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March 2014

The final growth frontier

If Africa is to reach its full economic potential, more must be done to promote intra-continental trade. This is easier said than done, however, as the hurdles are not only structural but also societal.

Women in Treasury
Michelle Dovey
Group Treasurer
National Express

Bank Interview
Sunil Veetil
Regional Head of Payments and Cash Management, MENA
HSBC

Risk Management
Hot commodities

Regulation
SEPA 2.0

Back to Basics
Hedge accounting

Country Focus
Mauritius aims high

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From the uptake of mobile payments to the challenges of cross-border treasury, Sunil Veetil, Regional Head of Payments and Cash Management, Middle East and North Africa (MENA) at HSBC, shares his insights on key developments in the region.

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

Great expectations: the treasurer's wish list

A number of treasurers still believe there is room for improvement when it comes to how banks handle their relationship with their clients. But opinions differ on how they would like to see the relationship evolve. Some have had enough of a one-size-fits-all approach that does not take into account corporates' specific needs in certain countries or regions. "Banks need to take a more international view with their products and services to reflect the diverse nature of their multinational clients, to address even some of the large international banks with a footprint in many different countries have a standardisation of products and services which ignores local idiosyncrasies," says Chaoqun Gao, Senior Financing and Treasury Advisory Manager at Heraeus Holding GmbH.

Banks must get their houses in order

Treasurers also wish for banks to strengthen their balance sheets in 2014, in the hope that this could in turn lead to upgrades in the banks' ratings. This is understandable when many companies are bound by legacy policies to only work with A-rated banks – the pool of which seems to be diminishing. Many treasurers hope this will start to take place as banks meet the minimum capital requirements of Basel III.

Elsewhere, while the Eurozone crisis seems to have dissipated slightly, serious concerns remain. Several treasurers said they are eager to see sovereign debt problems continue to shrink well into 2014. While the treasurer has little influence in this sphere (one can only hope!), keeping a close eye on at-risk countries will be imperative.

Here technology can lend a helping hand. "The strategic development of IT infrastructure within corporate treasuries can bring multiple benefits to companies," says Karsten Kabas, Head of Corporate Treasury at Merz Group. "TMSs that offer connectivity with dealing confirmation systems and automated EMIR reporting tools, for example, save treasurers time and money."

Finally, regulation continues to dominate the headlines – and the minds of corporate treasurers. With EMIR trade reporting just starting, changes to accounting standards in the offing, and SEPA migration still ongoing (albeit with a new cut-off point), treasurers are already stretched trying to meet regulatory requirements.

Ruble all over the world

Earlier this year, The Central Bank of Russia (CBR) once again confirmed that it would allow the Russian ruble (RUB) to freely float in 2015 irrespective of the exchange rate. The currency has lost 6% already this year against the euro and dollar, the largest fall since the 2008 financial crisis. The move to free float the RUB forms part of the CBR's medium-term economic strategy which intends to target inflation.

The CBR originally introduced a managed exchange rate following the Russian financial crisis in 1998, seeking to smooth the effects of external factors on the Russian economy. Over the following decade, however, the CBR looked towards moving away from this regime, and free floating the RUB. Today, the RUB floats within a dual-currency basket consisting of the US dollar and the euro and the CBR intervenes if the RUB reaches the higher or lower regions of the band.

In January, Russian President Vladimir Putin stated "the freer the Russian national currency is the better." CBR rhetoric accompanying the announcement suggested that it would be scrapping its intervention totalling $60m a day – another step towards a free float. Furthermore a currency symbol has been assigned to the RUB, highlighting its increasing popularity in international markets.

The effect of a free float

Russian monetary policy chief, Ksenia Yudaeva, recently stated that the Russian economy, alongside many other developing economies, is in a state of 'stagflation'. Indeed, in 2013, Russia's GDP only grew by an estimated 1.4%, the lowest increase since the 2009 recession. Inflation has also remained high – currently at 6.48% – despite the CBR's efforts. The belief is that a free float of the RUB will allow Russia to tackle this problem more effectively and assist in Russia's new model of growth.

However, Natalia Zhivago, Treasury and Insurance Director at Heineken Russia believes that the initial impact of a free float in current conditions "will see the RUB weaken against both the euro and the dollar," benefitting Russia's energy sector in particular.

Troubled waters

Recently, calls have emerged from Moscow to delay the free float due to weakening of the ruble; the most high profile of these has come from Russia's Economic Development Minister Alexei Ulyukayev. While the CBR has moved to halt the decline by pledging unlimited intervention, there has been no official word that the free float will be delayed.

Despite the short-term issues that may arise from the free float, Grant Webster, a bond fund manager at Investec Asset Management was keen to point out in a recent Reuters article that although the RUB may weaken "you can't be too short-termist, they are doing it for the right reason. It's a positive if they seriously target inflation."

Treasury operations in Russia

In light of the recent developments, how will corporate treasury operations be affected if the CBR decides to push ahead with the free float of the RUB in 2015? Zhivago warns treasurers to be prepared for "fast fluctuations" of the USD/RUB and EUR/RUB rates. "Companies need to employ a clear hedging strategy to avoid unexpected losses and fix the conversion rate," she says. They should look at hedging their FX exposure over a shorter time period during the uncertainty and also review knock-out forwards and similar instruments, Zhivago recommends.

MMFs: what's next after CNAV?

In February, European lawmakers delayed a vote on proposals to regulate money market funds (MMFs), after splits began to appear within the European Parliament's economic affairs committee on the best way to proceed. The decision gave industry stakeholders an extra two weeks to voice their concerns on the proposals before MEPs cast their votes.

But what will happen if the regulation is indeed approved as it has been drafted? And what alternatives are there to MMFs for corporate investors if a switch to VNAV is not feasible?

A recent survey by Treasury Strategies, which was included in an open letter sent to the European Parliament ahead of the vote, offers a hint. In Europe, 61% of corporate treasurers invest cash in CNAV funds only, while 30% use a combination of CNAV and VNAV. If all funds are compelled to switch to VNAV, the survey indicates that 69% of CNAV fund investors will reduce or discontinue using MMFs.

Back to bank deposits

According to this survey, bank deposits represent the preferred alternative for a majority (72%) of CNAV MMFs users, but not everybody is convinced this is the right move. Like many of his treasury peers in continental Europe, François Masquelier, Risk Manager and Head of Treasury and Corporate Finance at RTL, uses both types of fund. He believes that even VNAV funds are a better option than bank deposits.

"That does appear the best strategy especially given the rates being offered and the abundance of liquidities on the market," he says. Switching to VNAV will inevitably require treasurers to learn the nuances of a new accounting treatment, and perhaps even changes to investment policy. But the funds do have the advantage of a cash equivalent which usually offers better returns compared with a bank.

That is of vital importance and in fact is the main reason most treasurers favour CNAV MMFs, one UK-based treasurer for a well-known frozen foods company told Treasury Today. She is optimistic, however, that Europe's MMF industry can weather the storm if CNAV funds do die out. Of course, the regulation will require treasurers to look again at their investment policies and there may be a few hoops to jump through to ensure investments are still classified as cash equivalent on the balance sheet.

"As a first port of call, if we can use the VNAV funds on our balance sheet then we will," she says. Returns on bank deposits have for some time now been negative in real terms but, like Masquelier, that is not what concerns her most. The problem is that a lot of banks now simply do not reach the investment criteria. "In terms of going to a VNAV fund I have heard that it doesn't fluctuate that much," she adds. "You are exposing yourself a bit more, perhaps. But really the issue is whether you can get over that accounting classification."

Segregated mandates

The problem is that besides bank deposits there are few alternatives for the corporate investor. One possibility is separately managed accounts. Figures from the US-based Money Management Institute indicate that the total separate account sector – retail and institutional – posted a 3% asset gain during the third quarter of 2013.

For some, separate accounts may be an option worth considering. There are advantages, such as the ability to customise accounts to exclude certain securities or industries. However, the investment minima are often much higher than with MMFs, therefore excluding all but the largest corporates.

Those corporates with enough cash to run as a segregated mandate will find that this option provides less flexibility than a MMF, particularly from a liquidity perspective. In a MMF, investors benefit from the collective liquidity of all the investors in the fund, whilst with a segregated mandate there are no funds other than your own. The portfolio of assets is invested with a range of maturities, some very short, but some longer, and it may not be possible to access all of your funds at very short notice. ■

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

This much I know

Michelle Dovey

Group Treasurer

national express

Do you feel that women bring something different to a treasury team?

Every team member, whether male or female, brings something different. But it's true that men and women typically approach tasks in different ways, which is useful for problem-solving in the treasury function. So, gender diversity is definitely beneficial.

Balancing professional and family life is tricky – is the business world heading in the right direction?

Since technology now enables remote access, progress is being made towards flexible working arrangements which allow for a better balance of priorities. I feel strongly though that flexible working should be a society issue rather than a gender issue.

Men and women, regardless of whether or not they have children, should be able to have a balance between their work and personal lives. This flexibility is something that responsible business leaders should be pushing, not just female groups. I believe that we need to get to a position where employers do not know whether a woman or man that they are interviewing will be the primary child carer or not. To achieve true equality requires a fully flexible working model.

Are quotas the answer to equality in the workplace at all levels?

Quotas might work in the short term, but we need a better long-term solution that stops women leaving the workplace and enables the promotion of talented women to senior positions on merit. Only then will we see a balance of men and women in senior roles.

What is the biggest treasury challenge you are facing right now?

EMIR is a real hurdle. It's extremely difficult to get internal buy-in for it because there is no financial payback to allocating staff to work on regulation. And at a time when Western economies are teetering on the brink of recovery, this kind of regulation puts an unnecessary burden on corporate resources.

If there was one tool that could help you to be an even better corporate treasurer, what would it be?

The best tool you can have is a great team. That means having a supportive and inspiring boss together with a supportive and talented team that share your vision for treasury. At National Express, I'm very lucky to have both. They help me to be the best corporate treasurer that I can be.

Who has been your greatest inspiration?

As with many successful women, I have a very strong role model in my mother. She has shown me throughout my life that it is possible to marry strength and determination with a nurturing and caring nature. I, together with my brother and sister, had a lot of encouragement to be the best that I could be, whatever my gender.

> "Men and women, regardless of whether or not they have children, should be able to have a balance between their work and personal lives. This flexibility is something that responsible business leaders should be pushing, not just female groups."

ON THE WEB

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

Heading up a corporate treasury department was not an obvious choice of career for Michelle Dovey. In fact, it was quite by chance that she had the opportunity to fall in love with the world of treasury. While working in an administrative role at TI Group (now Smiths Group) in 1997, a vacancy became available for a treasury assistant. Ambition, and a healthy dose of curiosity, propelled Michelle to apply for the position. Soon, she found herself working in a 12-strong treasury function under the guidance of the enigmatic Carol Power.

"It was fantastic having Carol as my first boss because she had also taken an administration into treasury route, so she was incredibly inspiring and gave me a lot of good advice. As for the role itself, I couldn't believe how lucky I was to find something that I really enjoyed doing. And when you enjoy what you do, it makes the world of difference to your performance," says Michelle.

With plenty of on-the-job training from those around her, and the AMCT Diploma in Treasury under her belt, Michelle was soon promoted – on several occasions in fact. By the time TI Group was acquired by Smiths Group in 2000, she was Chief Dealer. "After the acquisition, I was offered the role of Treasury Manager, but I decided it would be good for me to make a move to a different company and experience something new. It was time to push myself outside of my comfort zone," she explains.

In July 2001, Michelle joined AEA Technology as Group Treasury Manager. She subsequently moved to Imperial Tobacco in May 2004 as Head of Group Treasury Operations. After three years, Michelle was promoted to Deputy Group Treasurer and after three and a half years in that role, Michelle landed the position of Deputy Group Treasurer at National Express. True to form, after only 15 months at the company, she was promoted to Group Treasurer.

Equality and openness

It seems then, that being a woman in a male-dominated profession has not hindered Michelle's career progression. Although she has not been held back as such, she does believe that the glass ceiling still exists. "It might be a little more brittle than it used to be, but it's still tough. As a woman in business, you have to accept that certain people will always judge you first on your gender. Their opinion of you will be led by that, even before they have seen the quality of your work or capabilities. Women often have to work harder to win the trust or respect of these people, which can be quite exhausting."

It can also be quite lonely. "As you become more senior within an organisation, gender gaps become more obvious. You often end up being the only woman in the room at both internal and external meetings," she observes. "Nevertheless, I am very heartened by my team at National Express where I've been lucky enough to work with a few bright and strong women. My team is a very supportive and collaborative one." In terms of gender balance, National Express' treasury team of four is equally split between male and female professionals. "Previously we were actually an all-female department – which is pretty unusual in the world of treasury," she jokes.

The collaborative team environment at National Express has also helped Michelle to recognise the importance of aligning her values, and those of the treasury team, with the values of the Finance Director and the Group. "Often, criticisms or tensions arise in companies because the treasury department, like many other functions, works in a silo and sets its objectives independently. What I have learned is to take the time to consider how my actions will impact other departments and group strategy. It's also important to think how I, as treasurer, can make the company (not just the department) more successful."

Adopting this approach should also help treasurers to make their voice heard within the organisation, she advises. "Treasurers, especially women, need to learn how to better employ their relationship skills within the company. Raising your profile internally will give you greater exposure and access to board executives, building trust and credibility. This can only be good for your career prospects, and for the standing of your treasury team." ■

Michelle Dovey started her career at TI Group plc (now Smiths Group plc) in administration roles following a lengthy gap year in Spain. She moved into Group Treasury as a Treasury Assistant in 1997 then was promoted to Treasury Dealer in 1998, Dealer/Analyst in 1999 and then Chief Dealer in 2000.

Following the merger with Smiths Group in 2001, Michelle moved to AEA Technology plc as Treasury Manager.

After two and a half years at AEA Technology, Michelle moved to Imperial Tobacco Group PLC as Head of Group Treasury Operations. After working on a number of transformational acquisitions on the Group, Michelle was promoted to Deputy Group Treasurer.

With six and a half years at Imperial Tobacco under her belt, Michelle moved to National Express Group Plc as Deputy Group Treasurer in 2010, subsequently being promoted to Group Treasurer, the role that she continues to hold.

Cyber security

> *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?*

Nasreen Quibria, Executive Consultant, CGI:

The digital age is opening up new forms of payments fraud and cyber crime. One of the most common forms of cyber crime is malware. With these types of attacks, fraudsters lure users to content hiding malicious links underneath a legitimate image. Once a user clicks on that image, it downloads a hidden programme to an employee's computer. When the employee then logs on to a bank site, it grants information to attackers and redirects them to a malicious payload site. In a corporate setting, malware can have disastrous consequences with man-in-the-browser fraud mechanisms such as Zeus having the ability to compromise security tokens and certificates. Take, for example, a standard ACH batch, this can be manipulated to create a new beneficiary and account information and append the information to an existing payroll batch.

Malware can further exploit vulnerabilities to commit cross-channel fraud shifting from the online to the physical space. In one particular scam, criminals sold pre-printed counterfeit cheques linked to corporate bank accounts. To do this, fraudsters took advantage of the access to scanned versions of paid and received cheques available on many banking web sites, they obtained login credentials through malware and phishing attacks and found all the required information to transfer large sums of money to "mule" accounts.

Certain technology trends also contribute to heightened risk of exposure. For example, Bring Your Own Device (BYOD) is a growing trend in finance and treasury departments and malware can potentially be introduced to the office network through an employee's mobile device. Similarly the introduction of remote services with cloud storage is another area for concern. The flexibility and freedom that companies gain from such trends can conversely enable cyber criminals to conduct highly automated online banking theft. Therefore, companies that overlook security and employee education in these areas ultimately risk exposing their confidential data.

The good news is that the common forms of cyber crime are preventable. A multi-faceted approach that builds a culture of risk awareness with education, formalised processes and effective tools can thwart criminals' efforts. This begins with establishing corporate policies and communicating them to employees, such as providing helpful information to identify legitimate emails, the use of encrypted information for confidential information, masking account numbers and employing complex passwords.

Ultimately, fraud prevention requires constant vigilance. Companies should leverage best practices that include monitoring and reconciling accounts daily and instituting operational controls that rely on multiple approvals.

Exposure to risk can be further reduced by implementing tools from software providers and financial institutions. Installing, updating and maintaining firewalls and intrusion detection software, particularly those that provide malware/spyware security is key. Updating web browsers and installing security patches is also important. Finally, there are specialised solution providers in the market which offer real-time fraud detection systems monitoring and identifying unusual activity, such as new beneficiaries and disbursements sizes that are significantly higher than set criteria, which can be beneficial to a treasury department.

John Salter, Managing Director – Cash Management and Payments, Lloyds Bank:

The introduction of large amounts of technology into a treasury department poses different and increasingly more challenging security issues to companies than ever before. Cyber criminals are now able to attack companies in large volumes using technology and only need one breach of security to extract a substantial amount of sensitive information and potentially cause a fair degree of damage to a company in a few hours.

It is true however that despite the threat, many companies have insufficient dedicated resources protecting against cyber attacks. I believe that the key reason for this is that many do not understand the threats posed and assume that they will not be affected. For many companies it is not intuitive to have advanced cyber protection beyond the standard firewalls and anti-virus. Yet cyber criminals do not discriminate against company size, location or industry sector as long as a profit can be made. Cyber criminals will attack the weakest in the herd so ignorance to threats actually makes you increasingly likely to be attacked.

Cyber crime is also becoming increasingly professional and globalised and the scope and sophistication of attacks should not be underestimated. Treasury departments should therefore be aware that an attack may stem from any corner of the world and in

many cases may be disguised as legitimate business dealings. Furthermore, overseas associates may not have adequate controls in place which can leave your company exposed to attacks. The correct procedures will therefore need to be put in place to safeguard against these threats.

While cyber attacks are becoming increasingly sophisticated, issues still arise because of human error. Treasury departments looking to increase their cyber security should therefore begin by focusing on the basics. Areas like the processes surrounding opening and closing bank accounts and the handling of sensitive information are a good place to start. We would also suggest that corporates ensure their hiring processes are sound and training is offered so employees understand cyber risks.

Companies should also begin to look at professionalising their cyber security much in the same way as banks, through establishing a business unit which focuses solely on preventing cyber crime. Corporates will have to accept that this will cost money and will need to be continually funded to keep pace with the advancements in technology. However, this will assist in safeguarding the company against both external cyber attacks and slower developing internal attacks, which remain very difficult to spot, unless somebody is looking for them.

Going forward, cyber threats will continue to adapt and become increasingly more advanced. Treasury departments must therefore begin to understand the threats and employ greater safeguards against them before it is too late.

Martin Tyley, Regional Head of Cyber, KPMG:

While growing levels of technology in a treasury department can represent an increased cyber risk it still primarily remains a people issue. For example, a treasury department can have advanced controls and highly secured data, but if an employee takes this home, mentions it in public or wrongly emails it, these controls will be undone and the business will be at risk.

External cyber attacks on a business also pose risks and can be broken down into three areas. Organised crime, politically motivated 'hacktivitsts' and state sponsored attacks all use various methods to breach the companies safeguards and steal or corrupt data for personal gain. Unfortunately, there is no foolproof method to fully prevent these attacks but a treasury department, like the rest of the business, has the responsibility to liaise with IT and ensure that the correct security and technology is in place to counter these threats.

Internal threats pose another issue which treasury departments need to be aware of, coming in the form of employees who may steal, corrupt or use data for their own personal gain. Again technology can only go so far in preventing this and we recommend to our clients that background checks are performed on new staff that have access to sensitive information and that these are reviewed every two to four years.

A treasury department should also keep track of the data access its staff has. Most companies are now proficient at providing sufficient access when an employee joins and removing the account when they leave. However, an area that still requires improvement is when an employee transfers departments, from treasury to legal, for example. It is often the case that their access to the treasury department's data will not be removed following this move even if they no longer require it. In a large company there can be hundreds, if not thousands, of employees who therefore have access to sensitive data which they do not require, increasing cyber risk. To safeguard against this treasuries should work with IT to ensure there are processes for employee transfers and that access is removed in a timely manner to improve cyber security controls.

Third parties that treasuries share data with should also be fully checked to ensure they are not weak links in the businesses cyber security posture. It is important that the correct controls are in place to ensure that data is safe with them and deleted once not required. Furthermore, if the third party also outsources, then these requirements will also apply to them.

Finally, it is important to identify that cyber security isn't about having an inward looking approach and believing you are safe. The most effective departments are those who understand that it is a collective responsibility. The most ineffective are those who believe that it is just an IT issue and their responsibility to clean up. The key therefore is to be able to harmonise people, processes and technology and if this can be achieved there is a much greater chance of protecting the treasury department and the organisation. ■

The next question:

"What benefits - both financial and non-financial - can establishing an in-house bank offer to the treasury function? Also, what advice can readers share on best practice for setting up an in-house bank?"

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

Nominations open

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On the other hand, it has increased awareness about our project within our own organisation and has strengthened our reputation as a value-adding unit there. To personally receive the award at the historic Plaisterers’ Hall in London has been an unforgettable experience for us as well as a great motivation to implement the next phases of our project.”

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Bright spots or black hole?

As its members become ever more polarised as to what the solution to stagnant growth in certain member countries might be, Europe is facing an uphill battle to achieve some semblance of unity. With a growing debt burden and limited options available to address it, tensions are rising, says ECR Research.

The euro crisis continues to fester. Nevertheless, those with an optimistic mindset can see some glimmers of hope. For instance, at the beginning of 2014 the Eurozone private sector registered seven successive months of expansion. On the other hand, French economic activity continues to contract and the Spanish jobless rate continues to soar. Italy, too, is ailing and the Greek economy has contracted by 25% compared with 2007. Overall, the Eurozone economy has shrunk by 3% over five years.

The key question facing the markets is, do bright spots signal better news ahead or do they gloss over a widening black hole that will eventually devour the economy?

Quartet of challenges

According to Loukas Tsoukalis, Professor of European Integration at the University of Athens and President of the Hellenic Foundation for European and Foreign Policy (ELIAMEP), Europe faces four challenges: growth; cohesion; governance; and legitimacy.

It goes without saying that growth is a problem. Two factors that act as a drag on growth are debt mountains and zombie banks. Axel Weber, Chairman of UBS and former President of the Bundesbank, recently said, "I expect some of the banks not to pass this (asset review) test." The CEO of Total added, "I think Europe should be reclassified as an emerging country."

The debts can be tackled in three ways: growth, inflation, and/or debt write-downs. As indicated, growth is anything but buoyant. Alleviating the debt burden through higher inflation is not really an option as Eurozone inflation is at an all time low. So what about the third method: writing off bad debts? This has been done to some degree, however, not sufficiently to allow economies to breathe a sigh of relief. In any case, this is almost a political taboo in the Eurozone 'core'.

How big is the problem?

Equally moribund is the cohesion that will be necessary if Europe is to overcome its problems. Take the widening gap between Europeans who benefit from globalisation (and Europeanisation) and those who feel left out. In the first group, we find well-educated professionals who are unafraid of open borders. The second group largely consists of the squeezed middle classes, who see jobs disappearing and who are unwilling or unable to leave hearth and home in search of new challenges abroad.

In a very different position are those with little or no education; people who can work all over the world – as cleaners or labourers for example – and who hope to find a better life in richer countries. While they avail themselves of the opportunities of a globalised world, they are mainly driven by despair. The abyss between these disparate groups is growing ever larger.

European member states are also growing apart. 'Anger' is a word that people use more and more when they express their feelings about Europe. A large majority of Europeans have lost all faith in the European Union (EU) and national politicians.

Another obstacle to defusing the crisis is the current lack of institutions, structures, and instruments needed for an effective approach. A banking union is needed and, over the longer term, a fiscal and political union. This requires robust organisations, which do not currently exist. At the moment, Europe relies on rickety constructions that are reactive instead of proactive.

> 'Anger' is a word that people use more and more when they express their feelings about Europe. A large majority of Europeans have lost all faith in the European Union (EU) and national politicians.

Combined with mutual distrust and a reluctance to change existing treaties, this has led to a perception of Europe as complex and obscure. The risk is that the EU could become an undemocratic institution with little focus or prestige – its constituent parts all wanting to go in different directions. As it attempts to avoid democratic interference and legal wrangling, Europe is becoming more complicated and less democratic.

Negativity surrounds Brussels

The legitimacy crisis may well be Europe's biggest headache. Many picture the EU as an undemocratic and bureaucratic 'ogre' that meddles in affairs that are not its business and does too little when it should take action.

Until a few years ago, a 'permissive consensus' existed. Citizens were willing to accept European integration, not so much because they thought that the project was worth pursuing in itself but because everyone seemed better off.

Now it is no longer a matter of dividing up the spoils but of spreading the financial pain. This has shown up the weaknesses of the "permissive consensus" as a foundation for a united Europe. Presently, the EU no longer serves to bring countries closer together. Instead, it creates discord. The gap between winners and losers is growing.

Not surprisingly, the winners, eg the elite, have a much higher opinion of the EU. Every survey on the advantages of EU membership indicates that the elite takes a more positive view of this issue than the masses. Increasingly, extreme left-wing and right-wing parties appear to represent what the mainstream thinks. In such a climate, it is very difficult to strike a 'grand bargain' between the member states, with the aim of making the EU profitable for the men and women in the street and to reinforce Brussels' legitimacy.

Reform not forthcoming

Europe is nowhere close to achieving its lofty aims of sustainable growth, strong cohesion, sound governance, and broadly supported legitimacy. Promising data that pops up here and there is subsequently quashed with negative news. Northern and southern Economic and Monetary Union (EMU) states are still suspicious of each other. They do not see eye-to-eye on who will foot which bills. Governments can no longer boost their economies. Insiders fear the outcome of the asset reviews and stress tests at the banks. Meanwhile, populist parties seem headed for massive gains at the European elections.

In short, Europe has weakened in many respects compared with 2007, owing to economic pressures and political constraints. It has become more introverted, inequality is increasing and reforms are erratic.

Europe is unlikely to recover strongly in 2014. This would require many reforms at national and European level, which is not (yet) feasible, for political as well as social reasons. For the moment, Europe will have to make do with a patchwork of stopgaps, adjusted gradually, in incremental steps. Admittedly, this approach has kept the Eurozone afloat in recent years. Other positives are that a lot of political capital has been invested in the European project and that its underlying goal is to further peace. In addition, two other factors lead us to believe that Europe may manage to keep its head above water, via reforms on the back of new crises.

First, many Europeans are sceptical about Brussels but a large majority are even more fearful of the alternative – no euro or EU. Anxiety could be the glue that keeps Europe together. This is how political scientist Gary Marks sees the referendums of 2005 in the Netherlands and France on the European Constitution. At the time, voters could easily reject the Treaty because this did not have any direct negative implications; nothing really happened. Yet, should a referendum take place on the very survival of the euro or on EU membership, something tangible is at stake. Voting will no longer be non-committal, so fewer people will be prepared to take such high risks. Fear may well win the day.

> Europe is nowhere close to achieving its lofty aims of sustainable growth, strong cohesion, sound governance, and broadly supported legitimacy. Promising data that pops up here and there is subsequently quashed with negative news.

Second, a demographic trend could contribute to Europe's long-term continued existence: young people are considerably more pro-European than their elders.

The biggest danger is that the European elite will not pay heed to the electorate and will simply push through reforms, then present them as a fait accompli to the public. If governments ignore voters instead of involving them, sooner or later the European project will run aground.

Most people know what is required to create a strong united Europe that flourishes economically. Famously, singers such as Peter Tosh, Loretta Lynn and Albert King also had an inkling: "Everybody wants to go to heaven but nobody wants to die." Europe is unlikely to give up the ghost, but equally there will be a lot of water under the bridge before it implements the necessary reforms under pressure from the markets. ■

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Africa: the final frontier

Although greater intra-African trade may not be a silver bullet for the challenges the continent faces, it does have enormous potential to boost growth and create more sustainable employment. In this article, we examine why trade flows between African nations are currently low, and ask what is being done to reverse the situation.

Africa has huge economic potential. The continent, which is home to just over a billion people, has a wealth of natural resources, the largest share of the world's uncultivated arable land, and now, also, a rapidly growing middle-class with a new-found penchant for consumer goods. It is, in a number of respects, the final growth frontier in the global economy.

Despite all this potential, Africa's share of global trade remains very small, and is actually declining. Trade flows offer a convincing explanation as to why this is the case. African countries tend to trade much more with far-away lands such as China, India and Brazil than they do with each other. It is not a new phenomenon, by any means. Weak intra-continental trade has, in fact, hindered growth prospects for most countries in the region ever since independence.

The reasons are well-documented. In Africa, a century and a half of European colonialism had left behind an economic system and infrastructure focused on extracting the continent's natural resources for export back to Europe. An absence of adequate road and rail connections is only part of the story, however. Trade between African countries is also weighed down by a near impenetrable plethora of bureaucracies, not to mention, the corruption found at border posts.

Trading spaces

Until recently, very little had been done to encourage improved trade relations between the 50-plus individual economies of which Africa is comprised. That changed when the world's trade ministers met in Bali at the end of last year for the biennial World Trade Organisation (WTO) conference. In a step which will surely have huge implications for the African continent's future growth prospects, officials signed a trade facilitation agreement with the explicit purpose of cutting back the red tape that holds up the transfer of goods at national borders.

A study of the proposal carried out prior to the conference by the Organisation for Economic Co-operation and Development (OECD) predicted enormous benefits from the deal for African nations. The measures would reduce total trade costs by 10% in advanced economies and by 13-15.5% in developing countries. Just a 1% reduction in global trade costs would increase worldwide income by more than $40 billion, most of which would be accrued by developing countries, the report found.

> African countries tend to trade much more with faraway lands such as China, India and Brazil than they do with each other.

Removing barriers to reduce the cost of trade is just the medicine Africa needs, says Jason Barrass, Head of Africa Trade at Barclays. "It's a basic principle of economics," Barrass says. "The faster economies can move goods and money around the greater their GDP will be." Red tape at customs can seriously harm the competitiveness of African companies. The price of a product may be quite competitive at the point in which it leaves the factory gates, but it is often a very different story once it has gone cross-border. "I think there is somewhere in the region of 14 different customs unions on the continent. There's very little in the way of conformity and it is totally inefficient."

Tackling these issues will not be easy, however. A 2012 report by the African Development Bank reveals the sheer enormity of the transformation required to bring African trade up to speed. In most African countries, two sets of controls need to be completed on each side of the border post. An average transaction typically involves up to 20-30 different parties, 40 documents and 200 data elements which usually need to be rekeyed at least once.

It's a bureaucratic nightmare; one which does little to negate Africa's image as a difficult place for companies to do business in. "A lot of companies are not very enthusiastic about investing in Africa," says Klaus-Dieter Ruske, PwC's global leader for the transportation and logistics sector. On a number of occasions in recent years, Ruske has met with corporate executives and spoken of the huge opportunities for growth he sees in the continent. Many of them agreed, but their willingness to seize such opportunities was tempered by the absence of a secure, facilitative business environment. "They would tell me that there are a lack of stable political systems, and if they want to trade on the continent they know they will have to pay black money to customs officials."

Tackling these problems will require enormous willpower from Africa's political leaders. Finding it won't be easy however, when the actions that need to be taken in order to secure improvements in intra-African trade are inevitably going to be very painful in the short term. "African governments with small tax payers are heavily reliant on import duties to make up for the lack of tax base," notes Jerry Pearce, Head of Product Management & Head of TPS at Standard Bank. It is, Pearce adds, one of the key reasons why economic integration initiatives in Africa across the years have so often failed to deliver. "Given the relative poverty of most African countries, it is difficult for governments to give up the small amounts of revenue they receive, and it is unlikely that they could easily shift the burden elsewhere."

Fighting back

If anything is to change, businesses in Africa need to highlight the difficulties they encounter when trading with other African countries. In May 2012, a private sector advocacy and education group called the Borderless Alliance was established. The main work of the group is collecting and publishing data on trade inefficiencies throughout the region, to apply pressure on decision-makers to reform their policies and help develop their economies. Some of the figures published in the group's quarterly reports are eye-opening; it is a litany of illegitimate checkpoints, lengthy delays and bribery, both on the roads and at border posts.

The group has also established a Border Information Centre on the Ghana-Togo border in order to help companies navigate the complex procedures involved in moving goods across West Africa's borders. According to a recently published case study, 61 businesses – including the likes of Unilever – have already benefited from the service, and there are now plans to open a second branch at the Benin-Nigeria border later this year.

That private sector groups such as Border Alliance are now taking on a more prominent role in regional trade facilitation is evidently a positive step. The message seems to be getting across to Africa's leaders too. "Change will come eventually," says PWC's Ruske. "Sub-Saharan nations in particular are now clearly seeing both the need and opportunity for improved trade with one another." In February this year, South African President Jacob Zuma announced that talks being held between eastern and southern African nations to establish a tripartite free trade area were progressing well. It is still early days, but if the negotiations do succeed, the result will be the integration of 26 nations into a single market with a population of more than 600 million.

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Mind the gap

Since the cost of trade is extremely high in Africa, many companies – particularly SMEs – struggle to get the credit they require to get their goods to market. It is partly a product of the continent's risk profile which, due to the aforementioned infrastructure and governance issues, looks very different from developed regions.

"Banks are not immune to the fact that corporate clients trading within the continent face a lot of difficulties," says Barclays' Barrass. But helping a greater number of companies in Africa to secure financing on their receivables would almost certainly provide a huge boost for intraregional trade. For a company trading into a new territory, such as Zambia or Ethiopia it can be difficult, initially, to understand the local requirements and what risks should be taken in those markets. "That is where a

bank like Barclays steps in," he adds. "It is our business to understand risk, to know how to get money out of countries, and to help them with their cash flow."

Barrass acknowledges that a gap has emerged in the provision of trade finance in recent years. In the wake of the catastrophic events that hit financial markets in 2008, many financiers removed liquidity from peripheral markets, such as Africa, in order to cover positions in core areas. In addition local financial institutions found it difficult to access credit in international markets, and financing for a large number of SMEs began to retrench as a consequence. According to a report published in 2013 by the African Development Bank (AfDB), total unmet demand for credit across Africa now stands at $100 billion, of which $70 - $90 billion emanates from SMEs in Sub-Saharan Africa alone.

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To fully close the gap, the report estimates that the provision of trade finance, along with other forms of credit such as loans, overdrafts and leasing, would need to increase by 270-300%. Even when some financing is available, the cost is usually prohibitive for a significant number of smaller businesses. For about one-third of countries, rates on trade loans offered on a non-sovereign basis exceed 10% and often require cash collateral of up to 50% of the value of the loan.

"I think it is fair to say that there are not enough banks in Africa providing this service," says Barrass. He draws a comparison with Asia where, due to the region's more accommodating risk profile, many more banks are willing to take on some risk and get involved in financing deals for companies. "It is clearly different from trading in other continents. It has a different risk profile, there are different on the ground facilities, capabilities and logistics."

Barclays hopes it can fill some of the gap. Over the past year, the bank has been busy ramping up its trade finance coverage across the continent, focusing particularly on bolstering their strengths in structured commodities finance and developing new products in the receivables finance space. For trade finance in its 'plain vanilla' form, this will mean increasing counterparty lines around financial institutions in distant markets where the bank has little or no footprint.

"That will allow us to support more of our exporting clients around the world who are trading with Africa," Barrass adds. "It is a key part of our strategy, and something you will be seeing a lot more of over the next few months."

The difficulty is that, for commercial banks, only so much can be done to meet Africa's rapidly increasing finance needs. Low country ratings and weak local banking systems mean there will often be times when such banks feel unable to justify deploying capital to support imports and exports in certain countries. It is here where multilateral development banks such as AfDB, play a useful role. Since 2009, AfDB has approved over $735m in trade finance facilities, through a combination of risk-sharing with international commercial banks and provision of credit to local financial institutions in order to facilitate their trade finance operations.

The opportunity within

In recent years, there has been much talk of growth opportunities presented by China's intensifying commercial interest in the African continent. Trade between the two has indeed been growing at a phenomenal rate, expanding from $10 billion in 2000 to an estimated $200 billion in 2013. This has already brought the continent many benefits. Chinese firms have made substantial investments in African infrastructure, particularly in key sectors such as telecommunications, transport and power generation. There is no denying that, given the scale of Africa's infrastructure deficit, these types of investments could play a crucial role in the continent's future development.

But stronger intra-African trade might just be an even greater catalyst for growth. Many of Africa's small, landlocked countries encounter huge challenges when attempting to trade with countries in other continents. Yet through regional integration and the creation of larger markets, Africa might one day find itself able to compete on the same level as other low-cost emerging economies.

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What is more, there is a historical precedent for this. Europe's decision to open its own borders in the years that followed the Second World War helped to rebuild the economic prosperity of a continent that had been all but decimated by six years of conflict. More recently, intra-regional trade has also been seen playing a key role in Asia's rapid ascendancy. Although Asian economies are often thought of as workshops for the West, the truth is that more than 55% of its trade today is within the region. The fact that in Africa, that same figure currently stands at a mere 7%, reveals the sheer scale of the job that needs to be done to get Africa trading with itself.

It is a worthy goal to work towards, nevertheless. Over the past decade Africa has fared reasonably well economically. Real GDP rose by 4.9% a year from 2000 through to 2008; the point at which contagion from the US subprime mortgage crisis really began to pinch. But the continent's success during this period was driven, if not wholly then at least in part, by a global boom in commodities that did very little to address structural unemployment. An economic restructuring that focuses on diversification and facilitating greater trade within Africa could well be the key, not only to more sustainable growth, but also to addressing some of Africa's long-standing social challenges. ■

Rolf Lehmann

Group Treasurer

When Swiss packaging glass manufacturer Vetropack uncovered a number of holes in its payment reference database, the company knew it needed a reliable and comprehensive reference data solution that could integrate with its existing SAP™ system. SWIFTRef was the obvious choice.

Vetropack is one of Europe's leading manufacturers of packaging glass for the beverages and food industry with a turnover of CHF620m and is a market leader in its six home markets of Switzerland, Austria, Czech Republic, Slovakia, Croatia and Ukraine.

Problem…

Four years ago, Vetropack launched a project to consolidate its separate SAP™ databases into one system, with maintenance centralised at a single site. The aim of the project was to replace Vetropack's old IT environment and unify the group on an enterprise resource planning level. However, when it came to migrating Vetropack's existing payments data onto the new system, the company soon realised that this data was of very poor quality.

Vetropack had previously relied on its suppliers to provide updates to their payment details, but most suppliers did not systematically inform the company of any changes. As a result, Vetropack was lacking vital reference data, including up-to-date Bank Identification Codes (BICs) and national bank sort codes. With 75% of the company's 7,000 suppliers being in the SEPA zone, the company also had a significant need for accurate SEPA/IBAN reference data and validation tools, which were missing from its existing set-up.

This lack of accurate reference data produced a number of undesirable consequences. Of the circa 4,000 payments being made to suppliers each month, many were often delayed. This not only compromised the company's reputation, but also led to undesirable bank charges for failed payments. Moreover, retrieving missing reference data was time-consuming. Vetropack's accounts payable team would search the internet, using free – but 'unofficial' tools and sources – to look for the data they needed. "It was a very hit and miss process," says Rolf Lehmann, Group Treasurer at Vetropack.

"There was a lot of erroneous data in our system. We had outdated SWIFT codes and national IDs, which led to payments being returned. As a result of these returned payments we lost out on early payment discounts amounting to circa €30,000 each month. That was a significant financial risk," continues Lehmann.

…Solved

Fortunately, Vetropack was able to remedy its payment data challenge with the implementation of SWIFTRef in April 2013. SWIFTRef is a global reference data utility, provided and managed by SWIFT, which provides reference data and financial information to allow accurate payments processing, regulatory reporting and due diligence.

Vetropack's reasons for choosing SWIFTRef were simple: "Having a solution that was fully SAP™ compatible was very important to us. With SWIFTRef there was no additional interface necessary, the upload to SAP™ worked first time, and the regular updates have continued to run problem-free. The competitive price was also a crucial factor in our decision," explains Lehmann.

There are different SWIFTRef packages available to corporates, each with varying levels of coverage. Vetropack opted for a corporate package, which comprises all the directories and data necessary for frequent international and SEPA payments – and includes SWIFT's 'IBAN Plus' file. This directory, which Vetropack integrated seamlessly into its SAP™ system, allows the company to prepare and validate payment messages to all IBAN countries, including the 33 SEPA countries. It also enables Vetropack to derive a BIC from an IBAN, in line with EU regulation 260/2012.

SWIFT's online web query tool, Bankers World Online (BWO), is an additional benefit of Vetropack's chosen SWIFTRef package. BWO provides direct access to all the worldwide payments reference data available in the SWIFTRef utility. It also holds standard settlement instructions, bank holiday information, currency codes, bank financials, credit ratings and ownership – and everything is updated daily.

"SWIFTRef ticks all the boxes for us," comments Lehmann. "It gives us quick and easy access to the important data, all in a single source, and as it is provided by SWIFT, we know it is always accurate and up-to-date. What's more, it is compatible with our SAP™ system. You can't say fairer than that."

Contrary to common perception, it is not necessary to be a direct corporate user of the SWIFT network to take advantage of SWIFT's reference data suite. Indeed, Vetropack is not connected to the SWIFT network, but has still been able to benefit from SWIFTRef's high-quality reference data, allowing the company to issue timely and accurate payment instructions. ■

www.swift.com/SWIFTRef

Sharing the load

Interest in distributor finance (DF) programmes appears to be growing among corporates. We examine what is driving this trend and what needs to happen for DF to gain further momentum.

Establishing a distributor finance (DF) programme may not be at the top of too many corporate treasurers' to-do lists for 2014. But as many small and medium-sized enterprise (SME) distributors continue to struggle to find affordable and flexible credit, DF could be the key to unlocking growth for both the corporate seller and its distributors. So what exactly is DF and how does it work?

An alternative financing technique that can complement traditional supply chain finance (SCF), DF can be defined, according to Demica, as: "Financing solutions that support the working capital needs of a corporate seller's distributors and potentially the distributors' resellers, to ease the flow of product through the channel." In other words, DF allows the large corporate seller's bank relationships, credit strength and knowledge of its channel partners (in this case, distributors) to be leveraged in order to provide affordable finance to the downstream supply chain.

This is important because "a lot of these channel partners are typically less well capitalised than the larger manufacturing entity – what we call the anchor client – for this reason they really need more flexible working capital than they could normally access on their own," says Jon Richman, Head of Trade Finance and Financial Supply Chain Americas at Deutsche Bank.

Often offered on a short-term basis, DF essentially allows corporate sellers to grow their sales by injecting working capital and liquidity into their distribution channel. This in turn allows the seller to improve its cash flow, and lower its risk while enabling its distributors to purchase more product by giving them access to an additional source of funding at a lower cost than traditional bank financing. DF can also reduce counterparty credit risk, and improves performance metrics, although this is not the primary reason that most corporate sellers turn to the solution.

There are three main types of DF solutions. The first is a receivables-based programme, which allows the corporate seller to receive early payment through the purchase or discounting of

receivables – the benefit is then passed on to distributors in the form of extended payment terms (increased DPO). Another method sees distributors provided with direct loans or credit facilities that are backed (to a varying extent) by the anchor client. Finally, other asset-backed financing may be provided, again with backing from the anchor client. A good example of this is dealer floor plan financing in the automotive industry.

Capital-hungry distributors

Early adopters of DF programmes included carmakers, technology companies (Dell and HP, for example, have well established DF programmes in place) and some industrial sectors, such as equipment manufacturers. Nevertheless, the range of industries in which DF programmes can be applied is wide – it includes consumer products, food and beverages, and chemicals companies.

"DF programmes are generally applicable anywhere where there's an imbalance of power between the anchor and its distributors, where the anchor client – often a large manufacturer with a lot of leverage and a good credit standing – uses distributors who are not as well capitalised," adds Richman.

"Industries where there is a tendency to outsource services, where there is a strong demand for stocks of spare parts in a short time, or cases where an original equipment manufacturer takes on a service guarantee for its own products, are likely to increasingly look to DF programmes in the future," says Sigurd Dahrendorf, Vice President, Corporate Treasury at Knorr-Bremse. Rail companies operating in countries like Sweden and the UK, where rail traffic is liberalised, very often have these attributes.

"DF is most attractive to corporates with international supply chains, particularly those looking to expand into emerging markets," says Phillip Kerle, CEO at Demica. Successful DF programmes can help propel corporates into markets or segments where they want greater reach, as well as allowing smaller distribution partners to grow in their own right. Demica identified Eastern Europe, Asia and Latin America as regions where there are already a number of DF programmes running in a DF report last year. It went on to say that Eastern Europe, the Middle East, Russia, South America and the Far East should provide scope for DF development in the future.

Limited provision

Despite the apparent usefulness of DF, the provision of services is still somewhat limited. "There are not as many providers as one would think," says Richman. "Apart from those few, the options are limited to smaller, local banks that have traditional ways of extending credit, usually on a bilateral basis, to the local distributors they have established relationships with."

But the big bank DF providers have a different approach. They look at the relationships their major anchor clients have with their distributors, financing only the transactions that take place between the two. "We take the view that if it's a close relationship, and if the distributor is prioritising the obligations they have to the anchor over other obligations, then the credit risk we are taking in financing those transactions is less than the credit risk we'd be taking if we just had a traditional bilateral relationship with that distributor," says Richman.

This effectively lower credit risk enables the DF provider to extend more flexible credit and more of it, often at better prices, than would ever be possible through a traditional bilateral arrangement.

Thomas Dunn, Chairman of supply chain finance company Orbian, agrees that there is still something of a dearth of banks providing DF programmes. "It's a bit like supply chain finance services. A lot of the big banks tend to talk it up a lot, but the actual amount of dollars they are putting behind DF is still really rather modest."

Rather than being offered as a standalone service, DF services are often combined with bank providers' other products as part of their global relationship with clients, and are usually adapted to the nature of the industry concerned. DF schemes are typically funded on-balance sheet by banks, and can be syndicated with other banks if the deal is material enough to pose capital requirement concerns.

Industry participants

DF is principally the domain of global banks which have a highly developed trade finance business. This international expertise differentiates them from local, domestic banks who can find providing these cross-border facilities a challenge.

There are also non-banks that provide DF, who are typically big manufacturers that have developed their finance operations. The key advantage of these non-bank DF providers is that they tend to have a very strong understanding of the underlying goods involved. GE Capital, for example, provides customised DF programmes wherein it manages its manufacturing clients' financial relationships with their distribution networks.

Furthermore there are a handful of technology and service companies in the DF space. These companies do not typically provide credit for DF, but rather facilitate programmes through a technology platform.

What to look for in a DF provider

Choosing a DF provider with a robust credit process in place, one that takes the nature of the relationship between the counterparties into account, is key to addressing credit risk.

DF programmes can also pose a variety of operational risks to the provider, owing to the diverse funding flows, reporting requirements, activity reconciliation, and management of credit notes involved. Providers of DF therefore need to have a solid infrastructure, including a technical platform, in place to support this operational complexity.

However, the financial risks of DF are partly mitigated by the fact that the counterparties involved have core relationships with the underlying client. "There's a high degree of operational integration and a far more profound relationship, so if there is any disruption on the credit side or on the financing side, it can be managed within the context of the corporate's overall goods and services relationship with the distributor. There's a lot less risk for the corporate than there would be, for example, for a financial institution that was trying to provide this directly to the distributors," says Dunn.

Dahrendorf believes the paucity of provision is to an extent due to the level of demand for such services. "The market for DF services is not as strong as for traditional supply chain finance solutions. There is perhaps the perception that DF programmes offer less benefits than traditional SCF solutions."

Compliance considerations

This somewhat negative perception of DF is not helped by the fact that DF is often conducted on an international basis, meaning that there are certain compliance challenges. However, compliance is almost always handled by the DF provider, not the corporate client. For providers, KYC – the client, their industry, and their distributors – is essential. The challenge of collecting this data is amplified when especially large pools of distributors are involved.

Providers must be diligent in ensuring that central bank regulatory reporting requirements and tax considerations are taken into account. While major global banks offering DF programmes usually have the infrastructure in place to deal with cross-border compliance issues, this challenge is more difficult for smaller domestic banks to address. Corporates weighing up DF providers should bear this in mind.

"It really depends on the jurisdiction. Some countries, for example, have regulations covering the financing or purchase of receivables or inventory, while others may require you to have some kind of financing licence in order to have a DF programme. You need to look at it on a case-by-case basis," adds Dunn.

Keeping an eye on risk

Richman's advice in setting up a DF programme: choose the distributors you put on the DF programme carefully. Ideally they should be trusted partners the corporate intends to keep for a long time. This should keep the risk to the corporate seller to a minimum. A sound knowledge of the territories in which it has distributors can also help the corporate seller when it comes to arranging a programme with a provider.

Furthermore, once the corporate has chosen trusted partners, it should keep an eye on them. "Monitoring the distributor's financial wellbeing at frequent intervals is crucial to a successful DF programme," says Demica's Kerle.

Corporates also need to make sure that taking the DF route does not negatively impact them from an accounting perspective. They should ensure with an accounting expert that they will still be getting the accounting treatment they are used to post-implementation. This is not normally an issue with a well-structured DF programme.

DF to take off?

So is DF the key to allowing corporate sellers and their distributors to grow and flourish together? Will it provide a helping hand to drive development in emerging markets? Or is it destined to be a niche service provision from banks with little interest among corporates?

Richman believes it is already on the up, and predicts it will continue to rise. "Corporate treasuries are much more focused on working capital management than they used to be. DF, which allows corporates to more effectively manage their working capital cycle and support their trading partners, helps them address this," he says.

The evolving credit landscape is also driving the growth of DF. As distributors, particularly smaller operations, find it increasingly difficult to access flexible and affordable finance (partly due to changing banking regulations), DF can extend credit to them at rates that they would not typically be able to get from their relationship bank. It is important to note that DF is supplementary to the credit companies have with their relationship bank.

Another growth driver will come as major manufacturing companies look to expand on an international scale, often in emerging markets. Distributors in these markets often have a much greater need for access to capital to support their own working capital cycles. This trend shows no sign of slowing down.

A desire among corporate sellers to build longer-lasting, sustainable links across the supply chain is contributing to the rise of DF, too. "DF, just like supplier finance, is going to continue to grow as more of the world's leading companies adopt a very much higher prioritisation for sustainability across their supply chains: both their supply relationships as well as their dependent distributor relationships. This is a theme that we see coming through constantly from the highest quality companies, and it's actually become something that defines the true quality of a company: the extent to which they are focusing on enabling the greatest success, both upstream into their suppliers and downstream into their distributors and sellers. They want to make their dependent constituents – suppliers and customers – more successful," says Dunn.

On top of these drivers, the increasing awareness of the benefits DF can bring should entice more corporates to seek out DF solutions. This interest should in turn encourage more banks to look into devising a DF offering. ■

DF checklist

Is DF right for you?

- ❒ Are you a seller in an industry where a lot of SME distributors are key to your growth?
- ❒ Do your distributors have weak balance sheets?
- ❒ Are you looking to expand in emerging markets?
- ❒ Do you have a long-standing, trusting relationship with your distributors?
- ❒ Do you want to more effectively manage your working capital cycle?

Keys to a successful DF programme

- ❒ Choose the right provider, preferably one with the infrastructure and technical platforms to support a complex DF programme.
- ❒ Take care to monitor the financial well-being of your distributors closely.
- ❒ Ask your provider to ensure you are compliant. Be mindful of regulatory reporting requirements and tax considerations in the countries where you have distributors.

Mauritius: aiming high

Since gaining independence in the 1960s, Mauritius has evolved from a basic agricultural economy into a sophisticated financial centre. Up to now, the country's growth has been steady but not stellar. So how can the country maximise its potential going forward?

In February 2014, Rundheersing Bheenick, Governor of the Bank of Mauritius (BoM), called for a hike in the Mauritian key repo rate in order to try and prevent capital flight from the Indian Ocean island nation. Governor Bheenick made the comments just days after the BoM's monetary policy committee had decided to make no change to the rate, keeping it at 4.65%.

He argued that a rise in the repo rate would protect the country from the turbulence that has hit other emerging markets, as well as addressing the low level of savings in the country (between 2007 and 2012 gross national saving as a percentage of GDP fell from 21.5 to 14.9). Bheenick also argued, however, that Mauritius needed more than a higher repo rate as a shot in the arm: it also required structural reform in order to achieve GDP growth of more than 4% a year.

While Mauritius was not hit as hard by the financial crisis as some other emerging countries (it has not, for example, experienced negative GDP growth since the early 1980s) the nation's growth has tended to lag behind the Sub-Saharan average in recent years.

"In principle, the Mauritian economy has the potential to exceed its current growth rate by a significant margin," says Nuvin Balloo, a Senior Economist at Mauritius Commercial Bank. "It should aim for long-term growth of 4.5% or 5% – based on our estimations, this is attainable despite the underlying international conditions. The problem is there are some endogenous factors impeding higher growth – notably, deep-rooted structural reforms are required to bolster the country's productivity and competitiveness levels."

This modest (by Mauritian expectations) growth is set to be fuelled by continued expansion in Mauritius' financial services, ICT and seafood sectors. Axys, a Mauritian brokerage firm, forecasted late last year that annual growth in the expanding banking and ICT sectors would reach 5.5% and 8% respectively, outstripping the overall growth rate. This growth in the island's 'new economy' contrasts with its traditional industries, which are stagnant. Textiles recorded negative growth in 2012 and has progressed little since, while tourism grew by less than 1% in 2013.

Managing an economy operating at two very different velocities is one of the key challenges for Mauritius' government and central bank.

Managing the rupee

Although the Constitution of Mauritius mentions no official language, it is an English- and French-speaking country and maintains trading and diplomatic relations with the UK and France (rulers of the country between 1710-1810 and 1810-1968 respectively). The Mauritian economy is highly susceptible to events in Europe, and recession in the euro area has had an impact on the country's growth. This is partly because the tourist trade – one of the nation's key industries – is driven by European (particularly French) visitors.

Despite the country's sluggish growth, the Mauritian rupee has been stable against the US dollar, fluctuating relatively little over the past two years. The BoM is active in monitoring the value of the rupee and in mid-2012 it moved to check growing appreciation in the currency with Operation Reserves Reconstitution, which saw it build up reserves of the currency, obtaining more than Rs100 billion ($3.3 billion) by May 2013. Prior to this intervention, the central bank had pursued a free-floating foreign exchange regime.

"The combination of Mauritius' relatively small size, its open economy and its high level of international penetration mean the evolution of the rupee on the FX markets is closely linked to that of the US dollar, though domestic factors also matter," says Balloo.

The central bank also has a comparatively strong hold on inflation (between 2009 and 2013 its inflation averaged 3.9%

Key facts

Population: 1.3 million.*

GDP per capita 2013 (US dollars): $9,135.64 (IMF estimate).**

GDP % change 2013: 3.4% (IMF estimate).**

Current account balance 2013 (US dollars/billions): -1.177 (IMF estimate).**

Inflation (average consumer prices) % change: 4.742 (2013) (IMF estimate).**

Ease of doing business (2013) rank: 20 out of 185 globally.*

Corruption perceptions index (2013) rank: 52 out of 175 globally.***

**World Bank*
*** IMF World Economic Outlook October 2013*
****Transparency International*

percent). Unemployment in the country is also relatively low, not breaking the 10% barrier since the early 1980s.

Offshore hub

In recent years, Mauritius has firmly positioned itself as an offshore financial hub and has backed this up by actively providing the foundations for its free-market economy to flourish. "Mauritius' role as an offshore financial hub has been buoyed by taxation agreements with a number of countries, mainly with India, but also with some African nations. Thanks, in large part, to these agreements a huge amount of captive flows transits through Mauritius to be invested elsewhere," says Balloo.

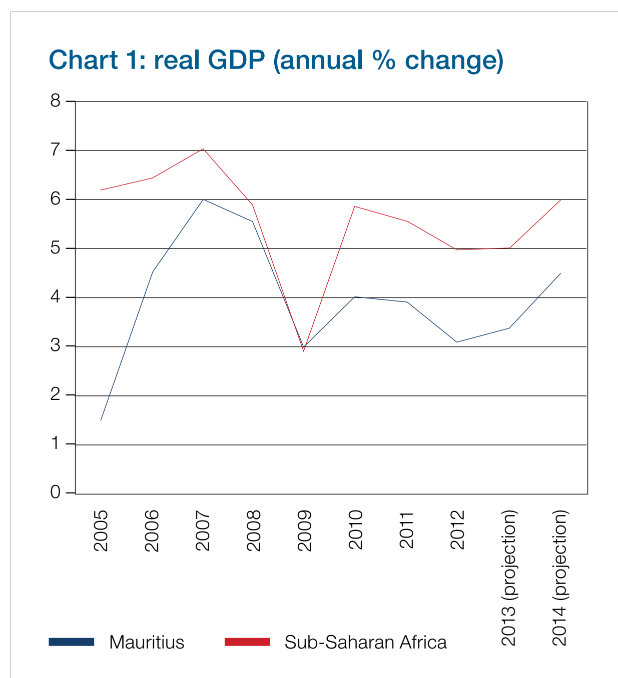
Mauritius is a key fund channel for India, and the two countries maintain close ties. Indeed, when Mauritius officially opened the Ebene office park – the centre of its offshore financial industry – in 2005, it was Indian Prime Minister Manmohan Singh who was invited to cut the ribbon.

It is estimated that more than 40% of foreign direct investment (FDI) into India over the past ten years, or $76 billion, has been channelled through Mauritius. One agreement that helps facilitate these captive flows is the double-tax avoidance agreement between Mauritius and India, which is a key driver of the flow of funds along the so-called 'Mauritius route'. This agreement allows companies to pay taxes in the legal country of residence, usually the jurisdiction with lower taxes.

India is also Mauritius' top import trading partner, followed by China and France. Its main export trading partners are the UK, France and the US.

Free-market

In his first budget speech in November 2012, incoming Minister of Finance and Economic Development Xavier-Luc Duval made clear his commitment to pursuing a market-based, pro-business approach. But even before then, Mauritius had chosen its free-market course. "Mauritius has built its success on a free market economy," said accounting group KPMG in a 2012 report.



Source: World Bank

In the 2014 Index of Economic Freedom, published by US conservative think tank the Heritage Foundation, Mauritius was ranked eighth, four places above the United States (ranked 12th).

The country has an open and efficient regulatory framework that is designed to encourage investment, both domestic and foreign, in the country. Mauritius is ranked a very respectable 20th in the World Bank's Ease of Doing Business Index, ahead of countries such as Germany (21st), Japan (27th), the Netherlands (28th), Switzerland (29th) and France (38th).

"Mauritius is very business-friendly. The country is sending out the message that it is absolutely open for business – it has a good regulatory environment, an open economy and an attractive corporate tax regime," says Cas Coovadia, Managing Director of the Southern African Development Community Banking Association, of which Mauritius is a member state. Mauritius has a flat corporate tax rate of 15%. There is also an alternative tax rate of 7.5% of accounting profits (or 10% of dividends declared), which is applied if this yields more tax payable than the flat rate.

The island's political stability – "It is one of the most stable countries politically on the continent," says Coovadia – also contributes to this business-friendly environment. The country has a well-established democracy and holds free general elections every five years – the last was held in 2010 and resulted in a coalition of the Mauritius Labour Party, the Militant Socialist Movement and the Mauritian Social Democrat Party winning a majority.

In addition, Mauritius was the top-ranked country in the 2013 Ibrahim Index of African Governance, which measures the delivery of public goods and services, and policy outcomes, and which classifies results by safety and rule of law, participation and human rights, sustainable economic opportunity and human development. It also has one of the lowest levels of corruption of African nations. "Mauritius is an appropriately governed, transparent society," adds Coovadia. "Corruption is very low, which is probably helped by the fact that they have a very small population, so it is easier to stamp out corruption before it really starts."

Electronic payments on the up

The Mauritius Automated Clearing and Settlement System (MACSS) is the country's national real-time gross settlement system and is operated by the BoM. More than Rs1 trillion ($33 billion) of transactions were made on the system during the first half of 2013 – an increase of 15% on the equivalent period in 2012. According to the BoM, all transactions during this period were settled on the system without delay or loss. MACSS is largely reliable, although it did suffer two outages during the first half of 2013.

Settlement is made in Mauritian rupees as well as a limited number of foreign currencies, including pound sterling, US dollar, euro, Swiss franc and South African rand, and payment instructions are sent using SWIFT.

Electronic transactions are on the up in Mauritius – in the first half of 2013 there were 1.4 million electronic clearing transactions on MACSS with a combined value of more than Rs28 billion ($915m) – a rise of 11.2% on the equivalent period in 2012. Mid-way

through 2013, 14 of the 20 banks that operate in Mauritius provided electronic banking services.

The five largest banks (in terms of total assets) are Mauritius Commercial Bank, HSBC Bank (Mauritius), Standard Chartered (Mauritius), State Bank of Mauritius and Barclays Mauritius. All banks in the country are permitted to carry out both domestic and offshore activities, which is crucial given the way Mauritius has sought to position itself as an offshore financial hub.

Cheques remain a common payment instrument in Mauritius. During the 2012-2013 financial year a daily average of 20,568 cheques with a value of Rs1.1 billion ($36m) was cleared, slightly down from average of 21,287 cheques cleared, with the same value, during the previous financial year.

Since the implementation of the BoM's Cheque Truncation System (CTS), which was completed in February 2013, cheques are no longer physically exchanged on the Bank's premises.

Regional payments are handled using the Regional Payment and Settlement System (REPSS), which allows the 19 member countries of the Common Market for Eastern and Southern Africa (COMESA) to transfer funds between one another. The system is built on open standards and is accessible to non-member states. REPSS is operated by the COMESA Clearing House and the BoM. It was set up with the aim of stimulating economic growth in the region through intra-regional trade.

Cash management

Notional cash pooling and cash concentration are not available in Mauritius, although cross-border cash management is allowed. Cross-border activity goes through SWIFT and is settled with correspondent bank accounts held abroad.

Mauritius issues treasury bills, typically with maturities of 91, 182 and 364 days. All securities are settled on a T+3 settlement cycle, except Treasury bills, which are settled on a T+1 cycle.

Settlement and custody is carried out on the Stock Exchange of Mauritius (official market) and the Development and Enterprise Market (formerly the OTC market). The central securities depository for immobilised equities, corporate debt and listed Treasury bills in Mauritius is the Central Depository and Settlement Co. Ltd. Settlement and depository services for immobilised government debt issues traded on the secondary market are offered by the BoM.

There are three custody service providers in Mauritius: HSBC, Mauritius Commercial Bank and Standard Chartered.

The BoM allows for two basic models for mobile payments in the country, one bank-led and the other driven by mobile network operators. Mobile (consumer) banking is offered by five banks in Mauritius.

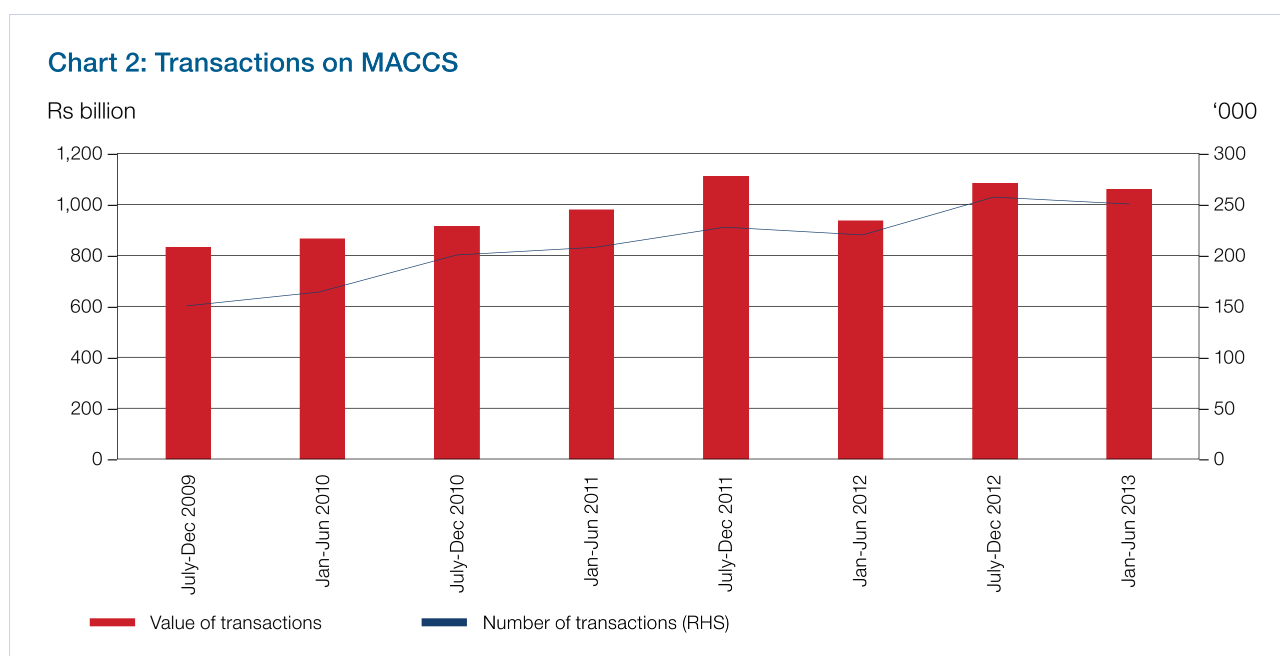
The Dubai of West Africa?

At the beginning of 2013, Mauritius was hit by a spate of Ponzi schemes, with fraudsters exploiting loopholes in the country's regulatory framework to defraud more than 2,000 individuals of around Rs1 billion ($32.7m). The BoM described the uncovering of the schemes as 'a wake-up call for regulatory and other authorities to review their operations as they relate to detecting and combating financial crime.'

Some observers feel that if this island nation can iron out some of the weaknesses in its financial environment – such as this capacity for its regulators to be caught napping by fraudsters – then it could progress into a much more imposing proposition as a financial hub.

And it seems the government is taking this ironing out process seriously. As part of last November's budget, finance minister Duval announced the government's intention to grant greater power to Mauritius' financial market regulator and to establish a serious fraud office.

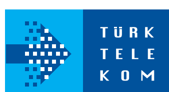
"Mauritius has a fantastic opportunity to really establish itself as a vital financial hub for Francophone Africa, as other countries in the region have nowhere near the level of infrastructure and financial sophistication it does. If it can continue to attract global corporate activity as it has done so far, it could become the Dubai of West Africa," says Coovadia. ■



Source: Bank of Mauritius

Answering the call of treasury

Tamer Karabulut
Head of Treasury Operations



From heavy industry to the high tech world of telecoms, Tamer Karabulut, Head of Treasury Operations, Türk Telekom, has made some significant steps in his career. He is now part-way through a major programme to update, integrate and automate treasury and finance operations. He talks to Treasury Today about his move up the career ladder, military service and law studies.

Türk Telekom is a formerly state-owned Turkish telecommunications and broadband company. It has been the major communications network provider in the country since 1840 and now delivers countrywide services for fixed-line and mobile telephony, internet, digital television and Wi-Fi. In 1995, telecoms services split off from Posta Telgraf Telefon into the newly founded Türk Telekom which was privatised not long after. Today Türk Telekom is 55%-owned by Oger Telekomünikasyon, 30% by the Turkish Treasury with the remaining 15% of shares being publicly held. Its shares were first listed on the Istanbul Stock Exchange in 2008. Consolidated revenues for the group in 2013 reached a record TRY13.2 billion (€4.5 billion), up 3.9% on 2012's TRY12.7 billion results.

Many professionals either stay in one field or take small progressive steps from one industry to another, building a career as they go. Tamer Karabulut, Head of Treasury Operations at Türk Telekom took one significant leap from heavy industry into modern communications technology via a Bachelor's degree in Economics and then Law, and mixed in

a spell in the Turkish military. It has been an accumulation of experience that has clearly paid dividends.

With his first move, in 2005, Karabulut took on a role in the corporate finance department of Turkey-based global iron and steel producer, Erdemir. As part of a team of four, he prepared market analyst reports but soon moved into the long-term finance section, working for six months on a bond-issuance project. His work here was interrupted by mandatory service in the Turkish military. Following discharge from the service in 2007, Karabulut was contacted by Türk Telekom and offered a position in its nascent treasury department as a treasury specialist, starting in October of that year.

> "There is room for further efficiency, for which we need further automation," he admits. "Sometimes it takes too long to deal with the daily operations."

He stepped immediately into a project to carve out a treasury function from the existing operations department which at that point focused almost exclusively on collections and payments. "There was no treasury department; only the basic functions within operations," recalls, Karabulut. Having now found his way in this large business, to help build out treasury functionality he became involved in the implementation of SAP's Finance module, a project that commenced in 2009. This was intended to provide a solid base for all financial functions including operations, finance, insurance, hedging and fund management.

With Türk Telekom tackling the demands of long-term finance especially in relation to major capital expenditure (CAPEX) programme, the firm's search for funding for its investments saw him get closely involved with national and international banks; he actively took part in major CAPEX financing projects with a list of international providers such as China Construction Bank and China Development Bank, neither of which have branches in Turkey (of which more later).

A point of law

The search for capital also saw Karabulut work with an assortment of bodies such as ECAs (Export Credit Agencies) and international financial institutions, the latter including the European Bank for Reconstruction and Development (EBRD) and European Investment Bank (EIB). It was this work that spurred him on to study for a law degree at İstanbul Üniversitesi. "It was necessary to better understand the loan agreements and the structure of the loans," he recalls.

Clearly having established solid ground from the outset and now seeking a new financial experience, Karabulut was promoted in February 2012 to the position of Head of Treasury Operations. In this role he deals with a broad sweep of treasury functions including fundamentals such as collections and payments, cash management and the operational and documentary side of corporate loans.

Today's treasury operations department consists of 12 staff. With a vast amount of paperwork still in the system, Karabulut is signing on average almost 50 transaction orders to banks every day. "There is room for further efficiency, for which we need further automation," he admits. "Sometimes it takes too long to deal with the daily operations."

The SAP project to standardise and automate processes in Türk Telekom is now five years old and there are still elements to be completed; this is not unusual for a SAP project, encompassing as it does a multitude of functional possibilities. As the company grows (organically and by acquisition) treasury is playing catch-up. Over the next five years, a number of other IT projects will be rolled out.

A new treasury management system (TMS) might be implemented. "A TRM module has already been installed but it is a generic system and not sufficiently flexible to serve our increasing and more sophisticated needs," explains Karabulut. "We need a tailored system."

Bringing order to operations

Once the structure is finalised and the system is in place the various financial functions will be aligned in terms of risk mitigation. With the treasury IT systems in transition, all finance departments currently require a hands-on approach to deliver automation and standardisation. "This will put us in a position where we can strategically manage those functions going forward," says Karabulut.

After the transition, when the finance functions are aligned through technology, he says that the treasury department will be in a position to help other departments within the business better understand the financial nature of new products. By integrating closer with the banks, the intention is to fully leverage customer and supplier finance solutions, for example. "By the end of 2014, we plan to be in that position."

The need for proper risk management has been instilled in the operations of many Turkish companies. In 2001 Turkey suffered its own financial crisis. Throughout the 1980s and 1990s, the country relied heavily on foreign investment for economic growth. In trying to sustain that growth the government issued many high yield bonds and the Turkish banks sought them out as their primary investment tool. As instability set in, foreign investors withdrew and the economy went into meltdown with stock crashing, interest rates reaching 3,000% and the Turkish central bank losing $5 billion of its reserves. The government, says Karabulut, forced essential changes on the banking system, notably around control mechanisms. With measures already in place, he comments that the 2008 global financial crisis did not have "too much of an impact" on the Turkish banks.

Managing tough times

Türk Telekom's own position in the ensuing maelstrom had been influenced by a decision in 2007 to expand its bank portfolio; it had been working with just three domestic institutions up to that point. One of the first moves of the new treasury department that Karabulut had joined was to increase the number of banks it dealt with. Over a five year period it has built up that portfolio and is currently working with over 40 banks – 27 local players plus international banks spread across China, the US, Europe and the Middle East.

Each bank has been carefully selected, using a raft of information from sources such as ratings agencies, local banking regulatory authorities and market news to analyse the

position of each one. Aside from the high credit quality of the company, due diligence and diversification helped to protect it from the worst of the global financial crisis, with China and the Middle Eastern operations faring much better than European and US banks. In addition, he notes, the concept of 'flight to quality' that the banks and financial institutions espoused saw them preferring to place their exposure with financially robust companies. This gave Türk Telekom a preferred status. "We have been witnessing a trend that most of the international banks and financial institutions have an increasing appetite to work with us."

Keeping afloat

Türk Telekom pursues a strategy of diversification under its funding strategy, with special emphasis on ECAs and IFIs because of their cost and longer-term nature. Procurement from major suppliers to Türk Telekom (such as Ericsson, Alcatel, Huawei, ZTE) is aided by ECAs which offer state-sponsored export credit (some may view it as an export subsidy but the positive effect is undeniable).

Türk Telekom maintains large credit lines with Turkish banks, under which it may use short-term loans for its daily cash flow requirements. It may use bridge financing in case long-term financing processes are more drawn out than expected, (commonplace if the counterparty is a state-owned financial institution).

Türk Telekom's financial investment policy is highly conservative, only investing in term-deposits with the banks domiciled in Turkey. "We don't use any exotic type of investment; we definitely avoid risky ventures."

> "We don't use any exotic type of investment; we definitely avoid risky ventures."

The corporate finance department is currently working on a new debt capital markets (DCM) project and has already made an application to Turkey's Capital Markets Board. Türk Telekom has plans to issue paper with a maximum maturity of ten years. It intends to raise up to $1 billion in its first visit to the international markets with the issuance likely to be run by Barclays Bank, BNP Paribas, Emirates NBD Capital, J.P. Morgan and Standard Chartered.

Making choices

Although the financial crisis didn't dramatically affect Türk Telekom's funding base, Karabulut reports that FX volatility has an impact on the balance sheet although the negative impact remains largely unrealised due to the amortising nature of its hard currency short position. For trading, it uses data feeds from Reuters, SuperDerivatives and Bloomberg, using the latter for FX spot deals and SuperDerivatives for global derivatives pricing.

> "We are working through this transition period, trying to make all the changes in line with all the regulations and design a treasury management system to meet all our needs, not just for a few years but many years to come."

As a telecoms firm, collections plays a vital role in Türk Telekom's operations. Direct debit is the favoured model used by its 1,000 dealers and 300 offices all over Turkey but customers are also able to pay through a variety of banking channels (including ATMs and mobile). The choice suits the consumer but Karabulut says that from a treasury perspective "the vast number of payments systems requires particular management for it". The necessary choice of channels means Türk Telekom has composed an integrated collections and settlements system, connecting all dealers, offices and banks.

Sitting at the crossroads of Europe and Asia, Turkey is seeking accession to European Union. Türk Telekom has customers in Europe already but as far as SEPA is concerned, Karabulut says it is something to watch for now, perhaps looking to form an official policy in a few years' time.

Of more immediate concern for Karabulut, as treasury operations head, is the ongoing automation project and the roll-out of Türk Telekom's integrated IT plans. "We are working through this transition period, trying to make all the changes in line with all the regulations and design a treasury management system to meet all our needs, not just for a few years but many years to come." In terms of his own approach to treasury, it will be another major step in a new direction – and one which will similarly yield positive results. ■

We need to talk about FX

For businesses considering or already operating in different currencies it is essential they maximise their trading environment with respect to foreign exchange. Getting a good rate is important, but there is far more to it than just driving a hard bargain with the bank. Lisa Francis, Managing Director, Barclays Risk Solutions Group EMEA and Gareth Noble, Managing Director, Barclays Risk Solutions Group FX are on hand to explain.

Globalisation is one of the most significant economic concepts ever and yet today most people take it almost for granted. We can walk into a supermarket and pick up fruit and other produce that a decade or so ago no one had even heard of. We buy German cars built in Brazil and clamour for tablet computers designed in California and assembled in China – all done entirely with little notice or ceremony.

Multinational corporates and financial institutions have been engaging in international trade for a very long time but with the aid of modern transport, communication and financing capabilities, it is even easier today for small companies, and even individuals, to expand into overseas markets buying and selling goods and services, from design to delivery and all points in between. Today's global market place offers buyers and sellers of those goods and services, including labour, far greater choice than they would have had even a decade ago.

But choice in a market can also ratchet up the level of competition considerably between players, which in turn places far greater pressure on all stakeholders to be as efficient as possible, not just in terms of production but also with respect to their financial capabilities. All of which brings the importance of the international banking system and the services available to support international trade to the fore.

Setting up overseas

In the corporate space, one of the first considerations for a business seeking entry into a new country – depending to an extent on size, structure, line of business and geographic location – is how to maximise its trading environment and manage the associated risks with respect to foreign exchange (FX). One of the key functions of any business is payments and, where currency concerns arise, it is essential for that business to align its needs with where its costs are being driven from, says Lisa Francis, MD, Barclays Risk Solutions Group, EMEA.

A high street retailer, for example, will commonly source most of its goods from Asia and, based on currency drivers, payments models are changing. "In China, for example, we are seeing clients move from a tendency to pay in dollars to being able to pay in renminbi," says Francis. "If they do, the buyer will most likely be taking an additional spread driven by the needs of its suppliers because of exchange rate movements; the buyer is closely aligning its needs to the underlying exposures of its suppliers and so in theory should be driving a harder bargain and facing less cost in terms of their own hedging requirements."

> "In China, we are seeing clients move from a tendency to pay in dollars to being able to pay in renminbi."
>
> Lisa Francis

In terms of repatriation of profits, there are considerations around tax, of course, but local regulations will impact upon what can and cannot be done (the concept of trapped cash can impact considerably upon the options available). In an initial company set-up of an overseas entity, financing for that process could either be funded via an inter-company loan or through equity. With an equity set-up, it can prove more difficult to get that cash out of certain jurisdictions. With a debt financing model, as the entity starts to generate profit, it can pay down that debt rather than trying to repatriate cash.

There are ways of tackling the movement of funds in and out of an overseas business but the most efficient model will clearly depend on the jurisdiction in which that entity is based. But there is a pressing need to efficiently manage FX exposure risk too. "Often a business will be so focused on how to get money out of the country and what the tax implications may be that hedging becomes a secondary aspect," notes Gareth Noble, MD, Barclays Risk Solutions Group, FX. "If that is the case, whenever it does move money out, the business can end up facing whatever the market happens to be at the time, potentially losing out."

For most trade finance deals, where two banks and their respective clients are involved, US dollar is the currency of choice and so there is not typically an FX element based in such deals. There are circumstances that will force a currency consideration that sits outside common currency pairings. "With any discussion about a business transaction that involves a currency outside of the currency of choice, Barclays sees itself as strategic partner and will help a client to think about the risks associated with that, whether cash, FX or interest rate," says Francis. Whether ahead of time or as the exposure is identified or created, she adds that there will "inevitably be a variety of solutions that Barclays will guide its clients through when helping them mitigate those risks".

> "With any discussion about a business transaction that involves a currency outside of the currency of choice, Barclays sees itself as strategic partner and will help a client to think about the risks associated with that, whether cash, FX or interest rate."
>
> Lisa Francis

FX technology for all

From an FX technology standpoint, Francis argues the case for Barclays having "the best solution in the market". With its BARX platform, she firmly believes most of its clients see it as a differentiator, offering "the best liquidity" for a sole bank provider. Through the BARX model, the bank has developed a wider product set, including its algorithmic FX trading tools, to help the highly competitive professional traders and sophisticated client businesses (typically major MNCs) execute very large flows in less liquid markets or where they wish to leave orders and have ultra-transparent fills.

In the world of automobile design, the latest developments in Formula One eventually trickle down to the consumer market, benefitting all. In the same way, at the mid- corporate level, Barclays' dedicated e-commerce platform, BARX Corporate, leverages the look, feel and functionality of its institutional platform in a package that has been tailored to the less frenetic, but no less professional, needs of the wider corporate market.

The latter has a number of user-friendly features and functions such as flexible delivery forwards which enable the user to draw down on what is required when it is required, removing the need to manage a large book of FX trades. Also, it has the ability to link FX deals to payments so that whilst both platforms have real-time streaming FX rates, the mid-cap iteration allows secured rates to be linked to corporate payments, avoiding the need for a range of currency accounts. "Few banks can offer that facility, particularly online," states Noble.

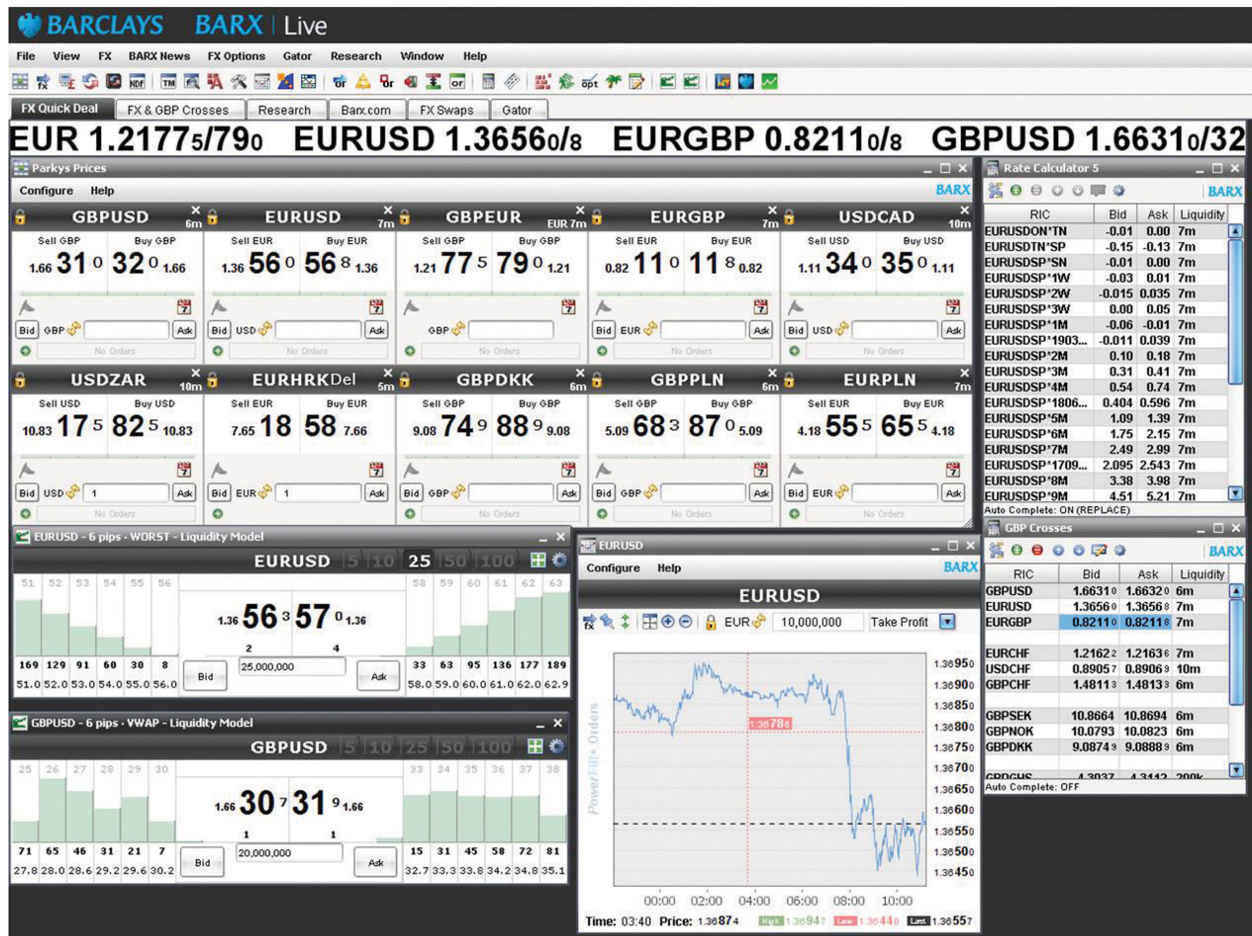
> "As they make individual sales and the transaction for each is processed, in real-time we can aggregate their positions and automate their hedging."
>
> Gareth Noble

Barclays has also created a platform specifically for clients who process high volumes of low value transactions. Being able to price in multiple local currencies, and converting that price back to the home currency, is something most retailers would love to do but cannot always achieve without relying on credit card companies or other payment providers to offer the exchange service. For Barclays' clients who wish to price in this way but who have no desire to manage all the different currencies, currency accounts and the attendant currency risk, an online solution awaits.

The platform, BARX NetFX, connects to the client's own systems to automatically pull FX rates from Barclays and use them to price their goods or services in the local currency on their different websites. "As they make individual sales and the transaction for each is processed, in real-time we can aggregate their positions and automate their hedging," explains Noble. The customer only sees the local price but the client as the seller can use either Barclays' live rates with pre-agreed spreads or take the rate that was sent through to price on the website, either way addressing FX risk.

As part of the ongoing development of BARX NetFX, Barclays is pulling in the expertise of its card provider division, Barclaycard. For merchants using the latter for payment acceptance or card acquiring, it will be possible for them to not only offer pricing in different currencies but also, where they are already connected to Barclaycard, for card-acquiring, they will no longer need a separate connection for Barclays to manage their FX element.

BARX Live



Building businesses by building relationships

But it is not just a case of hitting the right button at the right time. It is no accident that Barclays knows what its clients want; it has a dedicated FX team whose role it is not just to build relationships with individual clients at all levels, but also to engage with the sectors and industries from which its clients are drawn. Understanding the needs of the industry sector more broadly and the individual businesses translate into "a very good client experience", says Francis.

Establishing any business on foreign shores can be a challenge and Barclays' offer of personal service means access to a cross-functional relationship team set up to look at all the local elements of trade in each jurisdiction. This might include support in navigating through relevant documentary, regulatory, legal and taxation points as part of the preparatory work. "It's like having a local strategic partner that will help them through that stage," says Francis. FX is an important element of any international trade but the assistance with documentation and administrative processes that can enable a business to function in a coherent way once up and running will, she adds, often hold sway over any rate. "If a client wishes to do business in any country with which they are less familiar, we are able to help walk them through that process either directly or, where we don't have a cash management presence, through one of our local agents."

But the need for clients is dynamic; as the business grows and evolves its needs will change. In this respect Barclays has consciously adopted a consultative approach, explains Noble. There is, he adds, no one-size-fits-all offering for a situation that has so many variables. Barclays works hard to understand its clients, including how their business is structured, what the ambitions are and where it is in the cycle of business evolution. Through its product and relationship experts, the bank then looks to deliver a holistic, bespoke solution that helps their clients achieve their ambitions.

Lisa Francis

Managing Director, Barclays Risk Solutions Group EMEA

Lisa Francis, Managing Director, Head of FX Corporate Risk Solutions Group at Barclays, based in London. She is responsible for leading the firms FX risk offering to corporate clients across the region.

Francis has over 20 years experience in the Foreign Exchange markets, and joined Barclays from RBS where she held several positions, most recently as Head of European FX Sales and Global Head of FX Event-Driven Risk Management.

Gareth Noble

Managing Director, Barclays Risk Solutions Group FX

Gareth Noble, Managing Director Risk Solutions Group, Barclays Corporate and Investment Banking. Noble has worked in Foreign Exchange at Barclays for 14 years and currently has responsibility for Transaction Banking FX and FX e-Commerce for Corporates.

Barclays moves, lends, invests and protects money for customers and clients worldwide. With over 300 years of history and expertise in banking, we operate in over 50 countries and employ over 140,000 people.

We provide corporate banking solutions to businesses with an annual turnover of more than £5 million in the UK, and to large local companies, financial institutions and multinationals in non-UK markets. We support the success and growth of our clients by providing lending, risk management, cash and liquidity management, trade finance, and asset and sales financing.

Our customers and clients benefit from access to the breadth of expertise across Barclays. We're one of the largest financial services providers in the world, engaged in retail banking, credit cards, corporate and investment banking, and wealth management.

Hot commodities

Commodity price volatility is a major risk to corporates in a variety of industries – and not just the obvious ones. While difficult to predict, it can be managed in a number of ways, ranging from simply raising awareness of the risks to hedging with derivative instruments. But why should corporates be thinking about commodity risk now more than ever before?

As part of their core business, a large number of companies are exposed to commodity prices over which they have no control, just as they have no control over exchange rates or interest rates.

"Commodity risk matters to treasurers for the same reason that most financial risks matter – it impacts the valuation and the underlying financial performance of the business. Indeed, commodity risk can have more of an impact as the price of some commodities can be much more volatile than foreign exchange movements," explains Kevin Lester, co-CEO at Validus Risk Management.

Impact on operations

"The overall impact of commodity prices on companies' cost bases has increased as a general trend over the last decade or so. Commodities are now a much more noticeable line item on the financial statements compared with other constituent costs, and the proportional impact of commodity inputs has attracted attention to the importance of managing this risk effectively," adds Lester.

If, for example, an airline has a quarter of its cost base in jet fuel, and the jet fuel market is subject to a volatility of 20%, the company's bottom line is de facto exposed to 5% of uncertainty deriving from the cost base. And if the airline is only making a profit margin of between 1% and 3% (US airlines achieved a 2% profit margin on average during the first half of 2013, according to the trade organisation Airlines for America), this 5% exposure to the price of jet fuel could have a significant bearing on whether they make a profit or a loss.

So what can companies do to help minimise this risk? "Treasurers need to focus on the big items – the big commodity risks to their business. After looking at their exposure on a commodity-by-commodity basis, corporates should identify the risks, understand the risk dynamics, seek out the solutions that are out there, and, if necessary, address those risks. This can be a painstaking process," says Dimitris Papathanasiou, Financial Risk Manager at Coca-Cola HBC.

Hedging your bets

Using hedging instruments to mitigate commodity risk is one such solution. The commodity markets allow both producers and consumers to hedge their commodity risks. For corporates with significant exposure to commodity prices, this is often a more effective approach than simply self-insuring using the company's working capital.

Getting the right hedge is all about finding a derivative product which is highly correlated to the underlying price of the raw material that is required for the business. In general terms, the more liquid the market for a commodity, the easier it is to hedge. Oil, for example, is traded on many exchanges around the world and myriad derivatives are available on it. Crude oil – oil in its natural state – is traded in the form of a number of trading classifications: two of the most widely used benchmarks are Western Texas Intermediate (WTI) and Brent. Refined oil, in the form of diesel fuel, heating oil, gasoline, jet fuel and kerosene, is also widely traded and hedged.

In less liquid markets, where there are fewer derivatives available for a corporate to hedge against the commodity risk to which it is exposed, basis risk increases. Basis risk is the risk of divergence between the price of a future and the price of the underlying instrument.

As a result of the relatively limited liquidity in the commodities markets, banks often avoid presenting sophisticated hedging structures to their clients. Many corporates therefore end up using quite basic instruments in hedging their commodity risk. "The derivative instruments used are very vanilla. The majority of

Instruments

Derivatives represent a promise to buy or a right to sell an underlying commodity as opposed to outright ownership. Some of the instruments available include:

- Forwards – an agreement to exchange a commodity at a specified future time and price.
- Futures – an obligation to buy a commodity if the future is not liquidated before maturity.
- Options – the choice, rather than the obligation, to buy the underlying commodity.
- Swaps – an agreement whereby exchanged cash flows are dependent on the price of the commodity.
- Exchange of futures for physicals (EFP) – an agreement whereby a futures contract is traded for the actual commodity.

Commodity derivatives are typically priced by comparing prices for the same commodity over different times, geographies and quality differentials (such as one grade of oil against another).

IFRS 9, Chapter 6

Evolutions in hedge accounting have also changed the landscape for those looking to manage their commodity risk exposure. The IFRS 9 Chapter 6 standard on hedge accounting, among other changes, allows corporates to hedge individual component inputs that were previously impossible, or at least extremely complicated, to hedge.

Under the old rules, it was not possible to individually hedge the components of non-financial items – such as the oil component of diesel fuel purchases. Under the new rules, these components can be hedged, provided the risk component is separately identifiable. Chart 1 shows some of the industries which stand to benefit from the new standard.

Chart 1: Industries impacted by changes in hedge accounting standards

Industry	Example of a possible hedging strategy under the proposed standard
Transportation and logistics	Hedging the oil component of diesel fuel purchases.
Consumer and industrial products	Hedging the aluminium/tin component of a container.
Engineering and construction	Hedging the single metal component of a metal alloy product.
Mining	Hedging the copper component of copper concentrate.
Automotive	Hedging the copper component of a copper harness.
Agricultural	Hedging the maize component of compound animal feed.

Source: PwC

As we explain in this issue's Back to Basics article on page 41, the previous IAS 39 hedge accounting rules had been the subject of criticism for not accurately representing corporates' risk management practices, as well as for being overly complex and difficult to apply. Many believe the new rules will free up companies that previously wanted to do hedges that were sensible from an economic perspective, but prohibitively complicated from an accounting perspective.

Jeff Wallace, Managing Partner at Greenwich Treasury Advisors LLC thinks the new rules on hedge accounting will make things better for corporates looking to hedge commodity risk. "This is a sea change. More companies should now be seriously looking at hedging some of their smaller commodity risks that they couldn't hedge under the old rules. With hedge accounting under IFRS 9 Chapter 6 corporates can get more effective hedges – and proving that they have an effective hedge is much simpler than before," he says. "After years and years of complaints that hedge accounting was too difficult, didn't meet corporates' needs or hedge the legitimate risks of the business, the IASB has made a complete turnaround. Now corporates need to take advantage of this change and have another look at their commodity risk," he adds.

However, others fear that any positives the new standard may deliver will be outweighed by other changes in regulatory conditions that have the opposite effect. "While the evolution of hedge accounting standards has undoubtedly helped relax previously over-rigid restraints, other regulatory changes such as Dodd-Frank and EMIR could put up further barriers to commodity hedging, discouraging a considerable amount more hedging than IFRS 9 Chapter 6 could ever encourage," says Andy Hartree, Head of Commodity Solutions at Lloyds Bank.

what corporates do to hedge their commodity risk is plain, such as swaps on whichever index they're really exposed to," says Andy Hartree, Head of Commodity Solutions at Lloyds Bank. For example, one-, two- or three-year diesel swaps would be included in Hartree's definition of a plain commodity hedge. "Even the corporates with reasonably sophisticated execution strategies often use straightforward instruments," he adds.

Thinking outside the box

In extreme cases, corporates with high exposure to commodity risk can take matters into their own hands if they can't find suitable hedging instruments. In 2012, Delta Airlines bought its own oil refinery in an effort to address high fuel costs. Delta said the refinery in Pennsylvania, for which it paid $150m, could ultimately save the company $300m a year in fuel costs. The problem for most corporates with fuel price risk exposure is they do not have the resources to purchase their own oil refinery!

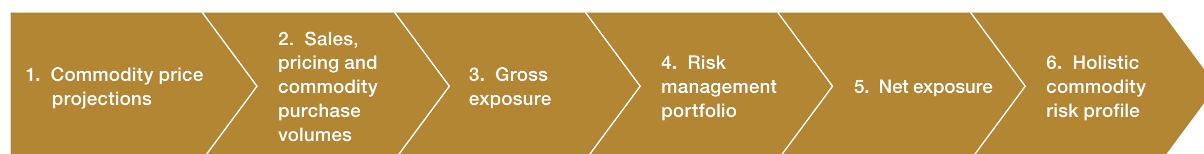
Thankfully, even with esoteric commodities for which there are no direct derivatives, hedging can often be achieved through proxy hedges. These 'derivatives through substitution' enable corporates to partially hedge their risk in less liquid commodities by using derivatives in more liquid commodities that bear a positive correlation to the one they want to hedge. For example, a technology company with an exposure to the price of ruthenium could hedge this risk using, for instance, platinum or palladium derivatives, if the company were confident in the correlation between the price of ruthenium and the hedged commodity.

However, hedging these rarer commodities is not always an exact science. "When you buy in certain metals which are related to – but not perfectly correlated to – the price movement in underlying metals like copper, platinum or palladium, movements in the price you're charged by your supplier may not fully reflect price movements in the market. Hedging these less liquid commodities can definitely take away a large portion of the risk, but it's difficult to hedge out all of the risk," says David Madden, an analyst at financial derivatives trading firm IG Group.

Of course, if corporates hedge against the risk of commodity prices going up, and prices go down, they can potentially lose

Chart 2: Six steps to create a holistic commodity risk profile

Steps



Analysis

Use analytic engines to simulate potential commodity price pathways (data driven).

Incorporate market context and paradigm shifts/scenario analysis (judgement driven).

Determine expected commodity purchase volume based on sales expectations.

Calculate expected commodity exposure (eg price multiplied by volume).

Define options for managing commodity price risk.

Centralise risk management options undertaken across organisation.

Calculate exposure after incorporating current risk management portfolio.

Determine impact of commodity price projections and exposure on financial metrics (eg EBITDA, cash flow, debt covenants).

out on their hedges. In 2008, United Airlines lost $544m in a single quarter on fuel hedges. However, even though United Airlines was hit by the hedging cost, it saved money from the fuel itself being cheaper.

Quotas

An interesting quirk in the world of commodities hedging is quota management – in particular in the agricultural space. These quotas often regulate supply and price, which can make planning ahead much more predictable for corporates exposed to fluctuations in the prices of those commodities – they do not need to (and in some cases cannot) go to the financial markets for these commodities.

The EU is the world's biggest producer of beet sugar, producing around half of the total. As part of its Single Common Market Organisation, the EU regulates its sugar market in terms of a quota, reference price and a minimum guaranteed price to growers. While the world market price of sugar has fluctuated significantly in recent years, the EU reference price has remained constant since October 2009.

Awareness

As simple as it may seem, raising awareness of the impact of commodity risk is another fantastic tool in ensuring it is appropriately managed. Some corporates already have significant resources devoted to handling their commodity risk exposure.

"Many of the big household name companies often have teams of people focused on the full range of treasury requirements. They are experts in commodity risks, not to mention the other risks they are exposed to, so they have sophisticated, well thought-out strategies and a very good idea of what's going on in the fundamental markets. They are almost like small trading operations in their own right," says Hartree.

However, others, particularly in the mid-market space, are less aware of how to manage their commodity risk exposure. "They might not know how the fuel price they're actually paying is generated, how it relates to an external benchmark market from which they can then get derivatives, and what their alternatives are in terms of fixed prices from their physical suppliers," adds Hartree.

Lester believes that treasurers sometimes give commodity risk exposure less consideration than other risks. "Even in large Fortune 500 or FTSE 100 companies, in a lot of cases there is a much higher level of expertise in other financial risks, like currency and rates than the level of expertise in commodity risk. One of the main reasons for this is that the management of that risk is a lot less clear in terms of where it gets managed. So typically if you look at currencies and interest rates and most pure financial risks, they're clearly managed within the treasury organisation," says Lester.

One reason for this is that these financial risks can be extracted to a greater degree from a company's underlying business processes.

Holistic approach

It is also important to no longer view commodity risk management as an isolated discipline. Indeed, Yuri Polyakov, Head of Financial Risk Advisory at Lloyds Bank, believes commodity risk must be viewed as part of a corporate's risk landscape as a whole. "Treasurers would also do well to take a more holistic view when looking at commodity risk. Commodity risk is not the only risk exposure they've got – they need to compare this with their FX and inflation risks," he says. Think about a sterling-based company with exposure to the price of dollar-denominated fuel, for example.

"Looking at commodity risk as part of their wider risk picture, they need to play the integration game, and understand that ultimately the goal is to reduce earnings volatility," adds Polyakov.

In 2012, management consulting firm Oliver Wyman set out a six-step approach to assessing commodity risk exposure, starting with commodity price projections and resulting in a holistic commodity risk profile (see Chart 2).

This should provide a good starting point for any treasurer looking to better manage their commodity exposures. But professional advice from strategic business partners, such as specialist risk advisory firms, or relationship banks, should also be sought. ■

THE BANK INTERVIEW

Sunil Veetil
Regional Head of Payments and Cash Management,
HSBC Middle East and North Africa

Sunil Veetil is Regional Head of Payments and Cash Management, HSBC Middle East and North Africa. Based in Dubai, he is responsible for growing the Cash Management franchise across the region. Veetil relocated from South Korea where he was responsible for connecting the fast growing Korean businesses to the outside world, whilst positioning HSBC as the leader in Cash Management in the country.

Prior to South Korea, Veetil was in HSBC Indonesia heading the Payments and Cash Management business for three and a half years. Veetil started his career with HSBC in Dubai where he acted as the deputy head of transaction banking and regional head of product management for the Middle East region. Throughout his tenure in the Middle East, Indonesia and in South Korea, HSBC has been consistently recognised as the leading cash management provider in all these markets, as evidenced by the accolades received during that period. Prior to joining HSBC, Veetil worked with the logistics group FedEx and the rating firm Standard & Poor's. Veetil is a Chartered Accountant, Management Accountant, and Certified Treasury Professional and is a graduate of Mathematics.

Corporate treasurers operating in the MENA region are increasingly being faced with the challenges of operating in a cross-border, multi-currency environment. Sunil Veetil, Regional Head of Payments and Cash Management – MENA at HSBC, explains how treasury professionals can overcome these hurdles to make the most of the opportunities that these challenges present.

You recently moved back to the Middle East to take up the role of Regional Head of Payments and Cash at HSBC. How has the MENA region progressed in the eight years that you have been away?

There has been a great deal of positive growth in the MENA region in recent years, with one of the most obvious areas being trade volumes. This is certainly a trend that we at HSBC believe will continue to blossom, given that the MENA region sits as a strategic gateway between East and West. While the developed economies continue to be key trading partners for the MENA region, there is a definite move among businesses to expand their trade links with the emerging economies in Asia and Africa, too. Eastern Europe is another area of interest for MENA companies looking to open up new trading partnerships.

Intra-regional trade flows are also growing, which is helping to boost confidence in the sustainability of the MENA region, and the UAE in particular, as a trade hub. The UAE has also made remarkable strides in becoming a popular treasury hub. In the same way that locations such as Singapore and Hong Kong are top of the list for establishing centres of excellence or regional treasury centres in Asia, the UAE now has that reputation within the MENA region. This is in no small part thanks to the country's developed infrastructure and the government's work towards e-readiness.

Nevertheless, other countries in the region are also making significant advancements and are becoming increasingly attractive as strategic business locations as a result. Egypt, for instance, now has its own Digital Law and is extremely forward-thinking when it comes to intellectual property rights. And this is just one example – there are positive developments such as this happening right across the MENA region.

In terms of payments and cash management, what have been the most noticeable changes or greatest leaps forward in the MENA region of late?

There have been numerous important changes which represent real progress in the world of payments. First and foremost, countries including Bahrain, Kuwait, Qatar, Saudi Arabia and the UAE have moved towards an IBAN-led bank account structure. This assists greatly with standardisation in the region.

The introduction of new or more efficient settlement infrastructures across many MENA countries is another important development. Egypt now has an established direct debits system and the UAE is following suit with UAEDDS. Although work is still ongoing for UAEDDS to be fully live, since very material payments infrastructure changes have been necessary, there is a two-phase approach in place that seems to be working well. Phase one went live on 5th October 2013 and saw DDs become available for the first time for mortgage payments and retail financing such as car loans. All UAE collections for personal financing can now be done through direct debits.

The next phase, which is likely to go live in Q2 2014, will see all other recurring payments, such as utility fees, service fees, insurance premiums, rent, school fees, retail loan repayments and credit card payments being carried out by UAEDDS. This will be of benefit to corporates operating in the region and will allow greater automation in their day-to-day payments and collections. Additional positives will include increased transparency and reduced usage of cheques.

Other countries within the GCC region, such as Qatar, are also now looking to adopt their own direct debits systems. This is something that HSBC sees as an extremely positive move. And having consulted on such projects across the globe, we are in an excellent position to not only be a vital part of these growing direct debit clearing infrastructures, but also to advise on best practice.

Elsewhere, Lebanon has made enormous changes to its clearing and settlement infrastructure. After the successful launch of its Real Time Gross Settlement (RTGS) system in 2012, the Central Bank of Lebanon unveiled a new Automated Clearing House (ACH) in November 2013 for the clearing of credit and debit transfers, including cheques and cards payments. This has vastly improved the safety, security and efficiency of the clearing and settlement of payments in Lebanon.

In the UAE, Oman and Qatar, image-based cheque clearing systems have been successfully introduced in recent years. These have boosted the efficiency and speed of cheque processing.

As such, it's clear that individual countries across the MENA region have made great strides forward where payments and clearing are concerned. The next step will be the introduction of a GCC-wide clearing infrastructure, tailored to the specific needs of the region. Talks are already taking place among GCC authorities to work towards this natural progression.

Do you see the use of mobile payments increasing in MENA?

If you go back to the early 2000s, the Middle East was comparatively slow in adopting e-commerce. There were no real government-led initiatives to get the right infrastructure in place for the adoption of e-commerce, so the region was somewhat behind its Western counterparts. Fast forward a few years to the advent of smartphones though, and the MENA countries have been able to skip ahead.

A number of initiatives driven by regional governments have assisted with this ability to leapfrog the 'PC age', and a good example is the UAE's Emirates ID card. Similar to a social security card, all UAE residents are issued with an Emirates ID card, which has a chip and PIN, and represents state-of-the-art technology in the field of smart cards. By May 2015, residents will be able to make payments to government offices by mobile phone, thanks to the creation of a nationwide mobile payments, identification and authentication system. This forms part of the UAE's aim to create the world's most sophisticated mGovernment.

Thanks to the improved payments and clearing infrastructure that I mentioned earlier, mobile initiatives such as this are now filtering down from government entities across the MENA region to the corporate sector. Over the next three to five years, we therefore expect the adoption of mobile payments among corporates to really take off, as well as the usage of apps that provide visibility into transactions.

Statistics from our award-winning HSBCnet Mobile solution certainly back this up: since our regional launch in November 2011 up until the end of September 2013, we processed over

$900m worth of transactions. This figure not only reflects corporates' open attitude to new technologies, but also that HSBC is very well positioned to capture the mobile opportunity.

How sophisticated are corporate treasury functions in the region, in terms of automation and technology?

When I was working in the region eight years ago, treasury technology (other than Excel spreadsheets) was merely a pipe-dream for many corporates. But revisiting these same corporates today, and looking at how they manage their treasury function now, there is a great deal of sophistication. One of the main drivers behind this gearing up is that MENA companies are increasingly expanding across the region and out into other markets. Managing treasury in a multi-country, multi-currency scenario is very challenging.

Technology is a good tool to help overcome these challenges. Through automation and FX solutions, for example, companies can quickly reduce their cross-border payments processing costs. Connecting with the right bank is also imperative to ensure smooth cross-country operations. At HSBC, for instance, we can help clients make the most of the opportunities that operating internationally presents. Perhaps by improving their regional concentration of funds, helping them to establish a shared-service centre (SSC), or even setting them up to use SWIFT.

What makes HSBC unique in this respect is that we have true global connectivity, with a presence in 75 countries and territories. We can connect an Asian, European or Middle Eastern MNC to various geographies both within the MENA region and outside it. In addition, we have sophisticated liquidity solutions available across all of these geographies that offer visibility on a real-time basis, as well as the ability to move currencies on a real-time basis. It's about making a client's money really work, regardless of geography or currency.

In short, while technology remains a key enabler for treasury functions, strategic partnerships with key relationship banks can leverage that technology to deliver even greater benefits.

Are SSCs becoming more popular in the region? If so, in which locations are they being established?

We are certainly seeing a number of corporates, including family owned companies, setting up in-house banks, or broader SSCs, to centralise and bring greater efficiency to their treasury function.

As I mentioned earlier, although the UAE ticks all the boxes in terms of infrastructure for telecommunications and travel, access to resources, political stability and lifestyle, that does not preclude other countries in the region from attracting SSCs. In fact, I know companies that have regional treasuries in Bahrain and Oman, for example. All of these locations offer a tax-free environment and are favourably placed from a time zone perspective to deal with both European and Asian operations. So we are seeing more and more treasury SSCs being established in MENA.

Interestingly, we are also seeing more Asian companies come to the region – not just to set up SSCs, but in terms of extending their general operations. Previously, the main influx of foreign companies was from the West. The quality of goods being produced by Asian companies has increased dramatically in recent years and this has helped them to gain traction. Asian companies are also more likely to enter riskier markets than their Western counterparts. We are therefore seeing a number of Korean, Japanese and Chinese companies coming into this region and around 50% of the large EPC contracts are now being awarded to Asian MNCs.

With Asian MNCs gaining a good foothold in the region, is there a growing call for the use of renminbi (RMB) among your client base?

Absolutely – the RMB is a huge focus for our clients, and for HSBC as a bank. As an institution, we have a major presence in all RMB centres, including Hong Kong, which means that we have enough RMB liquidity to cater for any client's requirements. In addition to handling the currency, we also offer RMB advisory services. Given that the RMB is a relatively new currency, a number of corporates are looking to discover the best way to settle trades in RMB. At HSBC, we have a team of consultants who can assist clients to switch from their previous trade settlement currency to using RMB.

You will be opening the EuroFinance Dubai conference at the end of March. Why are conferences such as these so important and what do you expect to be speaking with clients about whilst there?

Being present at industry conferences provides an independent forum through which we can demonstrate thought leadership and help clients to understand new developments in the market.

Topics that are high on regional treasurers' minds at the moment include counterparty risk and bank relationship management. Companies don't want to have to manage ten different bank relationships across ten different countries – the amount of time spent on filling in each bank's KYC documentation alone is a real negative for treasurers. At the same time, corporates are looking to minimise their counterparty risk. Since HSBC has a strong credit rating and balance sheet, and has a global footprint, we will no doubt be speaking with corporates looking to consolidate their banking relationships.

Other topics of conversation are likely to include SEPA, for those companies with European operations, and the RMB for those trading with Asia. Of course, any conversation about MENA wouldn't be complete without mentioning the UAE's Expo 2020 and Qatar winning the honour of hosting the World Cup in 2022.

Going forward, we will see significant investment taking place in the infrastructure of these countries, which can only be positive for businesses located there. These events will also have a positive impact on the tourism trade and the amount of FDI coming into the UAE and Qatar. Naturally, HSBC will continue to work closely with our corporate clients to help them leverage this growth to their advantage. ■

SEPA: here we go again

You've completed all your tests, switched off your legacy systems, and can finally say you're SEPA-compliant. But what's next? As the remaining stakeholders complete their migrations to SEPA, we ask corporates, banks and third-party vendors how they think a pan-European payments area will develop in the years ahead.

In the end, they did the sensible thing. Just weeks prior to the Single Euro Payment Areas (SEPA) migration date, the European Commission added a six month transition period to give companies more time before legacy payments systems are switched off for good. As a result, banks and businesses in Eurozone countries will have until 1st August 2014 to comply with the new standards for direct debit and credit transfer transactions.

The grace period will surely be welcomed by those businesses still struggling with the many technical challenges associated with SEPA compliance. They are more than a few in number. The latest figures from the ECB, released mid-January, reveal that 83.13% of credit transfers and just 60.23% of direct debits were SEPA-compliant in December 2013. But the reality is that the transition period offers nothing more than a little breathing space for these companies. The eyes of most corporates should now be fixed firmly – like those of the banks and the regulators – on the next stage.

But what will phase two of SEPA look like? For corporates, it will largely depend on the geographical footprint of the business and how the treasury is organised. What is clear though, is that following compliance, corporates will see opportunities for efficiency gains in a pan-European payments landscape. In fact, SEPA is just the beginning. As the remaining businesses in Europe go live with SEPA's ISO 20022 XML standards, some industry experts are predicting that those same formats could be the key to extending bulk payment instructions beyond the Eurozone and pushing far greater adoption of e-initiatives.

The single account dream

Up until this point, corporates have mostly tended to view SEPA strictly as a compliance project. The number one priority was to ensure the terms of the SEPA regulation were met, allowing the business to continue to process transactions without disruption after the so called end-date of 1st February 2014. Those who have successfully migrated their systems can now begin shifting their focus away from pure compliance to the opportunities that SEPA brings.

By far the biggest opportunity for companies with a pan-European footprint is to use SEPA to centralise payables and receivables. They can do this by shedding their framework of in-country euro accounts in favour of a payments/collections factory which can execute and process transactions on behalf of one or more subsidiaries. A corporate may also reach a point where only one operational euro account is needed across the entire continent.

"That should be the end goal," says Steve Everett, Managing Director, Global Transaction Services, RBS. "Companies will now be thinking about rationalising down, as far as possible, all their euro bank accounts and the administration that goes around them."

European multinationals (MNCs) will already be well aware of the efficiency gains that centralisation has to offer. Reduced bank fees are the most obvious of these, but precisely how much can be saved will vary from business to business. Some corporates, like Ages Maut System, a Germany-based provider of transnational toll systems across Europe, are expecting to make only modest savings. Treasury performed a cost-benefit analysis early on in the migration process which indicated that reduced bank fees could save the business as much as €10,000 a year. "There are a number of accounts we don't need any more and typically they were a lot more expensive than our accounts here in Germany," says Peter Frambach, Head of International Payment Services at Ages Maut System.

Those who have successfully migrated their systems can now begin shifting their focus away from pure compliance to the opportunities that SEPA brings.

Frambach could be forgiven for not feeling as though he has just hit the jackpot, however. For creditors doing direct debits on an 'at sight' basis, shortened cut-off times and longer presentation periods for direct debits can mean an inevitable and substantial loss on the interest returned on deposits or spend on loans. Although rates are presently at all time lows, Frambach calculates that with interest rates closer to their 20-year average of 6%, a company with a monthly turnover of €20m collected with direct debits loses just under €60,000 each year on such delays for B2B and COR1 direct debits. If the company were to opt for CORE direct debits, the interest gap rockets up further. This is even before taking into consideration the €400,000 the company has already spent becoming compliant in the first place.

Tangible cost savings will not be seen at every European company and will often not level out the costs implied with SEPA compliance (whether direct debit-related or otherwise), although there will likely be efficiency and process improvements. As Frambach acknowledges, the benefits that can be drawn from

SEPA vary from business-to-business. Certainly, companies like the Dutch multinational AkzoNobel that found SEPA beneficial when establishing payments and collections factories.

Unlike many companies beginning to look at centralisation now after compliance has been achieved, AkzoNobel's treasury began work back in 2010, two years prior to the official announcement of the SEPA end-date. First, a payments factory was established to make payments on behalf of the company's European entities. SEPA was not essential for the establishment of the payments factory, but the abolition of charges on cross-border transactions was certainly beneficial. The end result was one account for euro payments. The process has since been replicated in receivables, with the establishment of a collections factory.

"We quantified the savings internally and it is in the millions," says Gerwin Braam, Senior Bank Manager and SEPA Project Manager at AkzoNobel. But are there not benefits beyond savings on bank fees, such as greater control and visibility? "Exactly, that is also another big benefit," says Braam. "You have much more visibility over cash flow and can see quite easily where money is at any given time."

Innovation

In the next few years, SEPA is also going to be a momentous driver of innovation in the transaction banking and corporate treasury world. Many treasurers have been using the momentum of SEPA projects to restructure or improve their operations, while banks are beginning to develop new products and solutions to facilitate the treasury drive towards greater efficiency.

An example of this is virtual accounts. "That's becoming a really hot topic," says RBS' Everett. Essentially, virtual accounts are structures that enable businesses to establish a number of subaccounts within one master account. These structures address the reconciliation difficulties that arise through bank account rationalisation by enabling a corporate to provide a unique identifier to each of its clients. Individual transactions can then be directed to a particular virtual account against which receipts can be directly noted. "They could, in practice, get a virtual account for each supplier," adds Everett. "It enables corporates to achieve a much more streamlined, automated approach around reconciliation."

But the drive to greater efficiency will not stop there. Having already overcome the challenge of introducing XML as part of their SEPA migration, corporates may find it worthwhile looking at some of the other ISO 20222 XML-based solutions offered by their various banking partners. One of these is Electronic Bank Account Management (eBAM). To date, corporate uptake of eBAM solutions has been minimal but now, with swathes of companies across Europe using the corresponding messaging standard, we could be about to witness a spike in interest.

Bank account rationalisation might also be a catalyst of sorts. Until now, corporates with a large number of accounts with multiple banking partners have been holding out for a viable multi-bank eBAM solution to arrive on the market. But companies who have been successful in consolidating their European accounts down to a small number might find that the proprietary portals already offered by a number of major cash management banks are now all that they need.

AkzoNobel is one company moving in this direction. With the treasury team now fully relieved of its SEPA compliance workload, introducing eBAM is next on the agenda. "A lot of documentation is required to open, close and amend bank accounts," says AkzoNobel's Braam. "It has always been a heavy workload for treasury, but eBAM can replace a lot of it."

Another innovation that is likely to receive more attention now the SEPA end-date has passed is e-mandates. "We've already seen pilots in three or four European countries," Luca Poletto, Head of SEPA, BNP Paribas Cash Management tells Treasury Today. It is, he explains, a solution that is receiving an increasing amount of consideration from his corporate clients, especially those who have migrated to SEPA Direct Debit (SDD) and have business models which require them to collect a large number of new mandates each month.

One final innovation that is set to receive a huge boost from SEPA is electronic invoicing. Efficient e-invoicing and processing has been on the corporate treasurer's wish-list practically since the birth of the digital age in the 1990s. Although adoption of such solutions offers a great means for companies to improve working capital and supply chain finance processes, uptake to date has been hampered by a combination of legal uncertainty and the absence of common pan-European standards.

According to figures published by the European Commission in June 2013, e-invoicing accounted for only 4-15% of all invoices exchanged in Europe.

> Some industry experts are convinced that SEPA represents not just a transformation in the European payments market, but also the catalyst for an even bigger, global drive towards greater efficiency in payments.

Those hindrances are less relevant now given that the industry has defined an XML format for e-invoicing based on exactly the same data elements as SEPA XML. Consequently, experts believe companies in Europe will make a big push towards e-invoicing in the years ahead. "SEPA XML is all about payments," says Ad van der Poel, Head of Payments and Receivables, Global Transaction Services, EMEA, Bank of America Merrill Lynch. If e-invoicing and SEPA Direct Debit together with an XML theme does finally begin to take off now, he adds, it would represent a big step towards the ultimate goal of automation across the value chain. "It is practically the final piece of the jigsaw to open the door for having XML integration."

Results from Treasury Today's 2012 and 2013 European Corporate Treasury Benchmarking studies appear to substantiate the claim that SEPA is beginning to drive greater uptake in solutions such as payments factory software, eBAM and e-invoicing.

In 2012, 18% of corporate treasury professionals surveyed already used payments factory software, while a further 19% stated that they planned to implement solutions in the near future. By the time of the 2013 study, those figures had increased to 24% and 27% respectively. Meanwhile, the proportion of treasurers stating that they plan to use eBAM and e-invoicing somewhere down the line rose by 5% and 9% (see Chart 1).

Beyond Europe

Elsewhere, some industry experts are convinced that SEPA represents not just a transformation in the European payments market, but also the catalyst for an even bigger, global drive towards greater efficiency in payments. Beyond the Eurozone's periphery, interest in adopting SEPA standards has already been expressed by a number of Commonwealth of Independent States (CIS) nations, notably Russia and Ukraine. These countries are currently lacking uniform payment systems and XML would seem like the most practical choice for messaging standards as they begin to develop and standardise payments infrastructure.

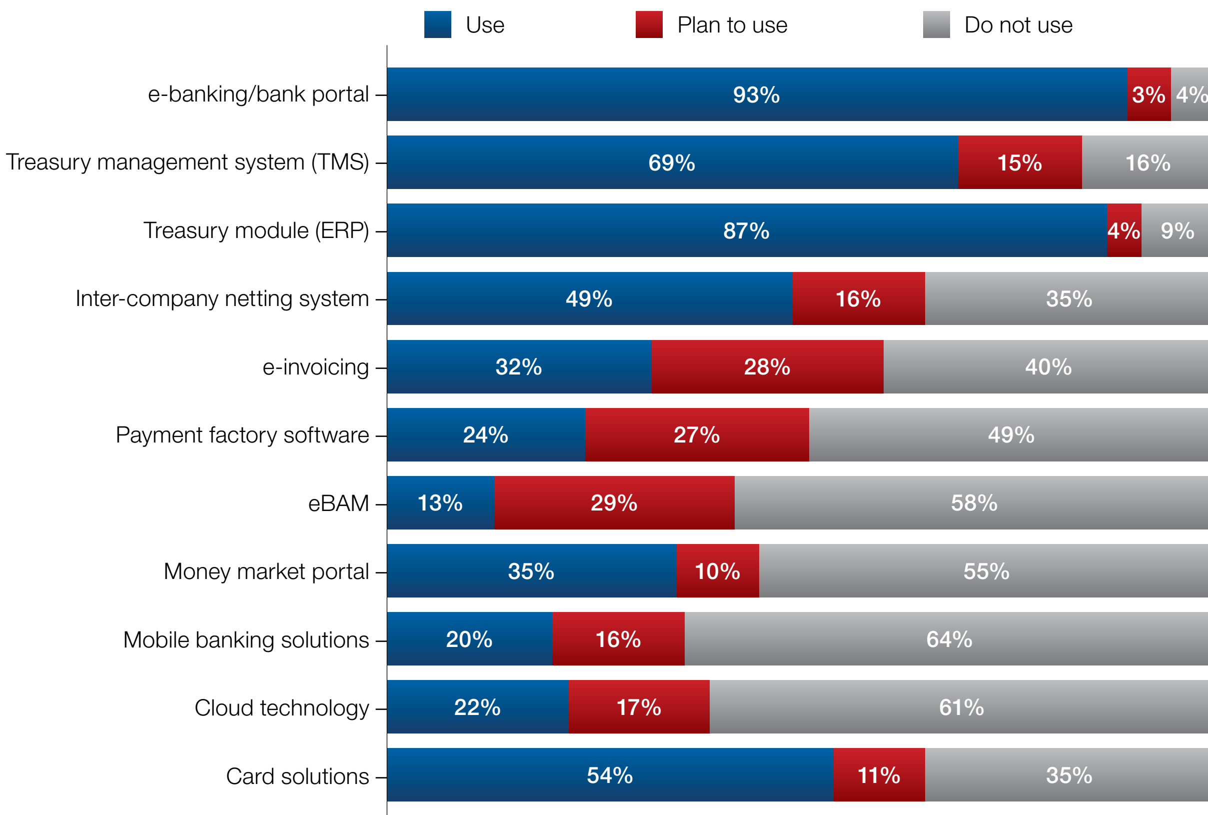
But message harmonisation in the cash management sector may, given time, stretch even further afield, perhaps even as far as the Americas or Asia. "Another area that corporates will want to explore in the coming years – brought by XML – is the possibility of extending the consolidation of payments, particularly credit transfers beyond Europe," says BNP Paribas' Poletto.

Marcus Hughes, Director of Business Development at Bottomline Technologies agrees. "That's the big one," he explains. But is any of this likely to be on the treasury agenda in the immediate future? Would extending the project globally not place an even larger and, more to the point, unnecessary burden on treasury resources? After all, for most corporates, SEPA migration in Europe was a difficult enough task.

The answer is that, as with eBAM and e-mandates, the efficiency benefits should more than justify the extra work (although this is of course easier said than done). Unlike in years past, there is also now a clear opportunity. Previously, differing national laws and regulations have meant global payments infrastructures remained fragmented. Thanks to the work that the SWIFT Common Global Implementation (CGI) initiative has put in over recent years, that could be about to change. Through the CGI initiative, over 30 banks and a handful of technology providers – including Bottomline Technologies – have collaborated to approve a suit of ISO 20020 XML standards that can be used for many different payment types, and so replacing the need for corporates to support bespoke, domestic formats.

Corporates in Europe who have migrated to SEPA will therefore be in a good position to explore such opportunities now. Those that do may find that, at some point down the line, they are able to reach the ultimate benchmark in cash management efficiency and transparency: a global payments factory working on behalf of all the business's international entities. "That is exactly what XML is designed to do," adds Hughes. "It is the logical follow on, and it really makes payment and collection factories possible, not just in the Eurozone but in other countries across the globe too." ■

Chart 1: Which of the following systems do you use already or plan to use in the next 12-18 months?



Source: Treasury Today Corporate Benchmarking Study 2013

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The hedge of darkness

All businesses are exposed to market risk of some form. A common response is to hedge against those risks but in accounting terms this can create undesirable P&L volatility. Hedge accounting may be an effective remedy to this problem, but it can be a demanding process. Treasury Today calls upon a number of experts to shed some light on this dark art.

As deep and mysterious topics go, one of the clear leaders of the pack in financial circles is hedge accounting. It can strike fear into the heart of even the most seasoned finance professional. But, notwithstanding its complexities, it can be an effective means of mitigating the risk of potentially damaging volatility in profit and loss (P&L) accounts caused by the mark-to-market fluctuation of a hedging instrument and allowing a better reflection of economic performance to be provided. It is a voluntary accounting process (it has been described as a privilege, not a right) but for those that use it – typically listed companies whose accounts are exposed to public scrutiny – it must be applied with precision.

So what is it? A business may hedge financial or non-financial assets or liabilities by using a financial instrument in order to manage its exposure to a risk it may have around interest rate, FX, equity, credit or commodity price, for example. Accounting requirements often insist that assets/liabilities (frequently recorded at amortised cost or as a forecast item not yet recognised on the balance sheet) and the instrument used to hedge (which is accounted for as a trading instrument at its market valuation – in other words 'fair value' recognised in the P&L account) are accounted for differently. But where differences in measurement arise, such as between the fair value measurement of the hedge and the amortised cost for the assets/liabilities, a mismatch in the valuation or timing of income statement recognition is created, giving the appearance of corporate earnings volatility, which does not provide useful information to investors and shareholders.

Enter hedge accounting, which can be used as a means of reflecting the relationship between an asset/liability and the associated hedging instrument (for example by re-measuring the asset/liability for the hedged risk and recognising that value change in P&L to provide an offsetting effect with the measurement in P&L of the hedging instrument).

As long as the hedge is fully effective (more on this later) most mismatches in the P&L should be evened out by the relationship between the two and thus the business can better depict its performance through its financial statements.

Accounting bodies

Hedge accounting has a strict set of rules and requirements. These are typically laid out in the standardised accounting guidelines of each jurisdiction known as 'generally accepted accounting principles' (GAAP). In Singapore, for example, it is the Accounting Standards Committee (ASC) that is in charge of standard setting. In the US, hedge accounting under GAAP is tackled by the country's Financial Accounting Standards Board FAS 133 rule-set (now known as ASC 815).

When hedging structures are complex, there may be judgements to make where the local accounting standards "do not necessarily address all the possible scenarios", according to Yann Umbricht, Partner and Treasury UK Leader at PwC. He adds that for listed companies accounting at group level, alongside appropriate local GAAP reporting requirements for individual entities, international accounting standards must normally be applied. In this respect, the IFRS Foundation was established to develop and promote a single set of globally accepted accounting principles (known as International Financial Reporting Standards or IFRS). It works through its independent standard-setting body, the International Accounting Standards Board (IASB), and has global influence. Members of the IASB are responsible for the development and publication of IFRS, which is applied in over 100 countries, including two-thirds of the G20.

Hedge accounting requirements are contained in IAS 39 Financial Instruments: Recognition and Measurement, much of which had its genesis in similar requirements in US GAAP.

Pierre Wernert, Senior Consultant at Zanders Treasury and Finance Solutions, offers the following information on the conditions that must be met prior to hedge accounting under IAS 39:

- At the start of the hedge, the hedged item and the hedging instrument has to be identified and designated.
- At the start of the hedge, the hedge relationship must be formally documented.
- At the start of the hedge, the hedge relationship must be highly effective.
- The effectiveness of the hedge relationship must be tested periodically.
- Ineffectiveness is allowed, provided that the hedge relationship achieves an effectiveness ratio (the level of offset between the two) of between 80% and 125%.

Adopting IFRS 9

Following a consultation period, the section of IAS 39 relevant to hedge accounting has been updated. According to Umbricht, the new requirements, published under IFRS 9, are intended to reflect business and investor concerns that hedge accounting is "too complicated" and that it unnecessarily excludes some "very well-defined and acceptable hedging strategies".

IFRS 9 will eventually replace IAS 39. Currently, from an IFRS perspective, the new standard is available for application but in some jurisdictions, such as in Europe, IFRS 9 has not yet been endorsed for inclusion in European law. US GAAP must be used by US companies, of course, but IFRS standards including IFRS 9 can now be used in that jurisdiction by foreign businesses that need to file group reporting by US regulations (such as an entity that has listed debt in the US).

The switch to IFRS 9 for users of hedge accounting was due to become mandatory on 1st January 2015 but amendments made to IFRS 9 in November 2013 removed the mandatory effective date (although, as before, businesses in jurisdictions that use IFRS may still choose to apply IFRS 9).

The hedge accounting requirements in IFRS 9 are intended to be less administratively burdensome than IAS 39 by being more closely aligned with risk management. As part of the discussion that led the IASB to make these changes, it was clear that investors in business wanted to be able to understand the risks faced by a particular entity, what its management is doing to manage those risks and how effective those risk management strategies are, says IASB Board Member, Sue Lloyd. It is thus the IASB's intention "to more closely align hedge accounting with risk management" and to make the presentation of information more accessible to non-accountants. It is, she comments, "a new generation of hedge accounting".

IFRS 9 retains requirements for documentation of risk and hedging processes. It requires enhanced disclosure around exactly what those risk management activities are when applying hedge accounting. From an auditing viewpoint there are specific requirements to state what will be treated as a hedge accounting relationship and how each will be executed. "Hedge accounting is still complex," states Umbricht. The changes will not make it easy, "but it will become easier".

The role of technology

Blaik Wilson, chairman of treasury technology vendor Reval's Hedge Accounting Technical Taskforce believes the inherent complexity of hedge accounting, under any ruleset, lends itself to technological intervention. "Companies can enable rules-based processes and workflows which will only allow a hedge relationship to be created, and hedge accounting be conducted, if the appropriate documentation is in play," he explains. Such solutions – either outsourced or controlled by organisations themselves – can take account of local variations not just of the rules but also in how documentation must be presented; the latter giving rise to the use of templates. "If you haven't got a robust workflow attached to your processes, elements will be missed," he warns.

Inappropriate or missing documentation is the number one reason for a hedge ceasing to be eligible for hedge accounting treatment. "One of the reasons it gets picked up frequently is that it is quite an easy audit point to discover, and you've either done it correctly or you haven't," he notes. "Companies have to be vigilant in their processes to ensure they document every single one of their hedges correctly."

What's new?

Despite claims of reduced administrative burden, for example by using more economic concepts to determine whether a relationship is eligible for hedge accounting, IFRS 9 will almost certainly introduce extra work for preparers of financial statements when it comes to disclosure, admits Lloyd. But by

providing information that has been designed to help users of financial statements understand the effects of hedging on future cash flows, she argues that it gives a business "the opportunity to better explain its story".

There are other benefits. For example, companies can now hedge risk components in non-financial items. "IFRS 9 gives companies the ability to use risk components, slicing and dicing the hedged item for risks in non-financial items in the same way as for financial items, as long as the component is reliably measurable and separately identifiable," explains Ian Farrar, partner in PwC's Global Accounting Consultancy Services group and leader of PwC's corporate treasury practice in Hong Kong and China. This, he adds, will be "really useful" for companies dealing with commodities. "If you buy something that has high copper content, with IAS 39 you would have to hedge the whole item; now with IFRS 9 you can just choose to hedge the copper content." The same componentised approach to hedging applies to airlines and jet fuel, for example. The change effectively means more entities will be able to apply hedge accounting to reflect their risk management activities.

Aggregated exposures – those that have a derivative and non-derivative together – can also now be hedge accounted. The treatment of net positions is changing too. IAS 39 does not allow aggregation of items that have off-setting risk. With IFRS 9 it is now possible, for example, to designate a hedge of both sales and purchases on a gross basis with a net derivative. The downside explains Farrar, is that it is not permissible to recognise those gains and losses within revenues and cost of sales, for example; they have to be reflected in a separate line in the income statement. "In terms of presentation this is not perfect, but certainly it is a big step forward from where we are today."

There is however a "slight narrowing" of what is possible in terms of using undiscounted spot, notes Umbricht. He points out that application of IAS 39 has been "fairly flexible" when using the spot element of a forward contract to hedge a foreign currency risk that will occur in the future, where the time value of money could be ignored. If a company with a future dollar exposure took a dollar contract, the spot element was fully offset. But, he comments, the IASB has been "very clear" in its requirement to take into account the value of money, and discount back to present value both the hedged item and the hedging instrument. "It's all fine if the timing is very similar or the interest rate environment of the country where you operate is low," he notes. "But where you have uncertainty around the timing of the hedged item, and a higher interest-rate environment, this may create more ineffectiveness than we have been used to in the past."

Effectiveness testing

One of the most difficult issues to deal with over the years has been hedge effectiveness testing. To be able to use hedge accounting under IAS 39, although IASB does not specify a method of calculating effectiveness, it does stipulate an effectiveness range – a so-called 'bright line' within which fair value must fall both prospectively and retrospectively – of between 80% and 125%. With IFRS 9 it is the duty of the business to satisfy auditors that on a prospective basis all intended hedges will be effective. But instead of using arbitrary accounting metrics, it can use information produced internally for risk management purposes. Lloyd believes that this less-prescriptive, more economic model should reduce the costs of implementation compared with those for IAS 39. However, it places the onus on the entity to establish prospectively that there is a sound economic relationship between each asset/liability and its hedge that will provide offset of risk. Failure to continue to do so would result in hedge accounting ceasing for that particular hedge relationship so any volatility experienced for that hedge would then hit the P&L.

What changing to IFRS 9 means

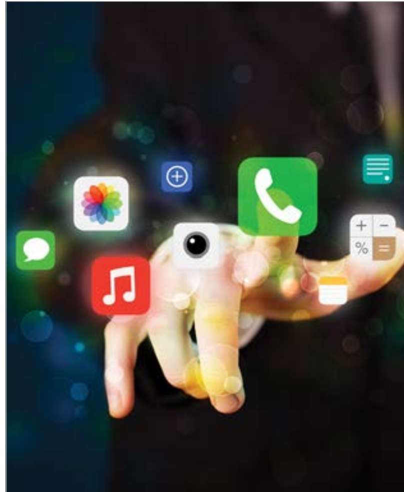
For those using IAS 39 or any similar GAAP model, the initial move to IFRS 9 hedge accounting may be seen as yet another issue to overcome. "Some people think hedge accounting is too hard. But put it into perspective; every entity will look at the amount of hedging it does and decide whether it is worth the effort or not," says Lloyd.

Where US GAAP and IAS 39 hedge accounting had many similarities, IFRS 9 is quite different, notes Wilson, adding that this may create "quite a headache" for global companies who must incorporate disparate GAAP requirements across their various jurisdictions. Lloyd however notes that even where there are differences, hedge accounting is "ultimately a choice". For Umbricht, the switch from IAS 39 to IFRS 9 signals no major operational undertaking. However, he reserves concern for the UK and Republic of Ireland where changes in local GAAP for statutory accounts will increasingly resemble IFRS rules. Companies in the UK and Ireland will need to move quickly to adapt to the new financial reporting framework, which will impose changes to the format of the financial statements and the disclosures required, becoming effective on 1st January 2015.

Lloyd argues that the shift to IFRS 9 represents more opportunity to engage in "finely-tuned" hedge accounting. US GAAP constituents were even encouraged to (and actively did) take part in the consultation period and she believes there may be convergence in time. Until then, businesses may even be "pleasantly surprised" to find that things that weren't possible before "could now be possible".

Many of the changes will enable companies to address some of the areas where IAS 39 was causing a "misalignment of accounting with common risk management strategies", says Farrar. It offers "friendlier accounting" for commodity risk managers, and being able to have derivatives as hedged items will also give companies more flexibility in how they designate hedge relationships. It will also enable them to "avoid some of the problems they have been having with derivatives with non-zero fair values" when going into hedge relationships.

The concluding observations from Wilson on the complexities of hedge accounting and the way in which the rules are changing are impressively forthright. "Businesses changed the way they were hedging economically to make it easier to do the accounting, and that's not a great situation," he states. "I don't think the standard-setters wanted firms to do that; they want businesses to manage their risk the best way they feel they need to, and for the accounting to reflect that. With IAS 39, we've often got the tail wagging the dog, with the accounting driving the economic hedging." Notwithstanding his reservations on the divergence between the likes of US GAAP and IFRS 9, he feels the new international standard for hedge accounting will address most issues by re-aligning accounting with risk management and, on the whole, "gets it right". ■



CORPORATE FINANCE

Successful SCF programmes

There is a lot of confusion as to what the term 'SCF' actually covers. Conflicting views also exist around the drivers of SCF programmes for buyers and suppliers. In this article, we not only iron out these creases, but also speak to a leading supermarket chain to understand their unique approach to supplier finance.

INSIGHT & ANALYSIS

The world of apps

Everyone who owns a smartphone or tablet will be familiar with apps. From to-do lists to news feeds and even addictive games, apps are firmly embedded in popular culture. But what use does the treasurer have for apps? And what are forward-thinking technology firms and banks doing to get ahead in the world of apps for treasury professionals?

TECHNOLOGY

Big data

The phrase big data has been flying around at conferences for the last few years and is plastered over brochure-ware like there is no tomorrow. We examine what big data really means and analyse the true value it can bring to corporate treasury functions, including improved cash flow forecasting.

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

Nuvin Balloo, Senior Economist, Mauritius Commercial Bank; **Jason Barrass**, Head of Africa Trade, Barclays; **Gerwin Braam**, Senior Bank Manager and SEPA Project Manager, AkzoNobel; **Cas Coovadia**, Managing Director, Southern African Development Community Banking Association; **Sigurd Dahrendorf**, Vice President, Corporate Treasury, Knorr-Bremse; **Michelle Dovey**, Group Treasurer, National Express; **Thomas Dunn**, Chairman, Orbian; **Steve Everett**, Managing Director, Global Transaction Services, RBS; **Ian Farrar**, Partner, PwC; **Peter Frambach**, Head of International Payment Services, Ages Maut System; **Lisa Francis**, Managing Director, Barclays Risk Solutions Group EMEA; **Andy Hartree**, Head of Commodity Solutions, Lloyds Bank; **Marcus Hughes**, Director of Business Development, Bottomline Technologies; **Tamer Karabulut**, Head of Treasury Operations, Türk Telekom; **Phillip Kerle**, CEO, Demica; **Rolf Lehmann**, Group Treasurer, Vetropack; **Kevin Lester**, co-CEO, Validus Risk Management; **Sue Lloyd**, IASB Board Member; **David Madden**, Analyst, IG Group; **Gareth Noble**, Managing Director, Barclays Risk Solutions Group FX; **Dimitris Papathanasiou**, Financial Risk Manager, Coca-Cola HBC; **Jerry Pearce**, Head of Product Management and Head of TPS, Standard Bank; **Luca Poletto**, Head of SEPA, BNP Paribas Cash Management; **Yuri Polyakov**, Head of Financial Risk Advisory, Lloyds Bank; **Nasreen Quibria**, Executive Consultant, CGI; **Jon Richman**, Head of Trade Finance and Financial Supply Chain Americas, Deutsche Bank; **Klaus-Dieter Ruske**, Global Leader for the Transportation and Logistics Sector, PwC; **John Salter**, Managing Director – Cash Management and Payments, Lloyds Bank; **Martin Tyley**, Regional Head of Cyber, KPMG; **Yann Umbricht**, Partner and Treasury UK Leader, PwC; **Ad van der Poel**, Head of Payments and Receivables, Global Transaction Services, EMEA Bank of America Merrill Lynch; **Sunil Veetil**, Regional Head of Payments and Cash Management – MENA, HSBC; **Jeff Wallace**, Managing Partner, Greenwich Treasury Advisors LLC; **Pierre Wernert**, Senior Consultant, Zanders Treasury and Finance Solutions; **Blaik Wilson**, Chairman of Treasury Hedge Accounting Technical Taskforce, Reval.

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