinds, says FX exposure management and analytics provider FiREapps, see Chart 1 below. This was less than the same period a year earlier but an increase of 9% on Q1 2013 and a 10% increase over the 2012 average. FiREapps attributed the increased headwinds in Q2 to currency wars in Latin America and Japan and 'surprise' impacts from countries like Australia (FX volatility increased ahead of recent political elections), which continued to significantly erode corporates' EPS.

FiREapps estimates that for the last two years multinationals have consistently lost money to currency exposures, with second quarter 2013 losses totalling $4.01 billion (an average currency impact to earnings per share of $.03, which is three times higher than the standard industry benchmark). Total currency-related losses for the first half of 2013 reached $7.7 billion, say FiREapps. Quarterly loss estimates are based on analysis of earnings calls of 800 publicly-traded companies — a subset of the Fortune 2000—that have 15% or more of their revenues in at least two currencies.

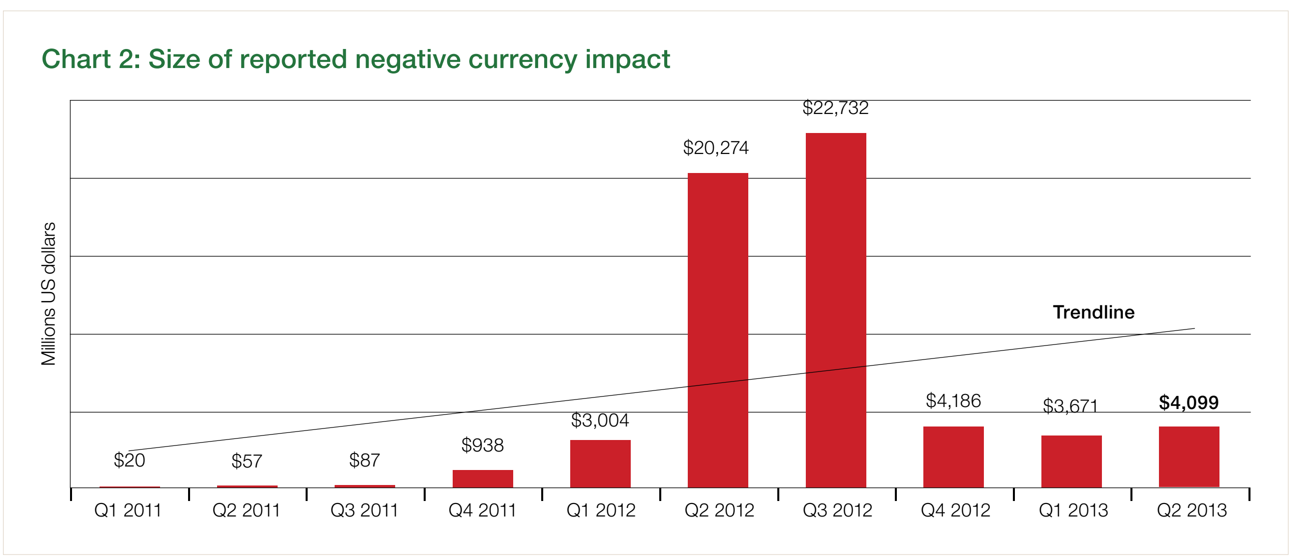
Geographic levels of awareness

Yet, as FiREapps points out, currency impacts reported by companies are likely to be underestimates as those that faced strong 'headwinds' are unlikely to point them out, and few companies may have quantified the impact. "The other thing you have to look at is the maturity level of the financial disclosure," says Andy Gage, Vice President, Strategic Market Development, FiREapps. "If you look at the US versus European disclosure, the Securities Exchange Commission puts pressure on corporates to be much more transparent on how FX impacts their corporate performance. Europe is just behind that but they don't get as much heat as US corporates, and in Asia it is a bit murkier."

However, Gage believes the devaluation of the Indian rupee last spring has had a profound effect on how financial professionals view currency risk. "There were some huge exposures to the rupee and CFOs do not want to see this happen again," he says. Others say Indian rupee volatility will make little difference when it comes to treasurers' awareness of currency risk in general. "I don't think it will make currency risk a higher priority, as Asian treasurers are not fully aware of all strategies to hedge their receivables and payables," says Rahul Magan, Corporate Treasury Manager at EXL Services, an outsourcing and



Source: FiREapps Q2 2013 Corporate Earnings Currency Impact Report



Source: FiREapps Q2 2013 Corporate Earnings Currency Impact Report

transformation firm. "Treasurers' understanding of FX exposure is very limited in Asia."

This limited understanding of FX volatility and risk can be attributed to a number of factors. FX is only one aspect of treasury operations, and for Asian companies that are experiencing rapid growth or who are largely domestic focused, FX risk may not be as high a priority as it is for Western companies who have already experienced major international expansion and have a greater awareness of the risks that can bring. "In Asia, understanding of FX exposure is evolving," says Gage. "It is such a rapidly growing environment in a lot of these markets. One of the challenges about FX and treasury in general is when a company experiences rapid growth they are so focused on staying out in front by supporting operations and distribution that risk management often takes a back seat. By contrast, a US or European corporate puts risk management higher up the priority list. They understand the business and volatility in these markets, and have a more mature view of currency risk."

To hedge or not to hedge

While MNCs typically have a risk management policy that is fairly regimented, local companies in developing markets who transact business in a limited number of currencies have more leeway in general, says Gautam Hazarika, Head of MNC Markets Sales, APAC ex-Japan, Royal Bank of Scotland. "There's an element of the local mindset seeping in," he explains. "If you are a local Indian company and you have a US dollar exposure what you think is going to happen to the rupee impacts hedging decisions."

Blaik Wilson, Director, Solutions Consulting, Asia Pacific for risk and treasury management solutions provider, Reval, says treasurers in mature markets tend to be more cautious and passive in their hedging strategies. "They hedge for longer periods," he says. "In Asia they tend to hedge more short term and are more subjective in their approach. Asian treasurers typically run really good margins, and if you have excess cash you can ride the currency a lot more but as margins get squeezed you need to hedge more."

Those treasurers with a less coherent and disciplined strategy for mitigating FX risk are more likely to find themselves in reactive mode when currency markets become more volatile. "Arguably, the biggest mistake prospective hedgers make is to wait until volatility increases," says Ira Kawaller of Kawaller & Co. Brooklyn, New York, which advises companies on their use of derivatives for managing financial risks. "More often than not, it's not the higher volatility that precipitates the consideration of hedging strategies, but rather it's the coincidence of higher volatility with an adverse change in the exchange rate moves. The time to develop a hedging programme is before the perception of higher volatility is reflected in derivatives' pricing."

Hedging in a competitive market environment can be difficult, says Kawaller. "There is a real concern if you guess wrong on a hedge and your competitors don't, you could put yourself at a disadvantage. You do not want to be far out on a limb, diverging too much from the rest of industry." Instead of thinking would one have made or saved money after the fact had you not hedged, Hazarika of RBS says corporates should look at hedging as an insurance policy that can buy them some certainty. "Maximising certainty of cash flows and reducing costs are the key objectives for most corporates," he says.

> "More often than not, it's not the higher volatility that precipitates the consideration of hedging strategies, but rather it's the coincidence of higher volatility with an adverse change in the exchange rate moves."
>
> Ira Kawaller of Kawaller & Co., Brooklyn, New York

Wilson of Reval goes a step further, saying the treasurer needs to give management a clear understanding of the consequences of not hedging, even if they lose on a hedge. "Treasurers in emerging markets need to educate management, and as the business expands into new geographical areas stricter guidelines on hedging are needed."

Rolling with the punches

Magan of EXL Services points to the example of the Indian economy, which as it becomes more globalised, is

experiencing a greater inflow of payables and receivables in foreign currencies including the Australian dollar, New Zealand dollar, Canadian dollar and G7 currencies. Globalisation has also meant there are increasing foreign currency loans (mostly in US dollars) on Indian companies' books, particularly in the steel sector, which are subject to interest rate and revaluation risks. Magan says hedging strategies linked to derivatives such as plain vanilla forwards, options and interest rate swaps are highly effective tools for mitigating the impact of currency and interest rate volatility on companies' balance sheets.

Given the current volatility in currencies such as the rupee, Magan says treasurers should hedge their receivables and payables using a layered hedging strategy, which takes into account the nature of their business. "Layering hedging over a rolling six month period means you could start off hedging 95% of your exposures in the first month, then 30%, and so on (ratios can change subject to the exporting model)," he explains. "It is always a declining percentage. That gives you more flexibility."

In a rolling hedging programme, Magan says the treasurer needs to understand the spot level, the implied volatility, historical volatility and where the currency is moving. "Treasurers need to change their mindset to one of managing FX as a vital function," he says. "FX is the most volatile market in the world. The mindset should not be I have covered my exposure, and then leave it at that. If you are able to use your skill set in the best way then you will be able to pass on any gains from hedging to your clients in the form of a discount and, ultimately, win more business from clients."

Kawaller says more disciplined companies have hedging horizons that they divide into smaller sub-periods, setting parameters to change how much they hedge in say, six month time spans. "You might hedge 80% of your exposure in the first six months, then 60%, 40%, 20%. You need to have trigger points that foster hedge adjustments. For instance, if you see a deterioration of 2% or 5% in the exchange rate, you can adjust your hedging strategy to take into account changing market conditions and new market information."

The challenge for most treasurers is that with hedging there is no clear-cut right answer, says Kawaller. "Regardless of how much information you collate you are still in a probabilistic world. That is why you need a roadmap of how you are going to respond. All the time you are making business judgements, which should be based on disciplined considerations of objective criteria."

Typically, FX managers from leading multinationals have management objectives of less than $.01 EPS impact from balance sheet currency exposures, says Gage of FiREapps. "The best way to achieve that is not to be concerned about specific currencies but instead look at your total portfolio of exposure and manage it in the most cost effective way." Yet one of the biggest challenges many treasurers face is gaining a clear picture of what their underlying currency exposures are. "Most treasurers struggle to quantify their exposure or loss. If you haven't got the systems and processes set up it is not that easy to produce exposure data," says Wilson of Reval.

The challenge of collating FX exposure data is multiplied if your treasury operations are wholly reliant on manual processes. However, by extracting data from ERP and accounting systems cloud-based software solutions such as FiREapps' FX exposure platform can give treasurers visibility of their balance sheet currency exposure at a more granular level, which helps them to make more well-informed hedging decisions.

Embedded risks

But FX exposure management is not a hedging-only story, nor is it confined just to the balance sheet. In some emerging market currencies hedging may not even be an option, or the costs may be too prohibitive to make it worthwhile. "Treasurers need to make a decision: am I going to get enough return on my investment in a derivative product to warrant the potential cost of hedging?" says Gage of FiREapps. "If hedging doesn't make sense you can set up inter-company lending and move cash to reduce your net exposure."

> "Even if you have centralised treasury operations you still need to have an approach that is mindful of the fact that the people that manage these processes are not going to think as coherently as someone managing that risk."
>
> Andy Gage, Vice President, FiREapps

Hazarika of RBS says treasurers should also focus on uncovering unapparent costs such as suppliers paid in local currency where the contract is linked to an underlying commodity. "When you look at the fine print of a contract, you might pay 100 rupees per item, but if the price of oil goes up by more than 5%, you might have to pay 105 rupees. Such details must be highlighted in the forecasting process so treasury can manage the risk". Another avenue of managing costs is to change the invoicing currency for suppliers to their local currency rather than, for example, US dollars, so suppliers don't include a premium into their existing US dollars contracts for managing FX exposures they face today, says Hazarika.

These 'hidden' FX risks, which aren't always reflected in the balance sheet, are much more difficult for the treasurer to identify. While treasury operations may be centralised the underlying business processes that create these type of FX exposure are decentralised. "Even if you have centralised treasury operations you still need to have an approach that is mindful of the fact that the people that manage these processes are not going to think as coherently as someone managing that risk," says Gage of FiREapps. Wilson of Reval says treasurers need to understand their pricing drivers, and even examine the contracts themselves for embedded currency risk.

For the most part treasurers today are still very much focused on balance sheet currency exposure, which is more obvious as it typically flows out onto the P&L under income and other expenses. More strategic treasurers, however, are starting to turn their attention towards cash flow currency exposure by trying to influence how sales contracts are written and collaborating more closely with their sales teams to make them more aware of how contract decisions translate in currency risk terms, but this is still very much unchartered territory.

At the end of the day managing the different nuances of FX exposure, whether it is on the cash side or on the balance sheet, is about the tools the treasurer has in their toolbox and how they decide to use them. That will then determine the effectiveness of their hedging programme, alongside any metrics and policies they put in place for defining how hedging decisions are made. ■

The 2014 Adam Smith Awards are now open for nominations. It is more important than ever to recognise every opportunity and to transform it into a success story. If you and your team have recently completed a project of which you are proud, submit your nomination now and showcase how you have overcome challenges, demonstrated exceptional best practice and innovation, and achieved your aims. I wish you every success.

Jennifer Boussuge, Head of Global Transaction Services for EMEA, Bank of America Merrill Lynch

in assocation with

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BPO: a solution looking for a problem?

Some experts believe that the arrival of the bank payment obligation (BPO) marks the biggest change in international trade settlement in over 30 years. But what exactly is the BPO and what does it have to offer for corporate treasurers?

Sometimes new processes can take a while to become fully established. SWIFT's BPO is a case in point. The first end-to-end automated trade finance transaction using the BPO was carried out, with the help of Standard Chartered, between Belgium-based BP Aromatics and Oman-based Octal Petrochemicals as far back as 2011. But since then, uptake has been gradual at best.

There are good reasons to believe this will change in the next 12 months, however. Last year, a milestone was reached when the International Chamber of Commerce (ICC) published uniform rules and technological standards for the BPO, giving users of the solution the legal clarity they previously complained was lacking. Over the past year, SWIFT has also invested considerable time and resources in an educational campaign to communicate the benefits of the BPO to corporates, banks and other important stakeholders.

On the banking side, at least, the campaign appears to be paying off. According to the latest data from SWIFT, a total of 12 banking groups are now ready to go live with the solution, with a further 56 – including 15 of the top 20 trade banks – currently in the process of adopting the BPO.

The opportunity for banks

One reason why BPO uptake has been slow thus far may be the threat some bankers perceive the solution poses to the letter of credit (LC) – a revenue stream for banks which they are naturally keen to retain. But Jim Bidwell, Global Head of Documentary Trade Product Management at Barclays, believes these fears are misplaced. At Sibos, SWIFT's four-day user conference hosted last year in Dubai, he attempted to set the record straight. Although banks will inevitably see some business move from the LC to the BPO, the migration will only be partial and will certainly not eliminate demand for LCs entirely, he told assembled delegates at a breakfast briefing hosted by Barclays.

Indeed, what the banks might lose in LC business, over time, is likely to be far less significant than what they are poised to gain from being able, with the BPO, to re-intermediate themselves through financing in the Open Account space. "For banks that think deeply about the BPO, commit to it, and put their propositions together, I think the opportunities in Open Account far outweigh that which might be lost on the small part of the LC business," says Bidwell.

Uncertainty about how the BPO would be used in practise has also hampered uptake, according to Bidwell. All the while that the BPO was an initiative exclusive to SWIFT it was always going to be very difficult to reach critical mass in terms of bank adoption. But there is hope that the ICC's rules, by bringing the BPO in line with other trade finance products such as the LC, documentary collections (D/Cs), and guarantees, will now facilitate an increase in bank confidence in the technology. "Now the banks have a clear set of standards to work with," he explains, "which means that banks don't need to have separate agreements with SWIFT and other parties, as everyone knows the rules to play by. That was a very important step."

Moving forward, Bidwell would like to see greater collaboration between banks. This, he notes, is absolutely imperative if the BPO is to be a success. To explain, Bidwell uses an example of a financing opportunity involving a supplier based in an unfamiliar market. "If Barclays were the obligor bank in a transaction, we would find it very difficult to provide pre-shipment finance to a supplier in a country such as Taiwan, for instance, where we do not operate. But what we could do to help our client finance their supply chain is to work with a local Taiwan-based bank and encourage them to use the BPO to provide pre-shipment finance for the supplier, based on the fact that Barclays is guaranteeing the payment risk in its role as obligor bank."

Fortunately, the BPO's design supports interoperability between participating banks, making the collaboration Bidwell speaks of relatively straightforward. This interoperability is made possible through the use of a standard set of ISO 20022 messages, each of which reflects events that have taken place in the physical supply chain, and, according to SWIFT, "creates trigger points for the provision of financial services".

Building a business case

In terms of adoption, another argument the banks are often heard making is that they want to see corporate demand become more established before they go live with the BPO. So far, only a small number of corporates have experience of using the solution (mostly commodity players such as OCTAL Petrochemicals) but the feedback from that sample has nevertheless been largely positive. If there are any challenges for corporates using the solution, most of these are internal and not directly connected to actual BPO processes.

"It is something which I think many companies who use the BPO will find," says Gary Slawther, Corporate Treasurer at OCTAL. "Trade finance people – logistics departments, for instance – know what they like and like what they know. They are generally experienced and have been using LCs for years, and trying to get people to change and use something new can therefore be quite a challenge."

For adoption among end-users to increase, it is vital that the benefits of the BPO are fully appreciated. For that to happen, the simplification which the solution can bring to trade operations needs to be more effectively communicated. Should that not happen then the level of corporate demand that banks need to take their propositions forward may never materialise. "If it is just seen as a bank product then there is a strong possibility that it will just wither on the vine," says Slawther.

Enrico Camerinelli, Senior Analyst at the Aite Group, agrees. In his opinion, the near exclusive focus on what the solution has to offer for banks is one of the reasons why the development of the BPO has been so protracted. "There is a tendency from banks to believe that if they solve their own problems the benefits will somehow ripple down to corporates. But that is not always the case," he explains.

The benefits are definitely there, however (see the box on page 20 for a refresher). The challenge for SWIFT and the banking community in the year ahead will be making sure that message is effectively communicated to corporate clients. "That means listening to their views and helping them build a business case for their involvement," says Camerinelli. If that important step is taken, then we should begin to see the solution adopted more widely in the year ahead, although it may still be some time before corporate use approaches critical mass.

Spreading the word

With eyes fixed firmly on presenting the BPO "in a more corporate-centric way", André Casterman, Head of SWIFT's Global Strategy and Business Development in the Corporate and Trade markets, admits that a fresh look at how it is promoted is needed.

For Casterman, "it is no use talking about how it works" to corporates because corporates have no need to know – in the same way that a mobile phone user does not care how their network operates, only that it works when it is needed. So how is SWIFT going to drive interest in this potentially very useful trade product? Playing on the sheer practicality of the solution is a good place to start, it seems.

"What we will be doing in 2014 is working on industry-specific value propositions," says Casterman. There is logic to this focused approach. In certain geographies – intra-Europe, for example – the transportation of goods is rapid, but the paper trail is not. The traditional letter of credit (LC), as a paper-based document, will often land on the relevant parties' desks after the shipped goods have docked. It slows down the supply chain and receipt of payment to the point where letters of indemnity, much-disliked by the shipping protection and insurance (P&I) clubs –because they are complex and yet offer little real protection – are used to try to expedite flows.

To begin with, companies trading in commodities will remain the main focus for SWIFT in 2014. Casterman explains that typical deals in this space are sizeable, recurring and are typically between large corporates that have already established a high level of mutual trust. The market is also intensely competitive to the point where banking fees "are a secondary interest" when it comes to maintaining client relationships and thus anything that can speed up the trade flow and receipt of goods is welcome.

SWIFT is also seeking to demonstrate that regardless of the duration of the physical transportation process, the BPO will be beneficial for buyers. When a purchase order is agreed, if an LC is to be used it must be opened immediately because the documentation process is slow.

As an electronic document currently presented between banks via SWIFT's TSU, the BPO ensures that an LC can be opened at

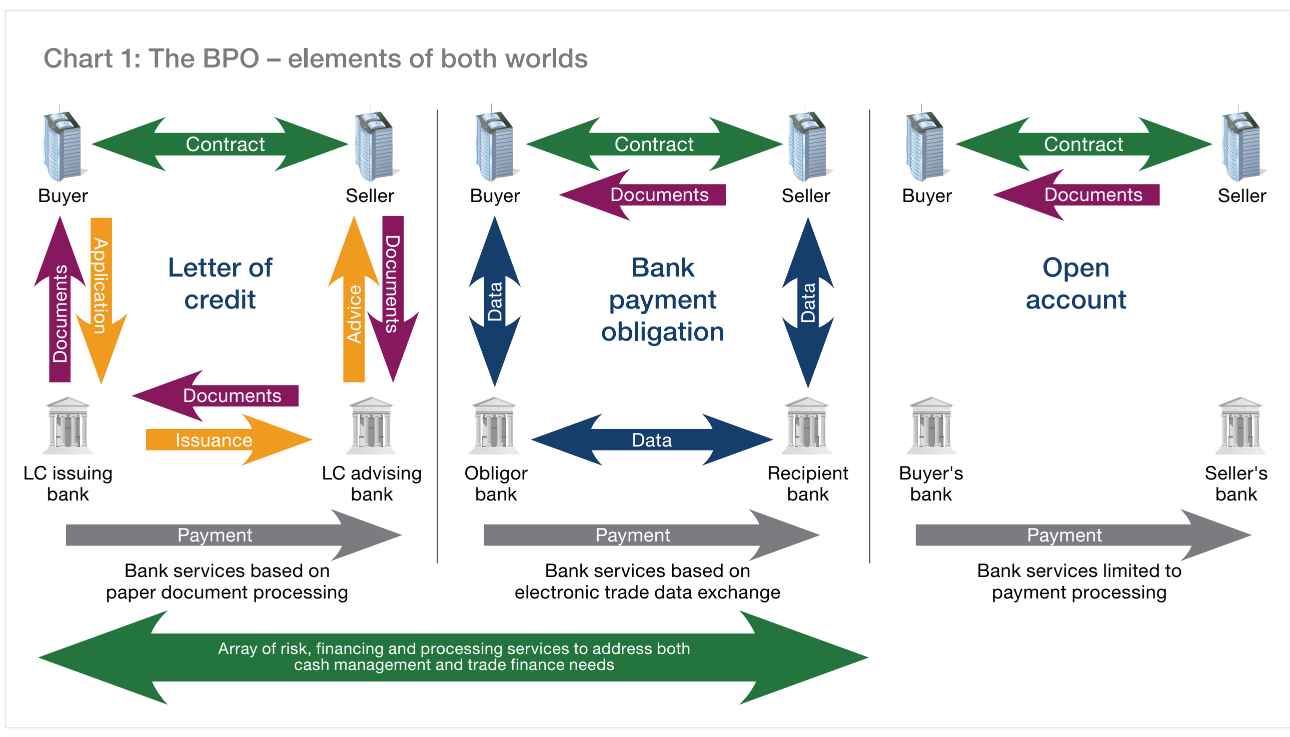


Chart 1: The BPO – elements of both worlds

Source: ICC Education Group, September 2012

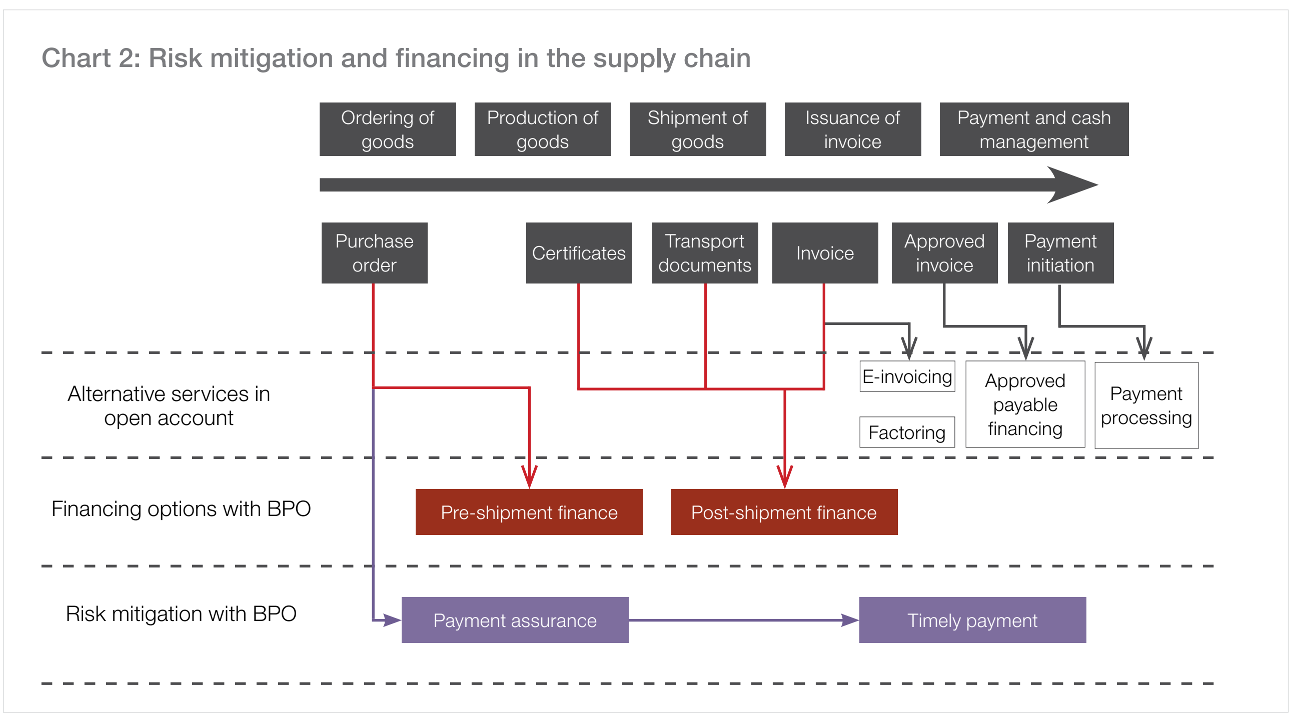


Chart 2: Risk mitigation and financing in the supply chain

Source: Euro Banking Association at EBA Day

a much later point, where perhaps the exporter needs only to manage its risk as the shipment arrives – if the order is cancelled pre-delivery the shipment can be re-routed to a new buyer.

"We are aligning the use of credit lines to the real risks in the physical world," says Casterman, adding that over time the system under-pinning the BPO "will shift entirely to e-banking". Integration of trade solutions will be essential and SWIFT's commercial partners are being co-opted into the process. Trade finance solution vendors, such as Surecomp and Global Trade Corporation, already have SWIFT certification for their products. In order to keep that status, all vendors will need to combine the BPO – perhaps as a separate module – with the other instruments such as LCs and Guarantees.

So, perhaps the BPO has now found the problem to its solution, but convincing corporates of that fact will still take time. ■

BPO refresher: the essentials

The BPO is essentially an irrevocable undertaking given by one bank to another bank that payment will be made on a specified date, following a successful electronic matching of data. It functions in a way which is similar to both the letter of credit (LC) and open account settlement, but there are a number of crucial differences (see Chart 1).

For corporates, the BPO offers benefits in three main areas. The first benefit is improved risk mitigation (see Chart 2). In terms of documentary risk, the BPO has significant advantages over traditional trade finance products which are often vulnerable to discrepancies. For example, when using an LC, a participant in a trade may find the goods descriptions on their documents differ from that of their counterparty's.

However, with the BPO, purchase orders are agreed at the very outset using a data matching application – such as SWIFT's Trade Services Utility (TSU) – thus minimising the risk of confusion arising between counterparties further down the line. As this action is performed automatically, without the need for manual input, it also has the advantage of not requiring a large team to approve documents exchanged between the buyer and seller.

Next is the assurance the solution provides for sellers that they will be paid in full and on time. Unlike trade on open account, which offers no such assurance, the BPO functions rather like a confirmed LC. This leads in to the third main benefit – the opportunity for the seller to use the BPO as possible collateral for pre and post-shipment financing. Once the obligor bank has issued the BPO, the recipient bank knows that, providing their client ships the goods, repayment is covered.

At this stage, even if the shipment has yet to take place, and might not do so for months, the recipient bank could be prepared to provide its client with a percentage of the value of the BPO as pre-shipment finance. After the goods have been manufactured and shipped, data arrives from the supplier which is matched with the purchase order baseline and, at that point, the obligor bank's obligation to pay is crystallised.

This also has potential benefits for the buyer. Now that the seller is able to obtain pre-shipment finance, using the BPO as collateral, the buyer may be able to negotiate more favourable contract terms than would have been feasible previously.

Argentina's debt crisis

Back in the 1990s, Argentina was being hailed as a rare Latin American success story. But following ten years of spectacular economic growth, the nation became embroiled in a crisis that would ultimately lead to the largest sovereign debt default in history. In this article, we explore the origins of the 2001-2002 Argentine debt crisis and consider what lessons the episode might hold today – whether for Europe's troubled debtors, or for the government and bank officials once again tackling a currency crisis in Argentina.

When the Argentine President Fernando de la Rúa was forced out of office in late 2001, Argentina was already deep in what would become the most severe economic, social and political crisis of its history. Since the late 1990s, most fundamental indicators had painted a gloomy outlook. Incomes were falling and unemployment rising. The Argentine government, meanwhile, continued to add to its enormous international debts, leaving the economy increasingly vulnerable to economic shocks.

The breaking point came on 30th November 2001. With Argentines worried about a peso devaluation and a deposit freeze, overnight interest rates rose sharply. In addition, spreads between US treasury bonds and Argentine bonds increased to 5,000 basis points. A run on the banks was now the inevitable outcome.

The making of a crisis

Argentina's debt crisis had its roots in market reforms adopted a decade earlier by the government of Carlos Menem. In the early 1990s, the incoming Menem administration had committed itself to tackling malignant hyperinflation. After an earlier inflation stabilisation plan had ended in abject failure – a substantial devaluation and a 58% fall in foreign exchange reserves, to be precise – a currency board arrangement was adopted in a last ditch attempt to rescue the economy. Under the 'convertibility law', the Argentine peso was tied with the US dollar at par. In other words, one Argentine peso was to be equal to one US dollar.

It was a gamble but one which appeared, at least initially, to have paid off. Inflation quickly returned to more manageable levels and, fuelled by a torrent of IMF-backed privatisations and deregulation, the economy entered a decade-long boom. In the context of the resulting surge of optimism in the Argentine financial markets, the country received large volumes of foreign capital in a very short period of time. In turn, this increase in foreign capital inflows helped to foster confidence in the convertibility plan, which increased both banks' propensity to make dollar denominated loans and the willingness of debtors to borrow in dollars. The result was an extensive and, as it would turn out, ominous dollarisation of both liabilities and assets in the Argentine banking sector.

There was one other major drawback to the policy. Exports shot up in price and foreign imports suddenly became very cheap. Many goods, formerly produced domestically, now began to be imported from abroad. To begin with, this trend was mitigated by the fact that Brazil, Argentina's main trading partner, also pegged its currency the real against the dollar. But when the Brazilian government was forced to devalue in 1999, an Argentine balance of payments crisis could only be delayed temporarily through greater international borrowing. By late 2001, the country's foreign debt, largely owed by central and provincial governments, accounted for 50% of GDP. Approximately $30 billion of that sum was due to mature in 2002. It was clearly an unsustainable situation.

That Argentina's leaders found themselves in a self-imposed fiscal and monetary strait-jacket did not help matters either. With the convertibility plan in place, the central bank was unable to adjust interest rates or devalue the peso to help restore industrial competitiveness. The only recourse, therefore, was to control public spending in an attempt to trigger a process that economists call 'internal deflation'. However, in a country where federal government held little influence over state and municipal spending, such attempts at budgetary discipline were all but futile.

Unsurprisingly, concerns about the sustainability of the currency peg began to mount. Meanwhile, the cheap market finance that helped to drive the boom of the 1990s began to dry up and capital inflows began to reverse. Businesses and citizens, guessing the government's next move, looked to store more of their wealth in dollar accounts at their banks. The logic, of course, was that if the country's political leaders did decide to do what everyone expected and devalue the peso then at least their savings would be safe denominated in dollars. For many Argentines, it was an assumption that proved to be very costly indeed.

El Corralito

Fearing an all-out run on the banks, the Argentine government froze all accounts on 1st December 2001. Argentine citizens were allowed to withdraw a small amount of cash – initially 250 pesos – on a weekly basis from their accounts but, crucially, this was limited only to peso accounts. If one wanted to withdraw savings from a dollar account the sum had to first be converted into pesos which, given the ongoing crisis, very few rational people were willing to do. The situation came to be known as "El Corralito", or "the little corral". Argentine depositors – much like the cattle the country has long been famed for farming – were trapped in a small pen with no means of escape.

The following month, just weeks after defaulting on a record $95 billion worth of sovereign debt, the government succumbed to the inevitable and proceeded with a devaluation of the peso. Dollar accounts, however, were not spared. All accounts denominated in dollars were subsequently converted into pesos – but at the old exchange rate. It effectively amounted to an appropriation of three-quarters of people's savings. A citizen with savings totalling $10,000 the month before now had a mere $2,500.

> The economic impact of Argentina's crisis was unprecedented in the country's history. Although GDP growth had been on a negative slope since the late 1990s, it declined by a colossal 11% in the year following the crisis. Unemployment soon accounted for more than a quarter of the total workforce and inflation, the country's longstanding nemesis, inevitably worsened.

"Imagine what your reaction would be going into a bank today and the teller informing you that you cannot access your money anymore," says Fernando Aguirre, who recently authored a book detailing what life was really like in Argentina during the crisis period.

Aguirre explains that during the Corralito, citizens were only permitted to withdraw very small amounts of money from their accounts each week – a sum which he approximates would be equal to £100 in the UK today. There were absolutely no concessions or exceptions to this rule and, distressingly, there were even some cases in which people who had saved up money to fund life-saving operations were denied access to their cash at the critical time. "People knew they were being robbed and they were furious."

In the weeks that followed the bank freeze, social unrest very nearly brought the country to its knees. It began with protestors taking to the streets of Buenos Aires, banging pots and pans and chanting defiant slogans against the government. But by the time of the peso's devaluation, those protests had escalated into full scale rioting and looting. In ugly scenes, which will appear depressingly familiar to anyone who has followed the Greek sovereign debt crisis, police deployed water cannons, rubber bullets and executed cavalry charges in a desperate attempt to break up the crowds and restore peace. Four weeks and four presidential resignations after the first bank runs began, the country was in a state of total disarray. "That was when the unrest was at its worst across the country," adds Aguirre. "When you went outside, you really feared for your personal safety."

Life after default

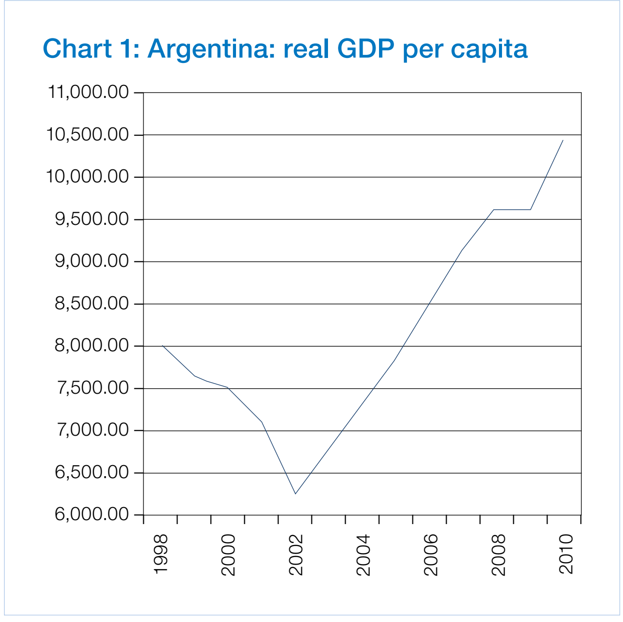
The economic impact of Argentina's crisis was unprecedented in the country's history. Although GDP growth had been on a negative slope since the late 1990s, it declined by a colossal 11% in the year following the crisis. Unemployment soon accounted for more than a quarter of the total workforce and inflation, the country's longstanding nemesis, inevitably worsened – although not by as much as some economists expected. By the end of 2002, the exchange rate had reached nearly four pesos on the dollar and the rate of accumulated inflation totalled 80% according to data from Trading Economics. Falling incomes and rising prices meant that before the year was out, nearly two-thirds of the Argentine population would be living on incomes below the national poverty line, a quarter of which were considered destitute.

Devaluations are often messy, painful affairs. Argentina's recovery, however, was remarkably quick given the scale of the initial downturn. By August, the exchange rate had stabilised and even began to slowly appreciate soon after. Exports immediately became more robust and imports waned following the devaluation providing immediate relief to the current account. By the end of 2002, the country was once again reporting positive GDP growth figures (see Chart 1).

What factors explain the Argentine recovery? Typically, analysts refer to three key factors although there is often disagreement about which one should receive most emphasis. Some analysts argue that most of the credit should be attributed to the default on the debt. There is one shortcoming to this explanation, however. In 2001, Argentina's debt-to-GDP ratio was 55% – although because much of this figure was denominated in dollars it did increase substantially after devaluation of the peso. But if one takes that 55% and compares it to ratios recorded in the UK and France in 2013 of 88.7% and 90.2% respectively, it quickly becomes clear that Argentina was not facing a solvency problem in the run up to the crisis, but a liquidity problem. Although defaulting would certainly have helped to alleviate some of the burden of this liquidity problem, there is little evidence to suggest it was a decisive factor in Argentina's return to growth.

The decision of the Argentine government to devalue the peso appears to have more explanatory power. Leaving the peg to the dollar was not only advantageous to Argentina's exporters; it also helped to weaken the real value of wages and public sector expenditures, something which was critical in reducing government expenditures in real terms and allowing the government to run substantial fiscal surpluses. Moreover, the

Chart 1: Argentina: real GDP per capita



Source: World Bank

downside of devaluation – rapid inflation – was also less severe than many expected, largely due to the immediate recession and accompanying high rates of unemployment.

> Leaving the peg to the dollar was not only advantageous to Argentina's exporters; it also helped to weaken the real value of wages and public sector expenditures, something which was critical in reducing government expenditures in real terms and allowing the government to run substantial fiscal surpluses.

Finally, changes in the global economic environment couldn't have been more favourable for Argentina. With Brazil recovering from its slump and China beginning what would become a decade of stratospheric economic expansion, demand for Argentine goods soon looked a lot healthier. Then there was the boom in the commodities cycle. Global demand for Argentine exports such as soybeans, corn, wheat, petroleum and gas was not only growing, but the prices being paid by importers for these goods were increasing too.

Vultures circling

It took four years of negotiations before Argentina agreed a deal with their creditors to restructure the terms of Argentina's outstanding debts. On 1st March 2005, the late Néstor Kirchner, Argentina's President – and husband to current President Christina Kirchner – declared the deal, in which a majority of investors (75%) surrendered their claims in exchange for new bonds worth roughly 35 cents on the dollar, to be a triumph.

Not every bond holder accepted defeat that easily, however. Holdouts retained a total of $4 billion of debt, of which so-called 'vulture funds' – funds which buy securities in distressed investments – held $1.3 billion. The vulture funds refused, outright, to negotiate with the Argentine government, opting instead to enter into a long litigation battle to be repaid at 100% face value.

The case is still making its way through the US court system today. In 2010, the Argentine government reopened the debt exchange deal for the bondholders who had rejected the previous offer. A large majority of the holdouts opted to accept the swap this time around, raising the total amount of sovereign debt restructured to 92.6%. But two hedge funds, NML Capital and Aurelius, held on for 100% repayment of their $1.3 billion lent to the country. Despite an influential US appeals court ordering them to repay all the holdouts, Argentina maintains that these creditors will not be paid at all, and have stated their plan to challenge the ruling by bringing their case to the US Supreme Court.

Lessons for the Troika?

In some respects Argentina's crisis resembles the situation in the Eurozone today. Just as Greece joined the euro to import German monetary credibility, Argentina tied itself to the dollar allowing it to piggyback on US monetary credibility. Greece, like Argentina, has also found itself in a recession which it is unable to combat through monetary and exchange rate policy, with membership to the euro restricting these options in the same way that the convertibility plan did for the Argentine government.

There are important differences, however. Firstly, when it was hit by the crisis Argentina still had its own currency. Dropping the peg to the dollar was a difficult step but, for Greece, leaving the euro would be a mammoth feat to accomplish without causing yet more turmoil both in Greece itself, and the wider Eurozone. Secondly, Greece, as a member of the Eurozone, has been able to call on the European Central Bank (ECB) and, by extension, other Eurozone countries, for assistance. Argentina, meanwhile, had no lender to turn to, not even the IMF, after the situation began to deteriorate in late 2001. Lastly, Greece's debt today is far larger than Argentina's was when it defaulted, meaning that the adjustments which will need to be made, subsequent to default, will be much more severe than was the case with Argentina.

Nevertheless, Europe should be able to draw some general lessons from Argentina's crisis. Debt defaults can be messy and, as the ongoing litigation demonstrates, sometimes extremely protracted. But it is not impossible and, even if defaulting is not enough to restore growth in itself, it can work to restore fiscal health. In Argentina's case, however, the recovery hinged on two main factors – the real depreciation of the currency, and the luck of a positive global economic environment stimulating export demand. Ominously for Europe, neither of those factors appear conceivable in Greece's case.

Blue dollar crisis (reprised)

Sadly, recent events suggest that Argentina's leaders are still haunted by their past mistakes. Although Argentina has defied expectations since the default, embarking on its strongest run of growth since the 1940s, recent declines in commodity prices have once again put the economy under pressure.

Analysts have been warning for some time now that the country has allowed inflation to spiral out of control. Rather than introduce measures to tackle inflation, however, the Argentine government reportedly opted instead to manipulate the figures. Staff at the central statistical authority, the Nacional de Estadista, were replaced with political appointees and the rate of inflation was henceforth decided almost entirely by edict. Meanwhile, although the dollar peg was abandoned in 2002, the peso continued to be heavily managed through central bank intervention in the foreign exchange market.

In mid-January 2014, the Argentine central bank finally gave up the ghost and stopped acting to prop up the currency amid intensifying capital outflows and dwindling foreign exchange reserves. The Argentine peso promptly fell by 11%, its sharpest decline since the last crisis.

Whether or not Argentina's authority figures have the resolve to avert a full-blown crisis of the type we saw at the beginning of the millennium remains to be seen. By repealing foreign exchange controls, the central bank might help to restore some confidence and the economy's competitiveness in international markets. But that will merely buy the country some time, say analysts. For the situation to improve, Argentina will have to make tough decisions to tackle the perennial problem of inflation. If that fails to happen, the combination of falling currency reserves and rising prices could put the economy on the brink once again. ■

RMB investments in China

An everyday phenomenon

New approaches to cash management and investments in China must be sought if corporate treasurers are to leverage the progressive liberalisation of the remninbi (RMB)

Not a day goes by without another statistic published that points to China's fast ascent to global significance in international trade and, in turn, to global economics. But the opportunity only started to become a reality once China had embarked on its steady but relentless journey of financial liberalisation a few years ago.

Throughout 2012 and 2013 a number of key regulatory changes were unleashed as the People's Bank of China (PBOC) or central bank drove further RMB internationalisation. A simplified cross-border settlement process, further exchange and interest rate liberalisation by widening the RMB FX trading range and removal of loan interest rate controls are a reality. The State Administration of Foreign Exchange (SAFE) too has been transforming administrative controls that will lead to greater consistency and transparency via a number of reforms to current account and capital account rules.

As China's relevance and importance to international companies has increased, so the RMB has risen in importance for trade settlement. According to SWIFT, in October 2013 RMB was the world's second most-used trade finance currency (some way behind the US dollar but significant nonetheless). It remains the 12th largest currency for payments globally (compared to 35th three years ago).

As the market has opened up, more companies have started to hold and utilise RMB cash balances – both onshore and offshore – for payments and receipts. The reasons for this are clear; doing so can improve FX risk management, potentially reduce costs, better align the company to its Chinese customers or suppliers payment preferences and, in turn, provide incentives for better trade terms.

Total RMB deposits onshore in mainland China stand at RMB103 trillion and in Hong Kong (the largest offshore market) stand at RMB826 billion (both as at November 2013), a little over 11% of total deposits across all currencies in Hong Kong[1].

The evolution and expansion of cash management techniques

The development of China's financial and commercial infrastructure adds tools and flexibility to enhance corporate working capital and cash management practices both in China and offshore operations. With the gradual relaxation on capital and currency controls, China is encouragong international companies to set up business operations and treasury centres onshore. Many of these enhancements have been managed through pilot schemes launched through a limited group of companies and banks.

Until recently, corporate cash and liquidity management in China has been largely domestic, in terms of the payments system and tools, liquidity management structures (such as domestic cash concentration) and how treasury functions operate. These practices and tools have evolved considerably over the past two years in terms of enhancements to domestic and to cross-border and offshore cash management.

The most significant developments include:

- **Cross-border trade settlement:** schemes to streamline cross-border payments and receivables processing using netting and gross-in/gross-out settlement methods in pay-on-behalf/receive-on-behalf (POBO/ROBO) models; reduction of documentary requirements; and using technology to streamline manual processes. End-to-end electronic payment processing has been piloted, allowing electronic submission of supporting documentation. These schemes will allow payments into/out of China to be processed more efficiently, promptly and with greater control, visibility and centralisation.
- **Cross-border liquidity optimisation:** pilot initiatives are being rolled out to support cross-border sweeping and intra-group cross-border lending. These allow treasurers to manage surplus cash in China more efficiently, with internal funding optimisation achieved through linking onshore positions with their international treasury structures.

Options for the investment of surplus RMB

With the expansion of cash and liquidity management tools, and the increase in RMB currency balances held, treasurers naturally focus on how short-term balances are managed and invested within their usual risk management framework and investment policies. A number of options exist in various offshore markets such as London and Hong Kong, but what about RMB balances that remain in mainland China?

Deposit options in China

RMB deposits sitting in bank accounts in China currently provide a return largely determined by existing central bank regulations which provide a baseline rate commonly known as the PBOC deposit rate. See boxed example.

A further option (typically for longer-term cash) is structured deposits. These are arranged with additional terms, usually incorporating a derivative transaction allowing investors to hedge against movements in interest rates or FX. Tenors vary.

[1]*Source: PBOC, HKMA, HSBC Global Asset Management.*

RMB deposit type	PBOC deposit % return per annum*
Normal RMB deposit	0.35
Contract savings	1.15
One day call deposit	0.80
Seven day call deposit	1.35
Three month time deposit	2.60
Six month time deposit	2.80
12 month time deposit	3.00

**New regulatory changes in China introduced in 2013 allow for the above rates to be adjusted upwards to a max of 110% of the PBOC rate, at the discretion of the respective bank.*

Source: PBOC, as at end December 2013.

There has been commentary on liquidity levels in the China banking sector recently, with volatility in interbank rates in China towards the end of 2013; for example the seven-day repo rate increasing from 4.5% to 8.5% during December. The central bank has however provided liquidity since then as part of its normal operations and rates fell in January.

Onshore RMB liquidity management

The regulatory framework in China currently does not permit inter-company lending. The only way companies can lend to one another is under the 'entrusted loan' framework used by banks in China to help companies structure their cash pooling solutions. Apart from using bank deposits to generate a return, companies with excess RMB liquidity in China continue to explore onshore RMB liquidity management structures (such as RMB cash concentration/pooling) to optimise their onshore RMB working capital amongst group entities and as a means of reducing external bank borrowing needs onshore.

RMB cross-border lending

Companies are now permitted to lend their excess RMB liquidity in China to related companies offshore. A transfer-pricing mechanism ensures transactions are maintained at arms-length. This option offers the opportunity to mobilise RMB excess liquidity internationally to be utilised as an internal source of funding, reduce external indebtedness or participate in centralised investment programmes. Some companies might not find this model optimal in the absence of ways to redeploy liquidity more efficiently, and considering RMB deposit rates and returns in China remain attractive.

Money market funds

An onshore legal entity in China can also invest in an onshore RMB money market fund (MMF). The industry in China is just over ten years old, with assets under management of RMB883 billion (c. $146 billion) at the end of December 2013[2]. There are over 100 MMFs in the country, falling into two categories; funds provided by international asset managers (and managed similarly to those offered in Europe and the US), and funds offered by local Chinese asset managers who follow the risk profile set out in local domestic regulation.

MMFs in China can offer investors a valuable complement to existing bank structured deposits or reverse repo transactions. They invest in a basket of short-term money market instruments targeting a liquid or low-duration portfolio, offering next-day liquidity. The range of issuers and asset types in China is lower than money markets in the US and Europe. However, a typical fund offered by an international manager includes investments in Chinese government bonds, Central Bank notes, PBOC bills, repurchase agreements backed by Chinese sovereign debt, deposits and other investments from the three agency banks that are 100% owned by the Chinese government, as well as deposits and other investments issued by the "big four" banks.

MMFs in China can provide a higher net-return compared to short-term bank deposits – by way of illustration, and for comparison to the deposit table above, the average net returns for the month of December 2013 of all AAA-rated RMB MMFs was 4.339% per annum[3] (there are currently five RMB MMFs that hold the local AAA rating in China). There are two reasons why this can be the case; firstly, dividend income from a MMF is free from corporate income tax in China (compared to a 25% income tax on bank deposits); secondly, the interest paid on bank deposits in China is regulated, whereas the majority of investments placed by a MMF are not, and are therefore driven by the market and so returns can potentially be higher or lower.

What next for RMB and China?

As financial liberalisation continues and accelerates, it will become easier to do business in China. As more schemes are rolled out, and existing pilots are broadened, corporate treasurers should look to create greater efficiency and control over their RMB and foreign currency transactions and balances. Confidence remains that the RMB will become fully convertible in the next five years and, as markets deepen, greater choice for investment options are expected, including for offshore RMB investment options in the future.

Given the pace and complexity of change, it is important to stay informed and to work with the right banks and asset managers. These should not only understand the local market and be actively involved in new schemes as they are piloted and rolled out, but also have international reach to provide a consistent service globally, enabling companies to connect their cash management across the markets and currencies in which they deal.

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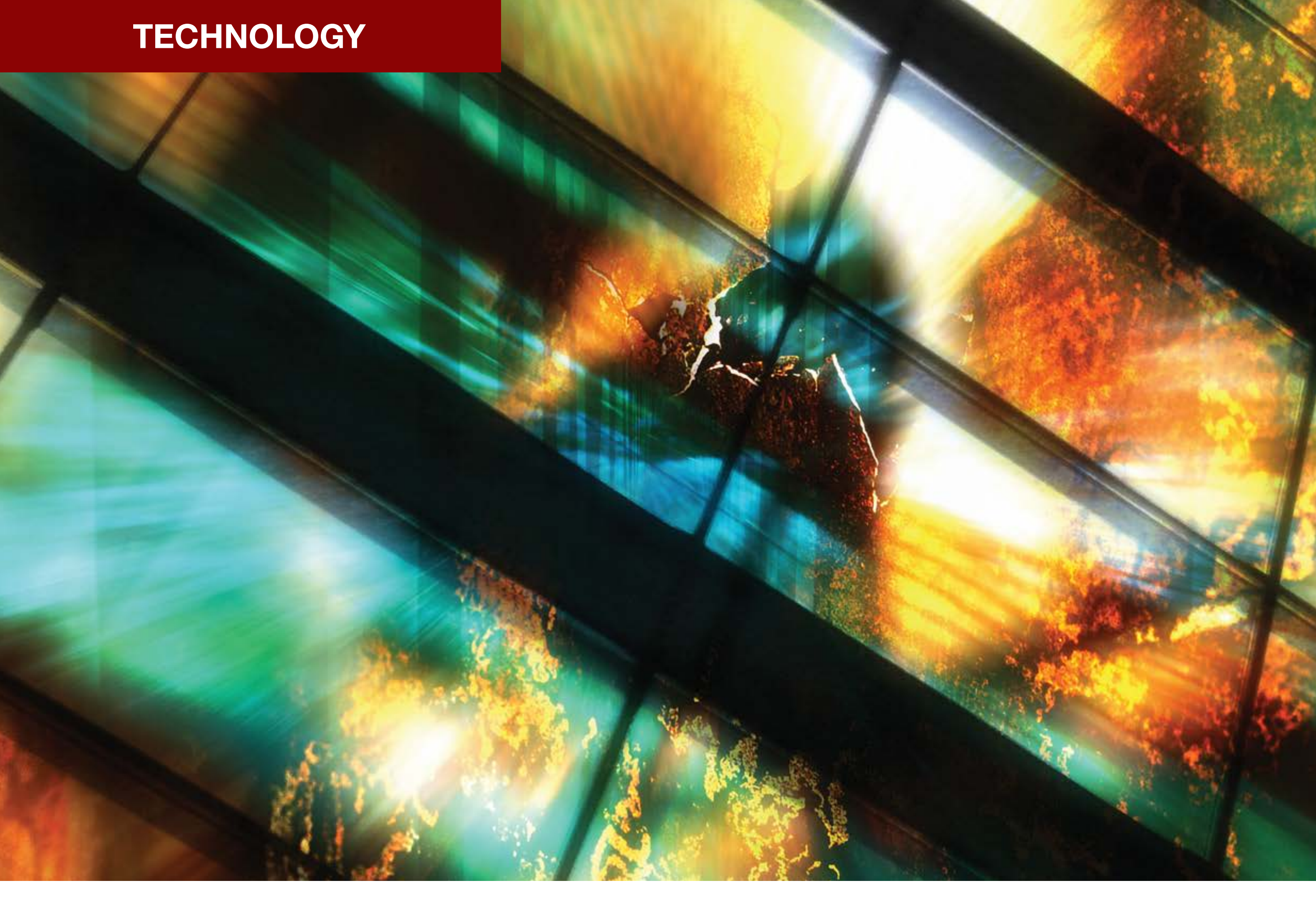
Kee Joo Wong is Head of Global Payments and Cash Management of HSBC Bank (China) Company Limited, responsible for developing, implementing and driving cash management strategies in China.

[2]*Source: HSBC Global Asset Management.*
[3]*Source: HSBC Global Asset Management.*



The future is in bits (and bytes)

More risk, more regulation, more data, more analysis; these are the watchwords for treasury technology as we move into 2014. Treasury Today rounds up a selection of industry players and asks them what they see on the horizon.

Treasury technology may exhibit a relatively glacial flow compared to consumer banking software, but the treasury landscape is shifting. But in which direction is it going?

Never short of a professional view on how the market is behaving, Kelvin Walton, director of UK-based consultancy, TreasuryWise, believes that whilst TMS vendor consolidation has gone almost as far as it can go, niche systems will continue to thrive; a condition in part being driven by the broadening scope and list of treasury concerns, from risk to regulation to Big Data.

Niche providers will thus persist because as new needs arise technology gaps are created. The main TMS vendors may subsequently offer a competing solution, but not every treasury has or needs a TMS and of those that do, the solution may not be best-in-class.

But niche providers may in time become acquisition targets for the major TMS providers seeking to fill their own functionality gaps (especially if the vendor is losing sales to a better-integrated competitor). Walton believes it is no idle speculation that the commercial threat to a major player is not only its direct competitors but also the smaller vendor "intent on upsizing". Unlikely? A specialist vendor finding itself with deep pockets, having generated revenues by servicing the small and mid-sized corporate sector, can move into the mainstream if it acquires the right product set; Reval, for example, making a case in point.

Cloud concerns

For Walton, niche vendors – most of which are offering their products via the Software as a Service (SaaS) or cloud delivery model – are thus the "dynamo" of the industry right now, the old argument against the SaaS model – that taking technology offsite multiplies operational risk – having faded, notes Walton. The cloud variant – where a company's data and applications sit on servers that it controls, as opposed to SaaS servers controlled by the vendor – practically negates this concern. Both SaaS and cloud models have moved steadily towards acceptability and Walton believes both are now seen as "secure, stable and cost-effective" and, he adds, "even a risk reducer" where SaaS/cloud accessibility facilitates the retirement of yet another spreadsheet.

Marcus Hughes, Director Business Development at payments specialist, Bottomline Technologies, believes that for any organisation looking both to reduce costs and manage risk, the cloud model now has "considerable appeal".

Indeed, states Hughes with considerable confidence, "for those who are considering a new solution there seems little need to bother with the costs and complexities of having an on premise solution". The wider technology community has already recognised this view, Hughes adding that "most, if not all" vendors are moving their software to a pay-as-you-go platform option. "Considering that the vast majority of the payments process is outside of the business, within the financial networks, it seems almost illogical to try to maintain internal systems for this purpose."

The next big change which Hughes anticipates over the next year or so is that, driven by budgetary and IT constraints, major banks will begin outsourcing to the cloud core functions such as supply chain finance, payments and multi-network connectivity. "However, cloud should not be seen as inevitable for all organisations," he comments. "Successful solution providers need to continue to offer both locally deployed and cloud-based options to their customers who must make up their own minds about whether, or how they choose to migrate to the cloud."

For Justin Brimfield, EVP, Corporate Development at Reval, whilst much attention has been given to the large margins of error, weak security and lack of audit capabilities associated with spreadsheet usage, it is worth noting how reliance on spreadsheets tends to creep back into the lives of those who have invested in conventional, installed treasury applications. "After the initial benefits of automation are recognised, many treasuries find themselves falling behind several versions of their systems without the time, cost and effort to invest in implementing an upgrade," he says. As regulations change and organisations grow, these same forward-thinking treasury professionals turn back to using spreadsheets as a workaround. "These workarounds become more and more out of sync with their core treasury applications, which in turn, are relied upon less and less." Brimfield argues that companies automating processes for the first time or facing an upgrade "can leverage SaaS technology to ensure they are always on the most current version".

Wider choice

One major vendor that has its feet firmly planted in both the installed and SaaS/cloud camps is SunGard. Whilst its Senior Vice President of Treasury Solutions, Paul Bramwell, understands the treasurer's reticence to shift to new technology, given that many use mature applications that have been years in the making. User-familiarity carries with it an element of security whilst new technology is risky. But the main reason for slow adoption, he feels, is that there is a predominant landscape of installed legacy technologies which is not easy to integrate. "It's a project that a treasury has to budget for, not just financially, but in terms of timing and resources."

SunGard has a policy of supporting all the versions of its software in current use because it understands that treasurers will not change for changes sake. But, admits Bramwell, "it is in our interest to persuade clients to move on to newer versions of the software". Enticing treasurers to adopt new technology requires forethought, not gimmicks. "We introduce new features and functions but still the enemy of the software vendor in this respect is client inertia."

The treasurer's hand may eventually be forced though. The rise of risk, regulation and compliance in the current environment is a strong driver for change; some recent events would not have been considered possible when many legacy applications were first installed (bank default, for example). In technology terms, vendor actions can focus the mind on change too. Where technological change is forced around one aspect it may mean change is necessitated elsewhere if the upgrade (or replacement) software cannot communicate effectively with legacy systems. If legacy technology can potentially constrain progress or at least dictate what can and cannot be implemented, it is surely better to manage change to new technology rather than be forced into it.

A risky business

In the broader context of corporate life, Brimfield sees treasurers taking on new challenges, such as managing commodity and price risk. Risk technology (and hedge accounting) has always been Reval's stock-in-trade for treasury, but like SunGard's Bramwell, he too sees "the circle of data mining getting bigger" to cover "every last exposure". To this end, Reval partnered towards the end of 2013 with US-based firm, Atlas Risk Advisory.

Atlas' proprietary methodology (based on data cube technology) of extracting data from an ERP provides a "complete view" for balance sheet and cash flow hedging. Reval collates the data enabling the user to hedge through one of its trading partners before returning the confirmation. It is, says Brimfield, a "straight through processing relationship"; integration, he feels, is "one of the burning issues of the moment".

New products are clearly needed to address market change, where manual approaches to risk, compliance and fraud leave businesses overly exposed. Vendors are tackling these needs, says Phil Mattes, Treasury Strategist at Kyriba, but the push for innovative solutions to take treasury to the next stage is a different matter.

Market consolidation over the past few years has removed some of the smaller (and therefore more agile) providers, leaving the mid-sized vendors as the main market-disturbers. But the risk-averse nature of corporate treasury means the dramatic changes in paradigm that can be seen in some industries "is never seen in the treasury world". The treasury department, says Mattes, "is rarely the early adopter of technology".

On the move

The voluble chatter around the anticipated roll-out of mobile treasury services is a case in point. Anecdotal evidence

suggests treasurers are yet to be fully convinced, leading Mattes to argue the case for clarification of the message. "Treasurers are perhaps not ready to have their full TMS on their iPad, but for accessing key reports, getting cash positions and for enabling payment approvers to review and release payments, I think there is genuine interest." Casting the typical treasurer as a "road-warrior" is a mistake too, he feels. "We're finding that some clients are using mobile when they're away from their desk but not necessarily out of the office."

Mobile is perhaps still a 'want' whereas tackling the Big Data issue – managing and mining the vast quantities of data stored in treasury solutions to identify trends and anomalies, in order to make more informed decisions – is becoming more of a 'need'. Mattes' team is currently working on an initiative to enhance reporting. By integrating treasury and finance data, mining it and using visualisation tools to clearly present it, it is possible to aid the transition of data into information. Where the treasury system, ERP and other in-house finance applications can better share information, Mattes argues that risk management and competitive advantage can be derived. This, he adds, is especially so as the shift is made from periodic data transfer to the real-time world of open API-based live data exchanges.

Banking on technology

Technology strategy for a transaction bank is not just a case of thinking about how well its own toolset is faring, but also how well it connects to its clients' technology and enables them to operate more efficiently, says Ken Deveaux, Global Head of Channels and Distribution, International Banking at RBS. One of the big connectivity issues for 2014 is SEPA. "We're driven by a confluence of regulatory requirements and corporate client needs to meet a deadline. I think there will be an opportunity for corporate treasurers to optimise their working capital flows quite a bit further," says Deveaux.

"Today, technology and standards are driving the exchange of payment instructions and related reporting, for example, in a series of bi-lateral exchanges between banks and corporates," he notes. "Commerce by nature is a multi-lateral activity, with buyers, sellers, and their banks exchanging information and promises that result in a transaction. As technology and standards become more sophisticated and accepted, I do see the electronic model evolving more to support a many-to-many environment."

In the supply chain finance space, consideration will be given to improving connections between buyers, sellers and banks so that financing and the flow of payments and information about goods and services being sold is all in one place. "This is an area where we think there is a lot of efficiency to be created in enabling companies to manage this information much more cleanly," comments Deveaux. The products or tools that create these connections will come from both banks and independent technology firms, but for him it is essential for banks to try to "break out of just pushing payments from one party to another" and deliver services that help treasurers optimise their use of working capital and improve the efficiency of payment and information flows.

In the coming years Deveaux sees connectivity being taken for granted; this is a good thing. "I see a world where connectivity is much simpler and more straight through as standards mature and become more broadly accepted," he explains. But he also sees better connectivity between all parties to a transaction, from initial inquiry through to final payment. He also believes that over the next few years the benefits of these multi-party exchanges – seamless exchanges of payments, purchase orders and other commercial information – will be seen on a wider scale.

We want information not data

"It's not just about making transactions, it's also about pushing information," says Mark Wraa-Hansen, Global Head of Cash Management Solutions, Danske Bank, commenting on the likely form of new technologies. This is particularly so for mobile devices which are "starting to spill over into treasury".

Wraa-Hansen believes that treasurers are ultimately looking for flexibility. Solutions will be in demand that enable the pre-definition of a wide range of financial situations, ensuring key decision-makers are getting the information they need from their banks, when and where they need it. The persistent talk of the need for real-time data suggests a matching sense of urgency around the implementation of solutions. "In the future we will see more third-party and bank-owned data hubs into which corporates and their banks can connect," he predicts.

Standardisation is an enabler for full flexibility and visibility. It clearly takes a while for some propositions to make an impact. However, Wraa-Hansen thinks that the time has come for the long-running TWIST standards group and its Bank Services Billing offering. "Corporates are increasingly looking for transparency in the fees they pay to banks and for the ability to benchmark those fees across banks," he says. "In this respect, TWIST is a great tool that has not received the attention it deserves."

The Big Data explosion mentioned above by both Walton and Mattes needs steering in the right direction. "When you have lots of data, intelligence must be applied to generate information that you can then act on," states Wraa-Hansen. With every client having a different set of needs, tailoring of solutions is a current focus for Danske Bank; the key, he notes, lies in clear communication of ideas and added business value. "It's one thing to have great technology but if we don't listen carefully to how it should be applied and what kind of outcome is expected then it is useless." Treasurers may not typically be early adopters of new technology but, he continues, "I don't think there is any reluctance to adopt new technology; we just have to articulate and explain how and why it is relevant and what it can do for them".

Be prepared

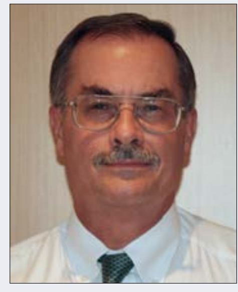
With all this in mind, one important consideration when buying technology is its likely longevity in terms of vendor support. Few products will be carried indefinitely but the decision to 'sun-set' a certain offering may be driven, not by commercial reasons, but by the product's obsolescence in terms of outmoded technology. This may make it increasingly difficult to interface and integrate with other software, may bar the use of modern facilities such as web-based functionality or, even if the function is still working well, become harder to find developers with the knowledge to keep the software relevant. TreasuryWise's Walton thus notes the inadvertent potential for an existing architecture to "condemn you to a certain set of rails as to how you can develop". For this reason he urges buyers to at least be aware of the underlying technology of the system being purchased, no matter how new and exciting it may appear to be. ■

Managing currency volatility in emerging markets

Currency volatility across the emerging markets was one of the top risk stories of 2013. Just the slightest hint of the US Federal Reserve unwinding its quantitative easing programme sent a number of emerging market currencies into free fall. Corporate treasurers are therefore fully aware of the need to manage the risk caused by currency fluctuations today and in the future.

Phil Weisberg
Managing Director and Global Head of Foreign Exchange, Thomson Reuters

Eric Burroughs
Editor FX Buzz, Reuters News



Damian Glendinning
Corporate Treasurer, Lenovo

Last month Thomson Reuters, in partnership with Treasury Today, hosted a webinar 'Managing Currency Volatility in Emerging Markets' exploring the key factors influencing the recent volatility in emerging markets currencies.

Eric Burroughs, Editor FX Buzz, Reuters News, set the scene by discussing the emerging markets vulnerabilities as exposed by the spike in US yields. He also referred to the 'fragile five' (a term coined by Morgan Stanley when referring to the currencies of South Africa, Turkey, India, Indonesia and Brazil) highlighting that the currencies of Turkey and Indonesia are particularly problematic and should receive special attention from corporates in 2014. The difficulties seen in India and Indonesia during 2013 also highlighted the severe implications of FX volatility on liquidity. Regulatory pressures in emerging markets, specifically where they are proving difficult in non-deliverable forwards (NDFs) for hedges must also be closely monitored by corporates.

The challenges for corporate treasurers, according to Phil Weisberg, MD and Global Head of Foreign Exchange at Thomson Reuters, is to navigate what is less and less an homogenous asset class. The continued movement away from an environment that was essentially determined by risk appetite to one that is increasingly being driven by the fundamentals and individual stories within each country is not an easy task for corporates to manage. Weisberg suggested that corporates can make strategy decisions that are currency-specific rather than treating these markets like an asset class.

Weisberg saw three major themes for the currency markets:

- **Firstly**, the emerging markets we have been talking about for years have now emerged and their currencies trade similarly to other more mature currencies. He highlighted the Mexican peso (MXN) and Chinese renminbi (CNY) as prime examples.
- **The second** theme Weisberg discussed was regulation. He noted that while the driving principles of new regulations were transparency, reduced risk and increased customer protection, there have been some technical challenges to the liquidity function in adjusting to the changes. He also explained that while some market participants, particularly those in Asia, have taken a 'wait and see' attitude towards regulatory requirements, it is important to realise that the rules will soon start impacting everyone in the market, as in the case of reporting trades to swap data repositories.

- **The final** theme Weisberg highlighted was the risk management process and practices, such as electronic trading and planning ahead, that corporate treasurers can use to mitigate such risks.

"The challenge for practitioners is to learn how to navigate the regulatory changes".

For his part, Corporate Treasurer at Lenovo, Damian Glendinning, said "the challenge for practitioners is to learn how to navigate the regulatory changes – a challenge that is complicated by the fact that the changes to come have not yet been clarified".

In hedging currencies, Glendinning recommended treating emerging markets the same as mature markets and stressed that volatility is not necessarily linked to emerging market status. He offered some sound advice to corporate treasurers in suggesting that a clear hedging policy and approach is fundamental for all currencies, not just emerging market currencies. The difference with emerging markets is that they often have exchange controls, which can have an impact on the ability to hedge and lead to increased use of NDFs. It is here that regulations come in and the importance of planning ahead is again necessary.

"Exchange controls ... can have an impact on the ability to hedge and lead to increased use of NDFs".

A clear policy of currency risk and hedging should be an essential component of every corporate treasury policy. Percentages of transactions to hedge must be determined, the cost of hedging versus the risk should be evaluated and management should be made aware of the trade-offs.

Some currencies are expensive to hedge or cannot be hedged such as the Venezuelan bolivar and Argentine peso. Glendinning suggested that corporate treasurers explore local borrowing or factoring as a means of expediting settlement. Local manufacturing opportunities could also be used to create offsetting exposures, reducing the need for hedging in the first place.

Glendinning stressed that corporate treasurers and management must understand their business models and evaluate the level of risk they are willing to take. It's important to evaluate cost of hedging vs risk. In their closing remarks, the panellists agreed that corporate treasurers should not wait for the regulations to be crystallised to prepare and craft clear policies and approaches for managing currency volatility in 2014.

The webinar is available to view in full at: **treasurytoday.com/webinar**

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Trouble-shooting treasurer

Gary Slawther
Corporate Treasurer

OCTAL

Gary Slawther has worked his way through an "okay, but not startling" educational background, via "no particular career plan", to become a hugely experienced and successful hired gun, fixing companies with some very serious treasury problems before moving on. Having learnt the benefits of surrounding himself with the sharpest people, knowing how to get the best from them, and of taking the time to fully understand the business in which he finds himself, he is now Corporate Treasurer of the $1 billion Oman-based plastics supplier and manufacturer, Octal Petrochemicals.

In the world of plastics, OCTAL Petrochemicals is a relatively new, but rapidly expanding, kid on the block. It opened its major production facility in Oman in 2009, tripling production the following year to meet the accelerating global demand for PET sheet and PET resin, the key ingredients for literally millions of plastic products. With a multitude of patented technologies and proprietary processes to its name, OCTAL takes research and development very seriously.

"I never started off with a career plan," admits Gary Slawther, Corporate Treasurer for Oman-based OCTAL Petrochemicals. Beyond doing "something with corporate finance", the young Slawther was not entirely sure of the direction he might take. Starting out in 1987 with UK accountancy firm, Grant Thornton, he took and eventually passed his Chartered Accountancy exams. But it was evident that accountancy would never offer the excitement and danger of looking forward and after five years it was time move in a new direction.

But where? With an academic history that on his own admission was "okay, but not startling" and an accent that one colleague warned would cut-short any aspirations of taking up corporate finance (Slawther is from Newcastle in

England's North East, giving him a distinctive tone), it looked like he was sailing into a professional headwind. For some, that may have been the end of it; for Slawther it was game on. "When you can't get to where you want to go directly, you look to what experience you can build up to get you there; that has characterised my entire career."

Making the first move

His first step on the new road saw Slawther take up arms as an Insolvency Administrator for Leonard Harris & Partners. This he enjoyed: "For the first time I could make decisions that I could stand or fall by," he recalls. "I don't mind sticking my head above the parapet to do what seems the right thing at the time and I don't mind occasionally being wrong or making mistakes because that's how you learn."

The next step was to gain industrial experience, without which he knew it would become increasingly difficult to move out of practice "and into the real world". With sound business acumen drawn from the darker side of commerce, in 1994 he joined the internal audit function at Turner & Newall, a major automotive components manufacturer.

Being despatched one day to audit the firm's treasury department, immediately he felt that with his accountancy experience, he was on solid ground. Knowing "everything there was to know", coming face to face with the company's foreign exchange contracts rapidly revealed the limitations of Slawther's understanding. Never one to quit, he soon found himself trying to unpick some of the complexities of his new role at an Association of Corporate Treasurers (ACT) conference called 'the Auditor and Treasury'. Inspecting the ACT's professional examination syllabus, all became clear. It was, he states, "an epiphany". Not only was it the direction, but he could also "get a piece of paper that said Gary Slawther can do corporate finance", Geordie accent or not.

Examination passes over the next few years saw him progress from an Associate, to a Member, to a Fellow of the ACT. And with around 80% of study being "entirely relevant to the job", for the first time in his life Slawther "actually enjoyed a set of exams". Although clearly he has got a lot more out of his study, he lays claim to one particular skill that allows him to feel "remarkably smug". If nothing else, he states, aside from his tried and tested "beer and football" revision technique, "it taught me to read the numbers pages of the Financial Times and understand what's going on".

Meanwhile, Slawther had been invited to join Turner & Newall's treasury team. By 1997 he had taken voluntary redundancy, a move that proved to be a remarkable piece of foresight, the firm going into Chapter 11 not long after. Sticking with industry, he joined adhesive tape manufacturer, Scapa, as Treasury Operations Manager, holding on to the position for just one year. "My career is characterised by not staying for long, but I like to think I make an impact and that I leave behind a better place than when I started," he comments.

Having something new and different to build upon has been the key to his success and soon he was heading off to UK retailer, Matalan. In his two-year appointment as Treasury Manager with the recently-floated firm, he gained "some fantastic experience", creating treasury from scratch, "relying heavily" on the core ACT publication, 'A Treasury Policy Blueprint' by David Swann.

To an outsider, it may have seemed as if he was taking on all the elements "that no one else wanted" and that what he had in fact secured was a dead-end. In Slawther-terms, this was far from the case; more extremely valuable experience was being accrued. "I suddenly realised what all these bits were; they were all the elements of cash flow for the business." From accounts payable, to payroll, to sales reconciliations, as a treasurer he believes it is vital to understand "the processes, the nuances and language of these functions".

Having just implemented SAP, the international food and drink firm, Princes Group, was looking for a Group Treasurer. Facing challenges in accounting for and managing its FX positions, in January 2000 Slawther arrived.

Problem solver

"It certainly wasn't the plan, but it felt like I was going into businesses, sorting out their problems and once I'd done that I wasn't really needed any more," Slawther muses. Although he modestly attributes the success of his schemes to establishing "strong fundamentals", the notion of "trouble-shooter" was already forming. With Princes Group now functioning slickly, the call came through to head up treasury for the UK and Nordics operations of Michelin Tyres.

With a balance sheet showing significant negative net assets before it had even accounted for its pension scheme deficit, it was looking for a hired gun to give it direction. But what came next was, in his own words, "possibly one of my finest hours".

As Group Treasurer for construction and engineering group, Jarvis Plc, Slawther joined right in the middle of the company's £386m debt for equity swap. But of more immediate concern was working capital, the group struggling on a single £38m facility (subject to an interest rate peaking at Libor plus 18%). Following some deft refinancing which saw him originate, negotiate and lead a £67.5m asset-backed financing facility, including a £10m subordinated tranche, and a further £50m equity placing, the group was back on its feet once more and Slawther was on the move.

Described by one industry colleague as a "Special Situations Treasurer", Slawther was now beginning to realise "what he did for a living". In January 2008 he took over as Group Treasurer at Speedy Hire. The construction equipment rental firm had grown substantially through acquisition and was looking for someone to give it financial focus. Having established, once again, the need for a solid infrastructure around working capital, funding and liquidity, Slawther recognised that the company only then needed day-to-day operational treasury staff and a working capital controller, "not a one-man hit squad". He was on his way again, not before a chance meeting with a former colleague had revealed to him the personal and pecuniary advantages of interim treasury management.

As a result, Slawther set off in the direction of logistics firm, TDG. Brought in on interim assignment as Group Treasurer, once again the task at hand was to manage financial risk through a period of restructuring. At that point TDG was under the private-equity ownership of Douglas Bay Capital. Burdale Financial (whom Slawther had first met at Jarvis' refinancing sessions) had just put in an asset-based lend (ABL) based on receivables from TDG's property (mostly industrial logistics yards). Coming just two weeks after the collapse of Lehman Brothers, Burdale was concerned that its loan was at risk following the departure of its treasury incumbent and had called in Slawther as 'preferred candidate' to pull the company

into shape, prior to it subsequently being sold off to French logistics firm, Norbert Dentressangle. Slawther remained in situ through to the completion of the sale.

With considerable turnover but low margin TDG started by shedding a number of unprofitable contracts. But by reducing its turnover it risked reducing its financing. "I was back to using the Accounts Payable function as the real financing source for the group," he explains. In fact, without support from a "superb" Accounts Payable manager he admits "we would not have succeeded".

Getting the right people

"I've learnt throughout my career that if you get the right people with you, you can do almost anything. Get the wrong people and you can do nothing." Anyone seeking advice on recruitment would do well to pay less attention to claims of experience, instead "thinking carefully about what personal qualities the role needs". Describing in detail his own approach, Slawther says his own needs are for individuals who will question processes, display common sense and be able to "ruthlessly prioritise what needs to be done". These are common attributes at a senior level. However, he feels some professionals overlook the 'soft skills' of people management. The problem is that nobody teaches you how to identify what you need in human resources, how to manage staff that aren't performing – and how to manage those that are – and how to build good relationships with the banks". It is, he believes, something that only comes with experience.

Street-fighting treasury

Despite a "tempting" offer to stay on at Douglas Bay, Slawther's next assignment, at OCTAL, beckoned. With the firm's American CEO describing him as a "street-fighter of a treasurer", he certainly needed to be tough for what was to come.

Middle Eastern business culture often places major shareholders as the de facto owners of a company and therefore it is they who take responsibility to financially support that company even in difficult times. "This is not the concept of limited liability as we know it in the West; insolvency law is not well-defined in the region, even in Oman," notes Slawther. A general unwillingness to accept failure means businesses will be kept afloat "no matter how economically unviable they are".

With this in mind, starting a business in the region presents a number of challenges for outsiders. For a start, Slawther comments that the banks do not necessarily lend on assets, given the less developed legal framework for the taking of security in the region, but on the perceived strength of the backers of a business; the backers accepting that if the company gets into trouble they will have to shore it up and thus "seeking a massive return on equity to protect their interest". Further, businesses are seen to fall into four categories of government owned or backed; large family group owned; owned by a large foreign multinational or listed on a stock exchange. Also, anything associated with petrochem is seen as a "project", with a finite life and known inputs and outputs, rather than a business with product development and international growth at its heart. Hence areas such as sales, marketing, financial supply chain and market risk are less well understood. The global market exposure of the business, OCTAL sells into over 60 countries across all continents, made the subsequent re-financing of OCTAL a very challenging process. OCTAL's more western style shareholding structure of multiple investors from different jurisdictions means it does not have the single deep-pocketed owner backing it. The banks thus exercise extreme caution, even if the company does represent about 15% of Oman's non-oil exports and 2% of its GDP.

With OCTAL subject to "fairly restrictive financing" in an increasingly tough market, constrained working capital had seen it "go through the mill" over the past couple of years. The business became stuck within a catch-22 situation of difficult market conditions affecting profitability across the industry which led lenders to be reluctant to increase working capital facilities, which constrained procurement leading to lower production volumes which affected profitability. Also, all of its existing working capital facilities (around ten in total) were uncommitted bi-lateral arrangements, all were on different terms and conditions and pricing structures. "That's the kind of thing that gives a treasurer sleepless nights," Slawther comments.

Fortunately, for managing cash, he has two "incredibly good" team members whom he describes as "very astute, having a vision of what we want to create here". His recruitment policy has clearly paid off again, and in one case enabled him to bring on board an individual for a role which Slawther describes as "in some ways, less a deputy and more a henchman – who'll take people into an alley on a dark night and give them a thump; someone who is robust whilst at the same time having the tremendous technical and commercial skills to back that up". His 'henchman' manages to "keep the wheels on the business" freeing him up to do the ongoing re-financing work. With the fundamentals taken care of, OCTAL has managed to re-finance its term loan facility (now at $285m), extend the tenor to ten years and even reduce its net interest rate. The initial re-financing programme has given it the necessary working capital injection to attract further facilities on the back of increased production and sales. The future is looking brighter already.

Know your business

In operational treasury terms, one of the main concerns for OCTAL (and the whole PET industry) is supply-chain management. For Slawther, this is where a broad-based interest in business comes to the fore. OCTAL's pricing structure is derived from two key raw materials, both of which are oil derivatives and are thus subject to price volatility. To understand treasury's position he monitors the upstream supply chain capacity, both in terms of utilisation of that capacity and what is being refined (gasoline or petrochemical derivatives).

Any movement at the refinery and further downstream in terms of production will thus be as much an influence on product pricing as would the cost of oil itself. With commodity prices liable to change dramatically during shipping and the industry typically working on a price-on-delivery basis, hedging is a necessary but extremely delicate balancing act. "It all comes back to treasury as a risk management function".

For the role to be truly effective, Slawther urges all treasurers to learn their business. "If you don't have all the information you can't manage the risks." Absorbing and understanding the facts beyond their own discipline may seem onerous to some finance professionals but for Slawther it presents the best of all worlds. "In fact, one of things I absolutely love about treasury is that you have to be right at the heart of the business and have to know what's going on all around you. After all, everything eventually comes back to cash!" ■

THE BANK INTERVIEW

Deborah Mur

Managing Director, Head of Treasury and Trade Solutions, Western Europe

Deborah Mur was recently appointed as Western Europe Head for Treasury and Trade Solutions (TTS). Based in Paris, she is responsible for formulating and executing the business strategy for TTS across all client segments in 17 Western European markets. Mur has worked at Citi for 24 years and has held numerous roles across the globe including heading up Citi's Client Sales Management teams in China and Canada. Prior to joining Citi, she held Cash Manager roles in Corporate Treasury with multinational companies in the US.

In this interview, Deborah Mur, Citi's Western European Head for Treasury and Trade Solutions shares her views about the challenges faced by corporate treasurers in changing economic and regulatory environment in Europe. She also looks at trends in treasury technology, working capital management, and the growing opportunities for corporates in emerging markets, particularly in China.

What are the major trade and cash management challenges facing corporate treasurers in Europe today?

The primary issue facing corporate treasurers is still related to the twin challenges of addressing the continued slow growth macroeconomic environment in the region, and an increasingly slower growth trajectory in the emerging markets. While we are beginning to see tentative signs of recovery in some regions, we are seeing slower growth in key emerging markets such as China and India, when compared to growth

patterns over the last ten years. However, concentrating on their home region, there is still a great deal of uncertainty coming from governments and central banks. Such uncertainty is not conducive to corporate investment and is therefore impeding a faster recovery, as companies are seeing higher shareholder returns allocating investment capital to faster growing regions outside the European Union (EU). Companies in Europe, coming out of the recent economic crisis, have adopted a strategy to protect principal and have accumulated substantial amounts of liquidity on their balance sheets. As markets slowly improve, their companies are seeking to deploy that capital either through M&A activities, as a means to acquire market share, investments in new plant and equipment to enhance productivity, or by returning cash to shareholders through dividend repurchases. Along with these strategies, revenue growth remains central to their goals, along with the need to manage the financial and operational risks as they expand further into new markets. So, when we discuss with our clients their core strategies for 2014, cost minimisation, productivity gains, supply chain management and working capital management remain essential underpinnings in this environment.

Our clients, be they corporates, financial institutions, or public sector leverage Citi TTS' global liquidity platforms in order to manage costs and mitigate risks including operational, settlement and counterparty risks. In Western Europe, the dominant issue at the moment is Single Euro Payments Area (SEPA) compliance. The recent announcement to extend the transition period for six months from 1st February 2014, will help major utilities with their migration to SEPA transaction formats. Most corporate clients have been addressing SEPA readiness for the past 12 months. The extension is likely to require continued acceptance of legacy transactions types and therefore maintain dual transaction processes (and dual costs), however the countries have adopted different positions, complicating matters for those who are not fully compliant yet. This will need to be monitored closely by companies. We are feeling comfortable about where we are. Most of our customers have either migrated successfully, or are on schedule to do so this month.

The lack of preparedness in other areas of the market is most concerning. Firstly, too many SMEs – within our client's supply chain – and some of the smaller local banks are not yet fully compliant and this will present substantive inefficiencies for those transacting with those companies or banks. Secondly, we are seeing local nuances of SEPA in different countries which runs against the spirit of SEPA. The original objective was to facilitate the movement of capital by harmonising pan-European schemes for credit transfers and direct debits, however this may have been sacrificed along the journey. Some of the markets have maintained local transaction codes and discrete processes which was not the intention of the Payment Services Directive (PSD). Nevertheless, our message to corporates is that you cannot postpone the inevitable. Sooner or later the legacy systems will be switched off and companies who have not migrated by that point will be caught in a really unenviable position.

Some domestic payroll service providers have also been slow in their preparations for SEPA and this will be a concern when the final deadline for adoption of SCT arrives. SEPA presents an excellent opportunity to look at payroll processing for improved efficiencies and reducing operational risk and costs. Moreover, Payroll is one area that has traditionally been the domain of the human resources department, but is now viewed as an area that would benefit from corporate treasury's guidance in ensuring the proper controls exist around the payment process, including cross-border payments for expats, and even in the selection of payroll service providers.

How do you see the regulatory landscape in Europe developing in 2014, and what support is Citi providing its clients in terms of regulatory compliance?

The regulatory environment remains very challenging for banks and corporates; Basel III, SEPA, European Market Infrastructure Regulation (EMIR), Foreign Account Tax Compliance Act (FATCA) plus additional local regulatory changes, including more capital controls. Our clients benefit from our global knowledge and strong industry alliances with regulators, infrastructures and associations. We've recently issued a Global Regulatory Guide to provide clients with updates on major regulatory developments, and address issues and implications for corporates. Additionally, we maintain Country Regulatory Guides with local regulatory information and market practices and share these globally with our clients.

In relation to the increase in regulatory requirements, one of the outcomes has been the acceleration of corporate treasurers improving the visibility and control over bank accounts. Those that have not started yet are well advised to design a game plan with their banking partners because all the key stakeholders – regulators, tax authorities, corporate boards, shareholders – are demanding greater visibility, as well as enhanced reporting related to anti-money laundering and know your customer activities. The fact that regulation is increasing the focus on transparency is a global trend and not one which is necessarily exclusive to the banking sector. It is also reflected in demands from regulators and clients, for greater transparency in transaction content and pricing. Some of the payment systems were prone to abbreviating or cutting off some of that information. But now some of the regulators are requiring more complete issuer and beneficiary details in messages. Of course, ISO XML will address to an extent this issue of data truncation, especially in SEPA countries, and will have the added benefit of improving identification and facilitating straight through reconciliation.

Corporate treasurers also want greater transparency and efficiency around invoicing for bank services. Some companies are asking their banking partners to provide TWIST BSB statements in ISO XML format or other electronic formats to expedite the reconciliation of invoices. We have been working on this at Citi and we are now able to provide invoices in electronic formats throughout most of our more than 100 country network.

What services does Citi offer clients to help them improve their working capital management (WCM)?

Improving the cash conversion cycle and working capital management remains the key priority. At Citi, we offer clients bespoke solutions to help companies optimise their working capital management. For corporate treasurers embarking on such initiatives, we recommend benchmarking your company to your peers as a first step. Citi Treasury Diagnostics is a tool we developed for corporate treasurers to compare on a

confidential basis their current treasury and finance practices with other companies in their industry to identify areas for improvement. Based on the results and the corporate's objectives, we'll then recommend solutions that might encompass liquidity management structures, trade finance, transaction processing optimisation, and corporate card programmes. Once compliance is achieved, SEPA presents an opportunity to improve working capital management by simplifying cash forecasting thanks to the consistent value-dating that will be applied for SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) transactions.

Many clients have implemented our regional or global commercial cards programmes to improve working capital. At the simplest level, cards provide visibility, transparency and control over expenses and procurement by turning variable outflows into predictable cash flows. But procurement cards (p-cards) can add additional value by streamlining the procure-to-pay process and reducing the cost of procuring low-value items. Studies have shown that the cost for a requisition, purchase order, invoice and payment can range between $50 and $75 per transaction. P-cards can reduce that cost by eliminating the requisition, purchase order and invoicing element.

However, travel cards play an even greater role in the emerging markets. In China, for example, total business travel expenditure has been estimated at over $150 billion per annum. It's a big problem for companies today as they have little control or visibility over travel expenditures. Citi rolled out its commercial cards programme in China about a year ago, the first global bank to do so. Initially it was challenging due to local regulations but now there are many companies using our cards and we see significant demand in the market for such solutions.

What opportunities is this process opening up for multinationals in China?

When I first arrived in China, everybody thought it would take at least 15 to 20 years to see renminbi internationalisation. The reality is that it is going faster than anybody predicted, although there is still some way to go before we can expect to see full capital account liberalisation.

China remains a complex market but it is one which corporates need to watch closely. Early adoption is important. Companies should take advantage of the new reforms and the pilot programmes being introduced by the Chinese regulators who want to see participation.

The issue of trapped cash in China is not entirely solved but there is definite progress. Multinationals can now move excess cash out of China in RMB by loaning it to another group company. Regulatory approval is no longer required. The next step is to automate the process by pooling and target-balancing, and we are working on new solutions to leverage the reforms in the Shanghai Free Trade Zone (SFTZ).

For corporates in China, converting inter-company and even third-party cross-border payments to renminbi should be considered. The benefits of this approach are significant; it allows companies to centralise and aggregate foreign exchange exposures from local operating companies to centres of expertise, simplify and automate the payment processes as reduced supporting documentation is required, and improve management of RMB and foreign-currency liquidity from faster payment cycle timeframes.

How can banks support corporates as they expand in emerging markets?

What global banks bring to the table is a strong partner for corporates, one which understands their business, how they operate and can then link the company to the local market in an efficient and compliant manner. Additionally, Citi's Treasury and Trade Solutions network spanning more than 100 countries provides clients a consistent technology backbone, which helps clients control their investment spend. I spent much of my time in Asia explaining to clients how to best manage treasury in China and, how that compares to what we do in Europe and North America. For example, there is a lot of talk in China at the moment about payments-on-behalf-of (POBO) and receivables-on-behalf-of (ROBO).

However the permitted uses of POBO and ROBO in China are different to how the same techniques are used in Europe or North America. Global banks add value in the translation between East and West. We use the knowledge of our clients to adapt solutions to fit within their broader goals and objectives. Really, it is all about connecting the clients and the markets to make it easier for corporates to navigate the globe.

You have spoken about the need for 'best-fit' technology, but what does this mean for treasurers?

We all acknowledge companies operate with complex organisational structures, cultures, and geographical footprints and therefore have different treasury technology requirements. Even within companies it is often the case that there are business units with different ERP platforms or different business processes. Clearly one solution doesn't fit all and for that reason we see companies maintaining multiple connectivity solutions. Treasury and major business units may be using SWIFTNet or host-to-host connectivity with XML file formats, but then there are always outliers in the business that cannot be integrated onto the main platform. That's not a problem as long as the platforms provide the functionality and integration needed along with strong security. Treasurers should maintain their efforts on achieving visibility and implementing proper controls. Fortunately, we offer a broad range of connectivity solutions that can accommodate the needs of complex organisations. Connectivity remains an area in which we continue to invest.

Citi has an ongoing mobile solutions programme, but what are the signs that the mobile model is beginning to gain wider acceptance in the treasury community?

We're tracking activity on our mobile solutions and we're seeing strong momentum. As of Q4 2013, TTS processed $115 trillion in payments actioned using CitiDirect BE Mobile. This technology is going to be liberating for treasury managers.

We announced CitiDirect BE Tablet at EuroFinance in Barcelona last year and I am really impressed with what has been achieved. It's been designed for senior treasury and finance managers to provide anytime, anywhere access to data to support decision-making and action single and batch payment approvals. So far, treasurers who have seen our new app in action see value in the added productivity that this financial tool will bring. ■

The rise of separately managed accounts

Uncertainty over the future regulatory treatment of money market funds is leading to increasing interest in separately managed, or segregated, accounts. For corporations with large cash holdings, separate accounts may offer an attractive way to maximise yield in the continuing low interest rate environment.

Where to invest short-term cash holdings in a global environment of low interest rates is a key concern for corporates. The amount of cash on the books of some companies is significant. For example, ratings agency Moody's estimated that as of 30th June 2013, Apple had cash holdings of $147 billion, a figure that accounted for nearly 10% of all corporate cash held by non-financial companies in the country.

The total of $1.45 trillion in cash stockpiles across the US was concentrated among 50 companies, including Microsoft, Google, Cisco Systems and Pfizer. Companies with the largest stockpiles of cash were from the technology sector, followed by the health care and pharmaceuticals industries. In Europe, according to research published by Standard & Poor's in early 2013, non-financial companies have over €1 trillion on their balance sheet in cash and equivalents.

Bank deposits and money market funds (MMFs) tend to be the most popular venues for short-term cash investments for corporate treasurers. But unanswered questions regarding possible regulatory changes for MMFs and the prevailing low interest rates for bank deposits have boosted interest in separately managed accounts.

Separately managed accounts

First developed in the 1970s, separate accounts were designed to accommodate clients who needed to meet specific objectives that did not fit within the constrictions of a mutual fund investment. "More recently, there has been increased interest in separate accounts because there are a number of companies holding significant cash balances and they want better yields," confirms Colin Cookson, Managing Director - Liquidity at Aviva Investors. "Also, there is some nervousness about which way regulators will go in terms of money market funds."

US-based Money Management Institute (MMI) says the total separate account sector – retail and institutional – posted a 3% asset gain during the third quarter of 2013. Its SMA Advisory category recorded $11 billion in net flows, nearly doubling its $6.4 billion intake during the second quarter.

So what exactly is a separate account? A separately managed account offers a personalised approach to investing using a customised portfolio of securities owned by an individual or institutional investor. It is an individual managed investment account offered typically by an investment company through one of its brokers or financial consultants and managed by independent investment management firms (or money managers). Varying fee structures characterise the sector.

Separate accounts tend to be highly diversified and have a particular focus. However, unlike mutual funds the separate account portfolio manager buys individual stocks for his client's account and not for a general fund. A corporate treasurer investing in a separate account will not be buying into a pool of assets, but will be buying – and owning – the individual assets.

MMF regulation

Money market funds hit their peak of popularity in January 2009, when total investments were estimated at $3.92 trillion. Enthusiasm has since cooled for this sector, with funds invested now estimated to be worth $2.6 trillion. It could cool further still as financial regulators seek to strengthen investor protection by increasing regulatory oversight of money market funds.

The Securities and Exchange Commission in the US laid out its plans in June 2013, which included a provision to require prime funds used by institutional investors to move to a floating net asset value (NAV) - at present shares are valued at $1 each. A second proposal would give fund boards for institutional and retail funds the authority to impose liquidity fees and redemption gates during times of stress. That would give funds the power to stop an outflow of investor money. European financial regulators are also tackling MMF regulation and in September 2013, the European Commission proposed a European framework designed for MMFs. But the final picture for regulation of MMFs is yet to emerge.

Interestingly, several recent surveys have found that total corporate assets in money market funds would fall by circa 60% if a floating NAV were introduced. Separate accounts are a likely beneficiary of such outflows.

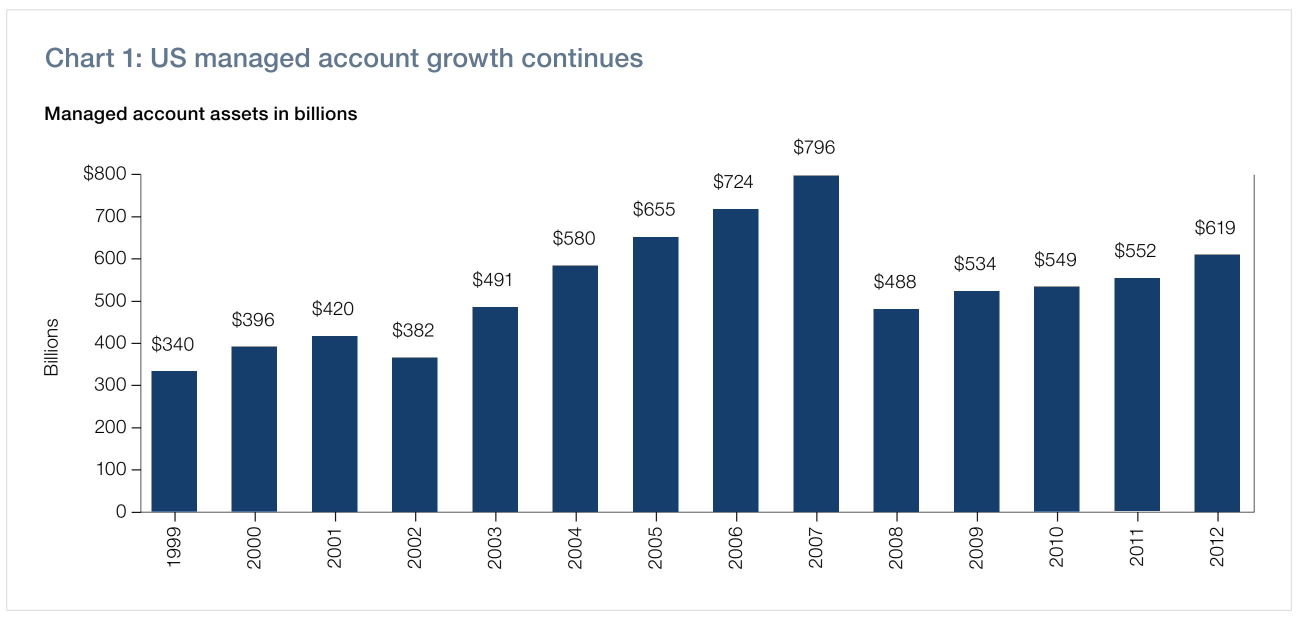


Chart 1: US managed account growth continues

Source: Cerulli Associates Managed Account Research Quarterly Summary. As of 31st December 2012.

Separately managed accounts can play an important role in a corporate treasurer's short-term cash strategy because of the special benefits they offer, albeit at higher investment minimums. Because treasurers can customise these funds, individual financial goals can be better matched than in, say, a MMF. The features of professional money management are combined with the flexibility, control and transparency of owning individual securities.

In summary, a separately managed account is a portfolio of securities directly owned by the investor and managed according to specific parameters and/or style by a professional investment manager. Account owners have the ability to customise their accounts by excluding certain securities or industries.

While separate accounts have been popular in the US for the past 20 years, Jason Straker, Managing Director and Client Portfolio Manager for the short-term fixed income group at J.P. Morgan Asset Management, says a better understanding of the short-term markets among European treasurers and corporations is boosting interest in them in Europe at the moment.

"The credit crisis proved to be a lesson for many treasurers when it came to money market funds, which they had previously treated as a commodity," says Straker. "Now treasurers are asking more questions of the securities in which they invest." This greater understanding has led to an increase in the popularity of separate accounts. "One of the biggest benefits of separately managed accounts is customisation; we and other providers can offer a corporate treasurer complete customisation of the portfolio."

Says Aviva's Cookson: "A treasurer can be very specific about the underwriting criteria used for the investments in a separate account, whereas in a MMF there is no direct control of the underwriting. A separate account's underwriting criteria can match the treasurer's risk/return objectives. For example, if you don't need some cash for six months, the duration of the separate account can be tailored to meet that expectation." They also offer greater transparency into the underlying assets in the fund, with more detailed reporting than is available with MMFs.

This customisation comes at a price; separate accounts are more complex to set up than MMFs and require lengthy discussion with investment managers about specific goals and requirements. Documentation and legal work is extensive and in addition to appointing a fund manager to undertake the fiduciary responsibilities of the fund, a corporate also has to appoint a custodian to safeguard the assets. Extensive due diligence of the fund manager and the custodian must be undertaken.

The treasurer will need to understand the risk/reward profile of all the instruments that the fund manager will invest into. He or she will also need to quiz the fund manager on their expertise; how long the manager has been managing separate account mandates; its track record and philosophy of investing cash; and how core separate accounts are to its overall activities.

Flexibility

Another benefit of using separate accounts is a greater potential to target higher returns or yield versus other off the shelf investments such as MMFs or bank deposits. MMFs are extremely liquid, but that liquidity comes at a cost, as between 20-40% can be held in overnight deposits. Some corporate treasurers question whether keeping large sums in overnight monies is a missed opportunity. With separate accounts, all of the liquidity belongs to the corporate and therefore the overnight proportion of liquidity can be reduced as required to suit the corporate's cash requirements.

Flexibility is also apparent when it comes to the assets that make up a portfolio. A corporate's individual view on investment types can be more accurately reflected in a separate account than in, say a MMF. For example, some companies are happy to invest in BBB-rated issuers, but MMFs do not allow such assets to be included in their portfolios. Straker points out that with credit ratings falling across the board, there are some very good BBB-rated issuers, particularly in the manufacturing and energy sectors.

By investing short-term cash into a separate account, a corporate treasurer can therefore gain greater diversification in their risk exposure. Because individual securities are owned by the corporate, there is full transparency of the portfolio of investments. This means that a corporate has

more control in managing all of its investments and can ensure there are no overlaps.

Additionally, separate accounts enable positions to be exited very quickly. If the portfolio manager believes the market is due for a correction or wishes to exit a particular position, the necessary trade can be executed rapidly. Also, if investment circumstances change, for example if an acquisition or bond maturity is in the pipeline, the average maturity of the separate account can be changed to ensure the liquidity is available when required.

Suitability

While separate accounts have many benefits, they will not be suitable for all corporates. There is disagreement about the minimum investment required, however. Straker says companies turning to separate accounts tend to be in the very cash-rich sectors such as pharmaceuticals and technology. "Separate accounts aren't suitable for companies whose cash balances fluctuate to a great extent. For example if a company has cash balances that go from 0 to 50 (million dollars) at any time, that level of uncertainty would mean it is unlikely you could invest in, and sell, securities very quickly. You'd be better off looking at a MMF." Companies that can earmark a stable cash balance of around $50m or more should consider separate accounts.

Cookson disagrees, saying $50m is a 'relatively small mandate' for fund managers. The smaller the mandate, the less scope and flexibility there is for yield to be generated. "I believe a more realistic minimum balance for a separate account investment is about $100 million. But the main question for a corporate treasurer is 'do I have sufficient cash to use this approach?'."

"We find many of our customers often link their liquidity and segregated accounts, using both elements to manage the different layers of cash," says Cookson. "Balances in working capital and separate accounts can be linked and funds moved between the two as needed."

Another advantage of separate accounts is that they enable corporates to generate yields better than those achievable in MMFs or bank deposits without having to employ internal resources to do so. Few corporates are in the position to be able to employ teams of credit analysts to manage cash. By choosing separate accounts, a corporate is outsourcing its credit process to an investment management company. The investment manager will use its expertise and understanding of markets to maintain the performance of the separate account portfolio. Corporates should choose managers they believe have good credit processes and sound underlying investment practices. This is why the due diligence process is so important.

Alternatives

As separate accounts become more popular, they will not be suitable for every corporate treasurer. The cash invested in separate accounts should be sourced from reserves that are not required on a daily basis (such as working capital balances). Rather, the funds should be those that can be spared for a year or more. Other options for investing cash include bank term deposits of one month or greater. These are very simple investments to set up, but there is a significant counterparty risk of placing unsecured funds with a single counterparty.

Exchange traded funds are also becoming more popular for corporate treasurers, although their growth in Europe is not matching that of separate accounts. These funds tend to be used by extremely large corporates in combination with their cash investments. However, knowledge and experience in trading securities on stock exchanges is a prerequisite. ■

Separate accounts at a glance

Advantages

Customisation. Treasurers can select the parameters for their investments and specify a risk-reward profile that suits their requirements.

Potential to earn higher yield. Separate accounts can enable the generation of improved yields when compared with MMFs or bank deposits.

Flexibility and control. If investment circumstances change, the investment guidelines can be rapidly changed to reflect this and keep in line with the treasurer's goals.

Transparency. Assets within the fund are owned directly by the corporate, giving full transparency of the securities within the portfolio.

Disadvantages

Set-up. Separate accounts require detailed guidelines, documentation and legal agreements, along with the appointment of fund managers and custodians.

Understanding. Treasurers require a high level of understanding of the risks and rewards associated with each type of security in order that they can agree the investment guidelines for their portfolio.

Minimum investment. A higher minimum is typically required when compared to MMFs.

Loss of liquidity. In comparison to a MMF the corporate's money may be tied up for a minimum period of time rather than being available on a same day access basis (one of the major benefits of a pooled MMF).

Fees. Separate accounts attract higher fees than MMFs.

OPPORTUNITIES BEYOND MONEY MARKET FUNDS AND BANK DEPOSITS

RETHINKING VALUE

Since 2008, short-duration markets have been marked by a relative lack of available investments and elevated demand for high quality, short -term debt. This supply-demand imbalance, in our view, makes it difficult to generate incremental yield without taking incremental risk (by risk, we mean either principal risk, in the form of duration and/or credit, or liquidity risk). This marks a shift from traditional criteria for asset managers' selection, who are usually judged by how much "Alpha" they generate, and strive to generate above-benchmark risk-adjusted returns.

A BRAVE NEW WORLD

Regulators' efforts to retool the plumbing of the international financial system in the wake of the Global Financial Crisis are starting to translate into tangible changes. Increased reserve requirements for depository institutions are likely to make banks deposits more expensive. Similarly, ongoing Money Market Fund regulations in the US and Europe are aimed to increase the safety of those vehicles, but this has also indirectly affected their yield.

SEGREGATED LIQUIDITY STRATEGIES:

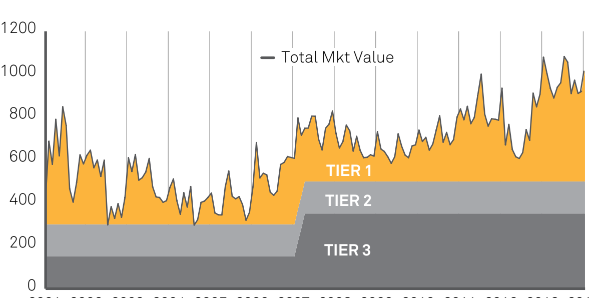
The 'Missing Piece' in Cash Allocation

We view liquidity and safety as necessary, but this necessity comes at a cost. The flip side, in our view, is that incrementally less liquid assets are at a relative discount. Institutional investors with excess liquidity unlikely to be tapped in the short term should consider increasing their expected return by carefully considering taking incremental risk – a process we refer to as 'tiering'.

POTENTIAL OPPORTUNITIES

Standish offers a breadth of bespoke strategies which could be attractive in the context of an overall Government/ US Treasury cash allocation. For instance, a non-financial corporate credit mandate could provide diversification from exposure to financial institutions in your other cash investment vehicles. Similarly, a dedicated allocation to highly rated Asset Backed Securities could provide a high quality alternative at a competitive yield. Duration-hedged strategies could also be considered, as we view credit and securitized spreads as 'fairly-valued', while the lower duration reduces the potential interest rate volatility.

Sample Operating Cash Balance ($millions) and Allocation



Liquidity needs

TIER 1
Operating Cash

TIER 2
Core Cash

TIER 3
Strategic Cash

Potential Risk and Reward

TIER 1 – Operating Cash
- Basic, daily cash flows
- Maximum Liquidity
- Sources: Overnight Short Term Investment Strategy (STIF); Gov't STIF; Treasury STIF; 2a-7 Money Market Funds

TIER 2 – Core Cash
- Specific targets for medium or longer term needs
- High Liquidity
- Sources: Enhanced Cash; Ultra Short Gov't/Credit; Short-Term Tax Sensitive

TIER 3 – Strategic Cash
- Focus on total returns
- Moderate liquidity
- Sources: 1-3, 1-5 Gov't/Credit; 1-5 Tax Sensitive; Crossover; 1-5 Core Plus; Global ABS

Source: Standish, 1st January 2014. Past performance is not indicative of future performance.

STANDISH

YOUR PARTNER OF CHOICE

Individualised Approach: we believe effective cash investment strategies require an individual approach – one where providing competitive investment strategies are only part of the allocation puzzle. Our investment team helps structure a comprehensive and transparent approach that strikes the right balance between safety and potential return for your organisation.

A Long Term View: Standish prides itself in building partnerships; our existing cash clients have held their accounts with Standish for an average of nine years.

Proven Track Record: as part of the BNY Mellon organisation, Standish has been managing fixed income portfolios since 1933. Currently, our dedicated investment team with an average of 16 years of experience in liquidity strategies, manages over USD $30 billion in dedicated liquidity solutions for 100+ clients.

A Global Manager Increasing inter-connectedness between asset classes and global regions means isolated risk can quickly become global and affect even the 'safest' investments. With Standish's global footprint and extensive fixed-income research capabilities, clients benefit from state-of-the-art analysis and risk management.

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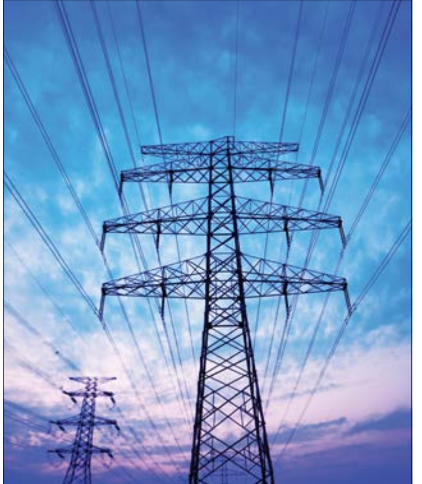
RISK MANAGEMENT

Commodity risk

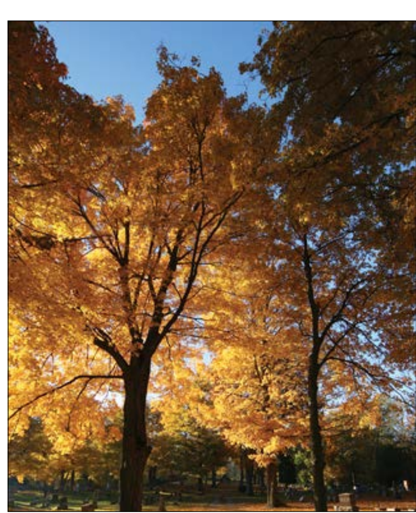
With commodities often more volatile than FX, treasurers are increasingly responsible for managing commodity risk – something which often used to be left to the purchasing or sales department. In this article, we look at the many nuances and intricacies that a treasurer should consider when it comes to commodity hedging, not least the need to be co-ordinated with the business. We also examine the impact of IFRS 9 on those companies hedging commodities.



CORPORATE FINANCE

Distributor finance

More and more corporate sellers are using distributor finance (DF) to support the working capital needs of their key distributors. Not only does DF provide distributors with access to affordable finance, enabling them to increase sales and grow business volumes with lower capital requirements, it also assists geographically-strategic distributors to expand their operations into new markets. Treasury Today examines the rise of DF and outlines the key ingredients for a successful DF programme.



REGULATION

The SEPA transition

Now that the European Commission has granted a six month 'grace period' for the SEPA switchover, we speak to corporates who managed to meet the 1st February 2014 deadline and determine what lessons can be learnt from their experiences. In addition to these insider tips, we examine the wider benefits that SEPA may bring to the treasury function and analyse its role in delivering greater efficiency in 2014 and beyond.

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

Carole Berndt, Managing Director Global Head, Transaction Services, RBS; **Jim Bidwell**, Global Head of Documentary Trade Product Management, Barclays; **Paul Bramwell**, Senior Vice President of Treasury Solutions, SunGard; **Justin Brimfield**, Executive Vice President, Corporate Development, Reval; **Eric Burroughs**, Editor, Reuters Buzz/FX Buzz; **Enrico Camerinelli**, Senior Analyst EMEA, Aite Group; **André Casterman**, Global Head of Corporate and Supply Chain Markets, SWIFT; **Colin Cookson**, Managing Director Liquidity, Aviva Investors; **Ken Deveaux**, Global Head of Channels and Distribution, International Banking, RBS; **Damian Glendinning**, Treasurer, Lenovo; **Mark Wraa-Hansen**, Global Head of Cash Management Solutions, Danske Bank; **Britta Hion**, Head of EMEA Corporate Cash Sales, BlackRock; **Marcus Hughes**, Director Business Development, Bottomline Technologies; **Phil Mattes**, Treasury Strategist, Kyriba; **Deborah Mur**, Head of Treasury and Trade Solutions, Western Europe, Citi; **Gary Slawther**, Corporate Treasurer, OCTAL; **Neil Stirling**, Treasury Dealer, Weir Group; **Jason Straker**, Managing Director and Client Portfolio Manager, J.P. Morgan Asset Management; **Matthew Tatnell**, Head of Liquidity, Aviva Investors; **Kelvin Walton**, Director, TreasuryWise; **Phil Weisberg**, Managing Director, Global Head of Foreign Exchange, Thomson Reuters; **Hugo Parry-Wingfield**, EMEA Head of Liquidity Product, HSBC Global Asset Management; **Kee Joo Wong**, Head of Global Payments and Cash Management, HSBC (China).

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