treasurytoday
research | insight | analysis
July/August 2014

Collaboration: tax and treasury

Within the traditional corporate set-up, tax planning was the exclusive domain of the tax department – not the treasury. But today, tax is having a far greater influence on treasury practices and decisions. What is driving this change and what does it mean for you?

The Corporate View
Federico Falciai
Head of Cash Management Strategy
Enel

Women in Treasury
Karen Van den Driessche
Treasury Director EMEA
Avnet

Cash Management
Bringing cash home

Risk Management
Counterparty exposures

Country Focus
Turkey

Back to Basics
Treasury reporting

Filtering what matters

Treasury Insights

Bringing the important and relevant news to your inbox every week

Register at treasurytoday.com

E-invoicing gains momentum

It's been a busy few months on the e-invoicing front, with a number of positive and noteworthy developments. In this issue, we'll highlight some of the most recent statistics and interesting e-invoicing news, but we really would urge treasurers to keep e-invoicing firmly on their radar as 2014 progresses. After all, in an environment where businesses of all sizes continue to focus on finding efficiencies and getting smarter about the way they work, while adding strategic value and easing financial pressures, e-invoicing is a tried and tested solution.

According to a report published in May this year by Billentis and sponsored by Ricoh, businesses across Europe can achieve a 60 to 80% cost saving by adopting e-invoicing, compared to traditional paper-based processes. What is more, e-invoicing projects typically yield payback in as little as six to 18 months from the point of implementation, the report notes.

As a result, an increasing number of companies seem to be picking up on the quick wins and longer-term benefits of e-invoicing. And those already using e-invoicing appear to be extending their programmes, rolling them out to new geographies, or choosing new partners to help them garner even greater benefits through invoice automation.

Indeed, recent data from The European E-invoicing Service Providers Association (EESPA) looking at actual transaction volumes of EESPA members showed a 19% growth rate in processed invoices, rising from 706m in 2012 to 840m in 2013. Constituting the 840m, were 603m invoices categorised as either business-to-business (B2B) or business-to-government (B2G), and 237m business-to-consumer (B2C) invoices.

The Billentis Report predicts ongoing growth in this area, anticipating a 15% increase in the annual volume of B2C electronic bills and invoices processed in Europe during 2014, and a 22% increase in B2B and B2G. The drivers for this growth lay not only with the obvious cost and efficiency benefits for corporates, but also with the significantly increased awareness of e-invoicing in the public sector and the implementation of clearer regulations and guidelines around the subject.

In the last month alone, we have seen the launch of new B2G e-invoicing guidelines by the German authorities. The French government has also issued a decree requiring large companies supplying the public sector to adopt e-invoicing by 2017. This requirement will be extended to SMEs by 2020. In addition, the Ocean Freight industry has recently adopted new sector standards around e-invoicing as a means to improve efficiencies and automation in global shipping.

While this news around growth and stronger e-invoicing initiatives is extremely positive, there is far more potential that can be tapped here. Companies, governments, consumers and solution providers must work harder to change legacy processes. And while the treasurer may not have ultimate responsibility in this area, for those treasury professionals looking to be value creators, educating the business around e-invoicing is surely a no-brainer.

Audited member of BPA Worldwide

treasurytoday

treasurytoday.com
Volume 16 / Issue 07
July/August 2014

Publisher
Angela Berry

Executive Assistant to the Publisher
Samantha Cowling

Associate Publisher
Sophie Jackson

Editorial Director
Eleanor Hill

Editorial
Tom Alford
Chris Davis
Chris Josselyn

Research and Editorial
James Hayward

Research Director
John Nicholas

Senior Relationship Manager
Shona Hannah

Head of Events
Lisa Bigley

Head of Circulation
Sarah Arter

Circulation Manager
Megan Coates

Head of Production
Dawn Ingram

Production Assistant
Robert Murray

Website Manager
Luke Scammell

Website Assistant
Joanna Smith-Burchnell

Business Proposition Manager
Colin Jones

Managing Director
Richard Parkinson

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

Annual Subscription Rate £285
subscriberservices@treasurytoday.com

© Treasury Today ISSN 1466-4224

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

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

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

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

Periodicals postage paid at Jamaica NY 11431.

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

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

Air Business Ltd is acting as our mailing agent.

IN THIS ISSUE

INSIGHT & ANALYSIS 19

Tax and treasury: working together

Tax is a cost that all businesses naturally wish to minimise. But what is the treasurer's role in this? Recent years have seen the strategic importance of the treasury function grow and, for some treasurers, that has meant taking a bigger role in tax management.

WOMEN IN TREASURY 6

Karen Van den Driessche

Treasury Director EMEA
Avnet

For someone who 'ended up in treasury by accident,' Karen Van den Driessche, Treasury Director EMEA at Avnet has done rather well for herself since entering the profession. In this interview, Karen talks about her biggest challenges as a treasurer and the importance of voicing your opinion in treasury.

COUNTRY FOCUS 22

Turkey

Despite recent GDP growth volatility, Turkey is looking to capitalise on its demographic strengths and catapult its economic development into the fast lane. But what challenges remain?

CAREERS 34

Just the job

No longer challenged by your role? Been in your current position too long? Thinking of making a move to a new company or sector? Then read on to find out how treasury professionals can climb the career ladder while achieving job satisfaction and securing a decent level of remuneration.

RISK MANAGEMENT 25

Counterparty risk: know your limits

Counterparty risk is a major threat for almost every business – some more than others. What's more, it's a threat that that is constantly changing and evolving. In this article, we re-emphasise the need for treasurers to keep on top of counterparty risks, examining both existing and emerging threats.

CASH MANAGEMENT 31

Repatriating profits: working my way back to you

Repatriation of profits can prove extremely taxing, in every sense of the word. We look at what to do, and what not to do, in bringing the cash home.

TREASURY ESSENTIALS

Treasury Insights 4

Question Answered 11

Market View 13

28 The Corporate View

Federico Falciai

Head of Cash Management Strategy

From oil to gas to electricity, Federico Falciai's working life has been based on energy and power from the start. He talks to Treasury Today about his previous roles as analyst, trader and auditor, as well as his current job heading up the cash management strategy unit of one of the world's largest integrated power distributors, Enel.

BACK TO BASICS 37

Treasury reporting

If there is one unifying theme running through nearly all the changes seen in the world of corporate treasury since the crisis it is that of transparency. For evidence of this trend, one needs to look no further than the growing reporting burden. Boards and senior corporate management, concerned about their companies' financial health, have begun to demand increasingly accurate and timely data on their companies' financial health. But that is not the only driver. Reporting requirements have also been at the centre of a number of the regulatory changes introduced in recent years. In this article, we return to the fundamentals of treasury reporting and look at the ways in which the practise has changed.

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

FDs losing sight of counterparty risk

Signs of emerging complacency are being seen amongst some UK companies as Financial Directors (FDs) appear to be focusing on cash arrangements at the expense of counterparty risk management. This is one of the conclusions of the latest research from Capita Asset Services. The firm, which provides treasury and corporate administration services, based its results on a survey of a panel of 81 FDs carried out in late February of this year.

As companies strengthen their balance sheets amidst improving market conditions, managing short-term investments is being prioritised over credit risk management. Only 33% of respondents said they review their counterparty risk list on a weekly basis whereas almost twice as many (63%) review how they invest and manage their cash balances this often. Some 66% of FDs review their counterparty list once a month or less, whereas just 20% conduct reviews on at least a daily or real-time basis. Weekly review is undertaken by 14%.

More than 20% of FDs do not actively monitor their firm's exposure to counterparties arising from their treasury transactions, either at an individual or country level. This, the report notes, means many will be unexpectedly exposed to risk if the country in which their counterparties reside suffer economic or financial turmoil. A further 41% do not monitor their overall exposure on a security, liquidity and yield basis.

Attitudes to credit risk on a wider level seem not to be overly well focused, with around 34% of FDs only reviewing their policies annually. Just 8% admitted that they never review their credit policy at all. When it comes to managing liquidity and investing surplus cash, investment policy is more of a priority for 57% of respondents. With the majority not reviewing their credit policy more than once a quarter, potential counterparty risk exposure is increased, the report notes.

"Finance Directors have been on a cautious footing since the recession, building colossal cash piles and paying down debt to make sure balance sheets are as robust as possible," notes David Whelan, Managing Director of Treasury Solutions, Capita Asset Services. "But given this conservative strategic approach, the lack of focus on counterparty risk and their credit policies sits uneasily."

The importance of regularly monitoring counterparty risk at multiple levels, including by country, was highlighted by the onset of the financial crisis. "This is crucial," adds Whelan. "Doing so will help manage and mitigate overall exposure as banking systems coming under pressure."

However, he believes that firms can help to manage their counterparty risk by maintaining a degree of independence from their banks. This, he feels, can create enough "competitive tension" between players to drive best value from treasury transactions. This activity is certainly on the agenda; according to the report, 41% of firms regularly put transactional business up for tender with a further 10% doing so for asset finance facilities. As part of this approach, more than a quarter (27%) of respondents said that they maintain multiple relationship banks and regularly invite them to submit 'mini-tenders' for specific services.

Negative rates: implications for banks and corporates

In June, Mario Draghi, the President of the European Central Bank (ECB) announced a raft of measures designed to provide stimulus to the eurozone economy and encourage banks to lend more to businesses, the most radical of which was a cut in the deposit rate from zero to -0.1%.

Negative rates are unknown territory for a major central bank and, as such, it is difficult to anticipate with any confidence whether the policy will be successful in meeting its objectives. But whatever the outcome for the eurozone economy, the implications for the banks and businesses operating in it could be considerable.

In a recent research note, Danske Bank Markets forecast that a negative deposit rate would drive down yields on shorter-maturity bonds. The mechanism, the paper explains, is similar to that of a 'hot potato' being passed between investors with nobody wanting to be burnt by placing excess liquidity at negative rates with the central bank. So investors look for alternatives, specifically high-quality, liquid short-dated assets, although yields are also likely to fall on riskier assets as a result of the ensuing hunt for yield.

The pursuit of yield should also provide a much needed boost to inflation as strong banks will choose to lend to weaker banks in order to avoid having to deposit at the ECB. However, the paper cautions that some contraction in the eurozone economy might follow, initially, given that negative deposit rate "cannot be avoided at a system level".

Since the cut was announced, interbank rates have begun to compress, with the Euro OverNight Index Average (Eonia), declining to around 6 bps from a range of 15-20 bps prior to the cut. Many corporate treasurers will, of course, be looking at this

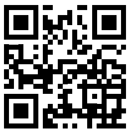
In the future, it will take many imports to make an export.

Information is crucial to the success of your international business expansion and HSBC Global Connections can help you connect to international business insights.

With Global Connections you can:

- Gain access to HSBC's proprietary global trade forecast reports and interactive tools
- Discover practical guides to expand your business in over 35 countries
- Access over 100 insightful articles to help guide your international expansion strategy

Get a head start on international growth today at www.GlobalConnections.hsbc.com/mena



Scan this code
to access the site

© Copyright. HSBC Bank Middle East Limited 2014 ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank Middle East Limited. Issued by HSBC Bank Middle East Limited, P.O. Box 66, Dubai, UAE. Regulated by the Jersey Financial Services Commission and the Central Bank of the United Arab Emirates. CMB 140414

compression and wondering what the impact will be on the valuation of their deposits. Amit Agarwal, EMEA Head of Liquidity Management Services at Citi, says that he expects to see some change in the pricing of corporate liquidity. But with the valuation of liquidity already close to zero, any change is likely to be minor. "There might be some inter-month volatility in rates around the reserve management period of the ECB. But suffice to say, the valuation of liquidity is already pretty close to zero, so there is not a whole lot left in that respect."

It seems that negative rates will have some impact on corporate liquidity but perhaps only slightly. If rates do stay in negative territory for long enough, the banks could reach the point at which they can no longer carry the burden themselves. If costs are to be filtered down, these will most likely come in the form of service charges, Suzanne Janse van Rensburg, Regional Head of Liquidity and Investments, Global Transaction Services, EMEA at Bank of America Merrill Lynch (BofAML), tells Treasury Today. "This highlights the importance of maintaining a deep relationship with banking providers throughout a number of products to minimise the risk of negative interest charges," she adds, "Particularly as banks will want operational balances to counteract any additional charges incurred through non-op balances."

Beyond that, the best strategy for treasurers is to simply carry on with what they are already doing by maintaining their focus on efficiency. "The impact on corporates will depend on how many basis points below zero rates end up going, and whether they remain negative for any kind of extended period," says Adam Hayter, Head of LIM Market Management EMEA and Global Financial Institutions at RBS. "The decision should certainly necessitate corporates looking again at their cash forecasting to see if any efficiencies can be made," he adds. "Using day-to-day, operational bank balances more efficiently and putting more money into long-term vehicles with rates above zero would certainly help their situation."

China to allow nationwide cross-border renminbi pooling

Two-way cross-border renminbi pooling may soon be a nationwide reality according to guidelines released by the People's Bank of China (PBOC) on 11th June 2014. Section five of the Opinions of the State Council on Supporting the Stable Growth of External Trade announced that, "multinational companies may conduct cross-border RMB fund centralised management business in accordance with the regulations and provisions of the PBOC, including cross-border two-way fund pooling, centralised payment and receipt of RMB fund for current account transactions [sic]." While these are just guidelines they set the agenda and indicate further renminbi internationalisation.

China has gradually been moving towards this announcement, having introduced limited one-way sweeping in 2013 and then establishing two-way cross-border sweeping in the Shanghai Free Trade Zone (SFTZ) earlier this year. The guidelines will allow multinational corporates across China to fully integrate their operations in the country into their global cash pool.

The guidelines also state that multinationals will be required to elect one of their legally registered Chinese companies to become the cross-border pooling entity. The entity will subsequently be able to centralise cross-border payments and collections, netting cross-border settlements. This will allow corporates to avoid having to seek approval from the State Administration of Foreign Exchange (SAFE) each time they transfer funds cross-border. "This is something that should make all treasurers very happy," says David Blair, Managing Director at Acarate.

The proposed changes will benefit the majority of multinational corporates operating in China. "Multinationals with significant deficits in other countries have a strong incentive to cover these with surplus renminbi liquidity they have accrued in China," says Vina Cheung, Global Head of RMB Internationalisation, HSBC Global Payments and Cash Management. "For these companies the effort to integrate China into their existing global or regional liquidity structures is worthwhile."

The announcement follows a trial period of two-way cross-border renminbi pooling in the SFTZ. "The pilot in the SFTZ has been successful and a number of companies have established two-way cross-border pooling and centralised their payment collections," says Louise Zhang, Head of Product Management for Greater China, Global Transaction Banking, at Deutsche Bank. "We expect to see the rules established nationwide to replicate those of the SFTZ." The timing of the announcement has come earlier than most expected. For Zhang this is down to the success of the SFTZ trial and importance of renminbi internationalisation for the Chinese government. "When taking into consideration these factors, it isn't very surprising that they are looking to implement this nationwide soon," she says.

The PBOC is in the process of drafting the full legislation. Despite the lack of information regarding the go live date, the central bank has made clear that the new scheme is being launched to support the real economy and that both corporates and banks have to ensure that funds are used for working capital. "The PBOC wants to facilitate multinational corporate cash management, without encouraging hot money flows that are likely to inflate bubbles onshore and drive economic volatility," says Blair. "This is not the full opening of the capital account." Blair also believes there are likely to remain some restrictions, for example which companies can take part in the pooling, and also quotas on the amounts. "There is also likely to remain some reporting which needs to be completed by corporates, although this is unlikely to be very onerous."

For corporates who have been looking to establish an entity in the SFTZ, the latest announcement creates an interesting predicament. "These companies are likely now to wait for the full details of the regulation before deciding if they wish to move to Shanghai or operate elsewhere," says Zhang. "Many banks, including Deutsche Bank, have implemented deals in the SFTZ, and these can be used as a good example for how corporates can establish their pooling structure in the SFTZ and eventually nationwide."

The general feeling is that the guidelines represent a big step for China; Cheung comments that "the ability for moving and sweeping renminbi funds between China and offshore entities definitely marks a key milestone on its internationalisation journey in

the eyes of corporate treasurers." The move also opens up China for multinational corporates. "It offers the potential for corporates to run their day-to-day operations in accordance with global best practice," says Blair. And while there is still plenty of room for development, the initial signs are positive, confirms Zhang: "It is certainly a great development for operations in China".

Shock protection: managing currency risk in emerging markets

Moving into an emerging market (EM) brings opportunity but it also brings risk. For the treasurer, finding the right solution is never as easy as it first seems because each situation is likely to throw up different challenges.

When evaluating a strategic move into an EM, beyond the fundamental questions such as why and where, questions must be asked about particular risks and appropriate risk management policy and processes. Understanding what works and why at an operational level is something that treasurers are well-placed to address. But how might this translate at a strategic level? As part of an interactive workshop on Managing Emerging Market Currency Risk held on day one of the recent ACT annual conference in Glasgow, over 60 treasury professionals were asked to assume the role of treasury advisor to the board.

All were required to respond in this manner to questions posed by Lloyds Bank's Yuri Polyakov, Head of Financial Risk Advisory, and Jeremy Adam, Head of FX Markets Solutions. Tackling the fundamentals first, the opening question related to likely driving factors for a strategic EM initiative. The top answer was higher growth rates, sought by 31%, with business diversification following not so closely on 17%. Cost reduction was selected by just 7%.

When asked which region would be selected for an EM strategy, China, India and ASEAN polled 63% of the vote. Africa and the Middle East managed 13% and LATAM just 6%. Although there were no real surprises here, Polyakov pointed out an interesting difference between certain currencies that ought to be considered when choosing a location: pegged and non-tradable currencies are always potentially more volatile. With the exception of China, these markets are not deep and the lack of readily available history, and thus an indication of how these currencies are likely to behave, makes them considerably more difficult and expensive to hedge. This, he said, gives rise to two key questions for a business: can you understand the behaviour of the relevant currency and can you hedge to protect yourself from this behaviour?

The group were asked to think about the main risk factors likely to be faced when moving into an EM. By far the greatest concern was for regulatory, tax, political and cultural risk, clocking up 84% of the vote. FX risk was next with just 9%. Other issues such as cash flow forecasting and cash visibility and concerns regarding impact on core liquidity and credit ratings just got off the mark, with 3% each.

In operational mode, said Adam, treasurers will express their concerns about currency exposures, liquidity or cash flow forecasting. But by adopting a broader perspective and thinking about regulatory, tax, political and cultural matters it shows "board-level thinking". However, Polyakov raised the point that FX volatility "significantly impacts EM risk" and should also be a boardroom concern. He argued that the potential expense of hedging EM currencies could easily be outstripped by the cost of a significant negative impact on an unhedged position but that simply hedging all risks "can destroy the value of the strategic initiative". As such, businesses should really be asking how much value needs to be generated to make their EM objective worthwhile.

Accepting that some cost of currency risk management was inevitable, a number of options were given to the group. The top answer was to adjust existing G10 FX hedges to allow for EM FX volatility, which polled 41%. Only hedging EM FX risk when the value at risk (VaR) exceeded a certain threshold was next with 31%. This was followed by the option of only hedging using purchased FX options, with 16% of the vote.

The final question concerned the strategic approach to EM FX risk management. The majority (42%) said they would only hedge tail risk (the exceptional risks) whilst 39% would opt for analysing and prioritising their FX risks, adjusting hedges for diversification and cost efficiency. Just 6% would not hedge at all, but instead would hold a reserve percentage of profits against future EM FX impact.

In reality, there are no right or wrong answers. These approaches could be adopted in combination, using different weightings accordingly. That said, Adam argued that not hedging at all is not an option in the real world where one big failure, although covered by reserved funds, could wipe out all memory of previous success. "In the EM world, the next surprise is just around the corner. When an event happens it has to be managed."

With the notion that "constant flux almost defines the EM concept" in mind, Adam noted that markets can change – and be changed – at short notice, and that some action for tolerance capacity must be taken. A risk framework may be used to "assess, determine, define and communicate" risks and to formulate a specific risk management policy. For Polyakov, if that framework is boardroom-approved and has buy-in from all other stakeholders it not only demonstrates that processes are well thought out and executed when it comes to managing EM FX risk, but also means that "there can be no shocks". ■

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

This much I know

Karen Van den Driessche

Treasury Director EMEA

Is the business world progressing in the right direction in addressing the balance between professional and family life?

I think technology has provided us with the tools to be able to balance professional and family life, although this creates an additional challenge. With technology we can always be connected, which may tip the balance in the wrong direction. I think it is important for everyone to set their personal boundaries and to take a conscious decision about what they will or won't do, as this balance is different for everyone. I have always been very lucky to work for organisations where there has been a lot of flexibility. But flexibility is based on trust, and this needs to be earned, on both sides. Progress is being made in the business world, although I am still amazed to hear that some organisations value mere physical presence in the workplace from nine to five over more concrete output.

What is the biggest challenge you are facing now as a corporate treasurer?

We have put in place a number of initiatives to bring our treasury to the next level, which makes life very challenging. For example, there is the global implementation of a new TMS (for which I am the global business lead); SWIFT connectivity; bank rationalisation from 50+ banks to six; and the subsequent preparation of a payment factory implementation. Combined with the changes and additional requirements in the regulatory environment, and finding and keeping the right level of skilled employees, it is safe to say that life is not boring in our treasury.

Do you see a day when there will be true equality in the workplace, at all levels?

If true equality means that each person gets to decide what they want to do and are not hindered by preconceived ideas of what women and men are supposed to bring to society, then I'm not sure, although I do hope so. It may take a while – but it is important that women want this to happen. I think that very often we, as women, are our own worst enemies by confirming time and again the gender cliché of women having children and staying at home.

What is the best piece of advice that you have been given in your career so far?

Be yourself (but be politically correct), work hard and deliver. But beyond this it is important to exchange ideas, network and not to get stuck in your ivory "treasury" tower. There are so many smart and interesting people and ideas out there – you need to make sure you get to interact with them and learn from them. This means never declining an interesting challenge or opportunity, even if it takes you out of your comfort zone – indeed, that is how I got into treasury in the first place.

Which regulatory initiative is currently the biggest concern for your treasury department?

The biggest regulatory concern for us is Basel III which is increasing the cost of banking and EMIR. We are reporting trades for EMIR but there is still a real lack of clarity about the requirements and fines.

"With the changes and additional requirements in the regulatory environment, and finding and keeping the right level of skilled employees, it is safe to say that life is not boring in our treasury."

ON THE WEB

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

"I ended up in treasury by accident," says Karen Van den Driessche. After two years in banking, Karen joined US agrochemical group Monsanto as a credit and collections specialist. At the time, Monsanto was spinning off its chemical division, and the company's finance director asked Karen to join the EMEA treasury of the newly formed entity. After finding herself in the profession, she has never looked back.

"I didn't know much about what the treasury function entailed, but it sounded interesting and challenging so I took the chance," says Karen. "Fortunately it is an area I thoroughly enjoy, and I have learned a lot and met a lot of interesting and inspiring people. It continues to be a challenging and ever-changing environment."

And despite her ascent to her current position, Karen believes there remains scope for career progression within her role.

"There are still a lot of opportunities for me in my current role. I currently have responsibility for EMEA, but I would certainly be interested in taking on more regional and even global responsibilities," she says. There are, she adds, still areas where she does not yet have the same depth of experience, such as corporate finance and working capital management, which she would like to explore further.

> "I work very, very hard but I enjoy what I do. People sometimes call me a workaholic but as I enjoy what I do, I don't really consider it work."

Voice your opinion

But how do corporate treasurers go about climbing the career ladder? "It is important to voice your opinion, to share your interests and achievements, and to work hard and be visible," says Karen. "I am fortunate that the organisation I work for seems to appreciate this and takes it into account. Furthermore, Avnet has recently started focusing more on internal talent, which I think should help me as well."

She is a firm believer that women add value to the treasury department in a way that their male counterparts do not. "I think that everyone brings something different based on their personality and drive, regardless of gender. But I do believe that women approach things differently than men; they take things more personally and feel the need to over-deliver in order to be considered equal to men. Thanks to this trait they are more attentive to the bigger picture and look at other options in the long term." She adds that women are often less encumbered than men by their egos in getting their job done, "although, of course, there are always exceptions!"

Her motto in life reflects the 'fun factor' she applies to her job. "Enjoy life to the fullest – have fun in what you do and do it well," she says. "I work very, very hard but I enjoy what I do. People sometimes call me a workaholic but as I enjoy what I do, I don't really consider it work."

For treasurers – male and female – who struggle to make their voice heard within the organisation, Karen has a word of advice. "Come up with ideas that support the business and show your added-value. Be visible and be interested in what is really happening in the company." And it appears that Karen has done just that in her career in treasury so far.

Karen Van den Driessche is Treasury Director EMEA at Avnet, a role she has held since 2011. She is also Vice President of the Belgian Association of Corporate Treasurers. After spending two years at ING (former BBL) she started her career in treasury at Solutia as Treasury Assistant in 1997 where she was responsible for setting up a treasury management system and ensuring the recently spun-off company got its treasury department up and running. She moved to Coca-Cola Enterprises in 2001 as Treasury Analyst and was promoted to Treasury Manager Europe in 2003. After a five-month placement at Agfa Gevaert as Corporate Treasurer she subsequently moved to AB Inbev in 2008 as Treasury Director Western Europe where she took on additional responsibilities in working capital management, insurance and pension fund management before being promoted to Director Global Cash and Liquidity in 2009.

M&A activity

> *A merger or acquisition (M&A) can be an unstable time for a company. How is the treasury affected by this process and what steps can the department take to ensure a smooth transition?*

Yann Umbricht, Partner and Treasury UK Leader, PwC:

The treasury has a major role to play when a company decides to conduct any M&A activity and this begins even before any transaction is announced. The treasury has a responsibility to understand the strategy of the organisation they operate within and be aware if M&As are part of this. In doing this, treasury will be able to begin planning in advance of any M&A activity allowing it to be in the best position as and when the company decide to make a transaction.

Areas which the treasury can begin to plan for include: being ready to raise funds when the need arises, ensuring that the appropriate documentation is in place ahead of time and also understanding the legal, tax and regulatory issues in countries which the organisation is looking to expand, which will allow them to highlight and address any issues up front. In being prepared and having this information in place a treasury can add value through advising on the costing of an M&A, by providing information on anything which can affect the price of the transaction.

In addition, the value which the treasury can add when conducting an M&A means that it is vitally important that it is involved from day one of the process. This is because the treasury is able to identify important financial risks, such as foreign currency volatility, earlier than other areas of the organisation; they will then be able to manage these to ensure that the risk is mitigated. In fact, we have seen examples of where the treasury's involvement in an M&A has prevented the transaction from collapsing, due to their ability to highlight these risks.

It is worth noting that no M&A is the same and the role of the treasury will vary depending on the type of transaction, the size of the companies involved, their location and many other variables. However there are a number of areas which a treasury needs to focus on during any M&A. These include:

- Deciding how the acquisition will be funded and analysing how this will impact the organisation's own funding arrangements.
- Assessing the financial position of the target company and seeing if its debts should be refinanced.
- Evaluating how cash can be extracted from the target company and highlighting any trapped cash issues.
- Checking if there are any activities which the target company is involved in which would be unfamiliar to the organisation. For example, the management of foreign currencies.
- Identifying any risks which the organisation will be exposing themselves to through the M&A and finding methods to mitigate these.
- Checking if there are any potential synergies which the treasury can take advantage of through the M&A. For example, centralising treasury operations and upgrading legacy or implementing new technology.

The key advice I give regarding M&As is to ensure that the treasury's day-to-day operations are streamlined, efficient and automated. Because when an organisation decides upon M&A activity the treasury is posed with a lot of additional work. However, the day-to-day operations cannot be neglected.

Peter Charles, Director, Peter Charles Limited:

A M&A is not necessarily a destabilising time for a company. Companies I work with acquire companies as a method of acquiring customers. Once a year or so they perform a bolt-on acquisition. As a growth strategy it is as effective as a sales force. In that situation an acquisition is not a cause of instability. They are experts at absorbing the bolt-on and have the people, strategies and procedures in place – including treasury – to make that happen. Cash flow is helped by the negotiation of deferred terms to the vendor and the acquisition will be financed through internal resources. The treasury activity is organised around those objectives.

Some treasury teams are hands-off with the operating divisions: a group function may be relying on their relationships with divisional finance directors. They may work on the strategic and financing aspects of an M&A: in contrast others may need to be plugged in to the day-to-day business to provide practical help to the business during a takeover.

We all know the saying 'cash is king'. But for many companies that is only true when cash really matters, when it is in short supply or great demand. In an M&A situation – where the deal may be significant even if it isn't transformational – cash is likely to

be king. To ensure a smooth transition, treasury needs to be in the loop, plugged into the financing with a tight grip on cash because that is one key way to avoid instability, particularly where the financing dynamics of the two businesses differ. This means treasury needs to be told about the M&A and told in plenty of time.

When the deal is done, those treasury departments which are there on the ground can be an effective force in integration. If they have clear systems and processes in operation they can politely insist soon after the deal that this is the way it is going to be. If the target company doesn't work in a similar way then clearly there is work to be done to introduce those processes. This should be done quickly to avoid instability and uncertainty.

Many businesses have banks accounts which serve a limited purpose or a specific area, and many have pockets of cash in various places. In terms of integration, good treasury teams I have encountered will make sure that they get hold of all of the bank accounts. After a merger or takeover, it is sensible for treasury to discover and control its cash and bank accounts at once. Having such a grip on the cash is one major antidote to any instability.

Michael Mueller, Head of Global Cash Management, Barclays:

Change along this order of magnitude is never easy. Treasury often takes centre stage and the function can quickly turn from financial to technological as it relates to ensuring integrated systems are in place to provide an accurate and aggregate cash position.

Assimilating treasury personnel from both companies is key and not enough can be said on the importance of relationship building in this space. Investing the time in strategy sessions, idea generation and team building is essential to identifying talent from both companies that will lead the transformation process. Each firm will have its own culture and strong leadership is needed to empower the new treasury organisation to leverage this time of change to drive innovation.

The creation of a joint steering committee to manage the transition process is of paramount importance. A project manager should be assigned to lead a cross-functional team (treasury, legal, cash management, compliance, IT, HR) in the creation and execution of a 'terms of reference' document that lays out what is in scope for the transformation of treasury, participants and roles and responsibilities. Clear and frequent communication to staff is essential to report progress and invite ideas, through innovation challenges, when roadblocks are identified.

The transition plan should reflect a prioritisation of tasks and those with dependencies across systems and processes. Executing in a phased approach mitigates risk by delivering results in "bite-size chunks" rather than trying to "boil the ocean". The project should have a beginning and an end date and focus on current and future state:

Current State (based on a joint review of the treasury function at both organisations)

- What are the financials? What is my current cash position? What is the treasury policy?
- Which banks are in the revolving credit facility (RCF)?
- What systems are in use (electronic banking, TMS, ERP)?
- How many bank accounts are in place? What is the account structure, globally?
- What global transaction banking contracts are held by each bank and who are the signers?
- What pricing is in place for all global transaction banking services?
- What third-party providers are part of the transaction flows (SWIFT, service bureau)?

Future State (based on a "best of breed" from both treasury functions)

- Visibility to cash through online reporting from all accounts.
- Revision of treasury policy.
- Integration and upgrading of systems.
- Rationalisation and restructuring of bank accounts and relationships.
- Potential change in the geographical location of treasury if a shared service centre (SSC) is part of the future strategy.
- New officers, signers and updating of bank mandates.

Once all key decisions have been made, treasury should engage their banking partners to review the new structure. Bankers have a unique role as trusted advisors based on their experience working with other clients who have undergone a transformation of treasury. The success of the transition is based on four pillars: transparency, accountability, communication and commitment. Staying focused on continuous improvement is key for long-term success. ■

The next question:

"How popular have repurchase agreements been over the last 12 months amongst corporates? Also, are there any challenges that corporates looking to trade repurchase agreements should know about?"

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

Rising interest rates as central banks seek higher inflation

Getting monetary policy right in an uncertain environment can be extremely difficult: following the credit crisis, even minimal interest rates did not prove sufficient in stimulating recovery. Central banks now face the difficult task of maintaining an extremely loose monetary policy without creating too much inflation, or asset price bubbles, says ECR Research.

Increasingly, central banks face a dilemma. Typically, when an economy is in the grip of recession, key interest rates are lowered until economic growth picks up. Subsequently, rates need to be hiked as monetary policy is tightened. The idea is that growth will drop to the level of potential growth exactly as the economy reaches full capacity utilisation.

Potential growth is defined as the sum total of the increase in productivity and the increase in the working population. It points to the growth rate that can be achieved – in theory – when the economy is running at full capacity without higher inflation. In reality, this never happens. Instead, an overshoot tends to occur. Next, interest rates need to go up and monetary tightening is required to restore the balance. Often, this leads to a new recession.

Following the credit crisis, the big problem was that even an ultra-loose fiscal policy and minimal interest rates were not enough to kick-start the economy. As a result, central banks started to create more money than the real economy could absorb.

This money had to go somewhere. To a certain degree, it remained stuck in the banking system but a lot ended up in the financial markets, where it put upward pressure on the prices of stocks, bonds, and houses. As the balance sheets of consumers and businesses improved, deleveraging decreased until, at a certain moment, people started to borrow more and they saved less. Easing credit started to boost growth and job creation. Wage income picked up and confidence improved. This will likely result in rising consumption and investments, leading to an upward economic spiral.

The other side of the coin is that expanding credit will cause the money multiplier and money velocity to rise. If this happens in a situation of massive money creation, hyperinflation will loom. The only way to stop this is to rapidly remove the surplus liquidity from the economy. There is a chance that prices will plunge just as fast if the extra money is removed. If this scenario unfolds, growth will nosedive.

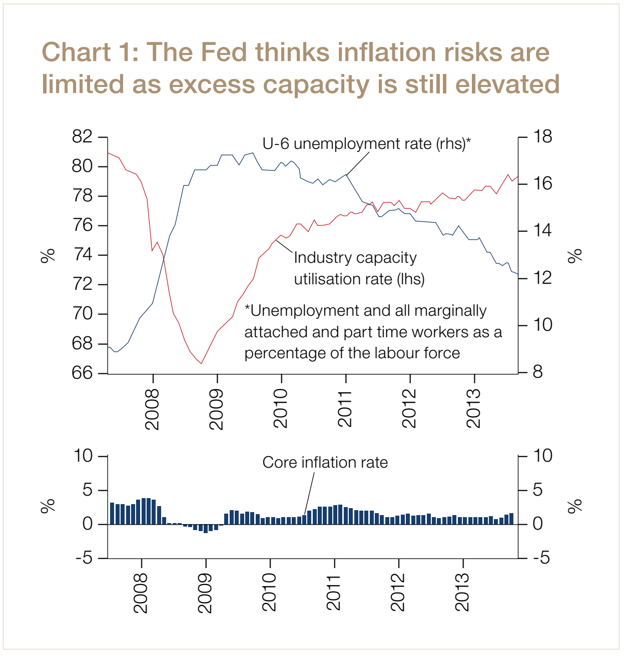
On the other hand, there is a possibility that an improving economy will offset shrinking money supply. In that case, asset prices will stay reasonably high. The IMF is not optimistic in this respect; at least, in connection with the West. The reason is that, compared with before, investment has been poor for years. As a result, the increase in productivity has dropped while the increase in the working population is declining owing to the ageing population. And as a consequence of this, potential growth has decreased in Europe and the US. As a result, rising interest rates and tighter monetary policy can send asset prices tumbling.

This brings us to the central banks' dilemma. Seven years since the credit crisis broke out, low interest rates and ultra-loose monetary policy are still paving the way towards full capacity utilisation. Growth will have to be driven down once full capacity utilisation has been reached. A likely implication is that stock markets will collapse. The situation demands very loose monetary policy. However, the sobering fact is that this will result in bubbles that will burst, eventually.

Bank of England changes tack

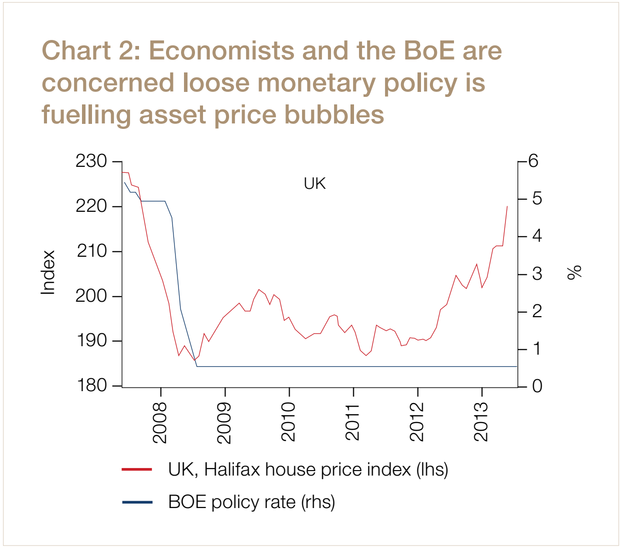
Remarkably, last month the Bank of England stated that interest rates could be raised sooner than the markets are discounting. Evidently, a conclusion has been reached that to keep the base rate on hold for a long period of time will increase the risk of bubbles, which are bound to burst once interest rates rise sharply. The question on everyone's lips is: does the same apply to the Fed?

Chart 1: The Fed thinks inflation risks are limited as excess capacity is still elevated



Source: Thomson Reuters Datastream/ECR

Chart 2: Economists and the BoE are concerned loose monetary policy is fuelling asset price bubbles



Source: Thomson Reuters Datastream/ECR

Deflation or inflation?

The US central bank faces a complicated situation. Most of all, because of huge uncertainty about the real state of the economy. Various important data has led to doubt. First and foremost, data linked to the job market. Wage increases are still low. At the same time, leading indicators point to gradual upward pressure. The rate at which wages rise depends on the tightness of the US labour market. In the past few years unemployment has dropped faster than expected. It is now close to the rate considered 'full employment' (5%-5.5%).

Quite a few economists think that from now on, the jobless rate will not drop as quickly. Other economists disagree. Their argument is that if all existing vacancies were to be filled, unemployment would be around 4%. This is highly unlikely; businesses complain that many jobseekers lack the required skills and/or training. The conclusion is that 'full employment' may be realised when the jobless rate is 6%-6.5% instead of 5%-5.5% because many people feel they are unemployable and will no longer be looking for work.

Growth is another contentious factor. In Q1, the US economy likely saw a contraction of nearly 3%. This calls into question the underlying strength of the US economy. Remarkably, employment has increased substantially in the first quarter of this year, at a rate that would be compatible with growth rates near 3%. This suggests that either the payroll data or the growth data is out of kilter. Experience shows that the growth data is the most likely 'culprit'. If so, it would indicate the underlying vigour of the US economy. Of course, this will have implications for interest rate policy.

Monetary policy based on trial and error

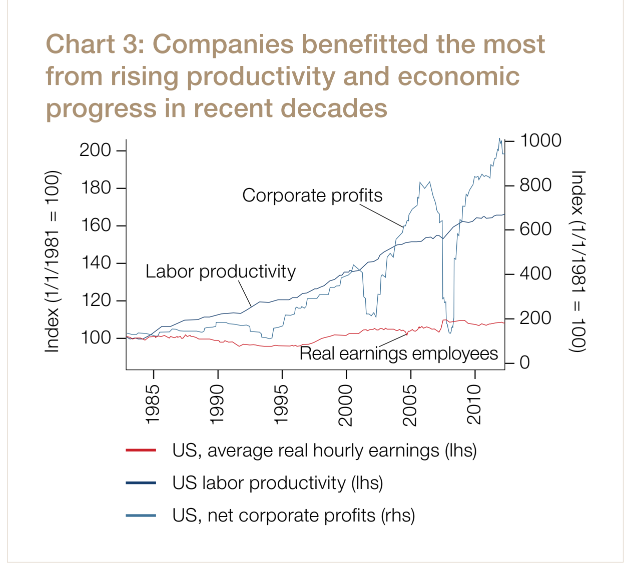
Our conclusion is that these uncertainties make it very hard to pinpoint the 'correct' monetary policy. A method of trial and error will have to be employed to find out how to prevent plummeting asset prices and deflation, while at the same time limiting the risk of high inflation and (additional) bubbles. At the present juncture, most central banks seemingly prefer an overly loose monetary policy to premature tightening.

This does not offer a favourable outlook for bonds and stock in the United States. What the Fed wants is no secret. First, the US economy should achieve full employment; rapidly or at leisure. Then wages should increase. One thing is clear: consumption cannot be fuelled by easing credit forever. In short, higher disposable incomes are the solution. This could be done by raising wages at the expense of profits. This should be possible, since wages have lagged profits for decades.

How can you achieve this shift from higher profits to rising wage increases? Once wages soar, inflation will rise and can only be contained if interest rates are raised. If this results in plunging asset prices, growth will decelerate and as the slack returns to the labour market, wages will stop rising. A way out would be to allow slowly rising inflation. This could happen as follows: as the job market tightens, wages go up. Subsequently, the central bank raises the short-term interest rate albeit cautiously, so asset prices do not fall sharply and the economy continues to grow at a reasonable pace.

The latter will drive up inflation but as soon as investors become aware of this, long-term interest rates will rise. Although the central bank will need to raise the fund rate, it can stay behind the curve and the rate hikes will not be severe enough to seriously dampen economic growth. Or inflation, for that matter. Not a particularly favourable climate for bonds or equities because nominal interest rates would be rising and wages will rise at the expense of profits. ■

Chart 3: Companies benefitted the most from rising productivity and economic progress in recent decades



Source: Thomson Reuters Datastream/ECR

Unique approach for time pressed decision makers

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

The triumph of treasury

Winning an Adam Smith Award involves copious amounts of effort and ingenuity. For those who do get to take home a coveted award it is seen as an embodiment of all they have achieved to date in their chosen profession. It is also recognition and appreciation of their success by a peer group that understands the challenges and knows the importance of being ahead of the curve. This year's event brought together some of treasury's most outstanding talent in an economic environment tinged with hope and expectation.

In a year when life, at long last, seems to be returning to the world's embattled economies – and businesses are planning and looking forward to an invigorated future – the Treasury Today Adam Smith Awards has attracted the highest quality of entrants yet. This has given the panel of judges the unenviable task of sorting out the best of the best as more than 200 of the most inventive and visionary treasury professionals from around the world seek recognition for their work. Now in its seventh year, this benchmark event for best practice in the corporate treasury profession was fittingly held amidst the splendour of London's Plaisterers' Hall on 19th June. With its returning sponsor, Bank of America Merrill Lynch, the Awards fielded entries from across Asia, the Americas, the Middle East and Europe. The increasing professionalisation and fundamental importance of the treasury role very much in mind, the panel of judges selected winners across 15 categories drawn from a total of 206 entrants representing some of the world's most forward-looking organisations.

"We are delighted to support the 2014 Treasury Today Adam Smith Awards as they share our ambition to recognise outstanding performance across the treasury industry," said Jennifer Boussuge, Head of Gloabal Transaction Services EMEA at Bank of America Merrill Lynch. "The Adam Smith Awards have grown to become a globally-recognised benchmark for excellence and we are pleased to be working with Treasury Today to recognise and celebrate innovations in the field of corporate treasury."

This is high praise indeed from a key industry player. But did the event itself live up to expectation? Christoph Woermann, Managing Director, Deutsche Bank AG, London branch told Treasury Today that this year's awards "were possibly the best Adam Smith Awards I have come to witness so far". Woermann added that this year's presentation was "a truly important event for the treasurers present". This leads us of course to the thoughts and feelings of the stars of the show; the treasurers who came to receive their award or support their colleagues in their moment of triumph.

Recognising talent

"The Adam Smith Awards have a great brand recognition in the industry and they are highly competitive," says Microsoft's Group Treasury Manager, Anita Prasad. "Winning an award means a lot to me personally and to our treasury team because it is recognition from our peers and counterparts in the industry that we are adding some value and pushing the boundaries in terms of innovating."

Indeed, the prevailing feeling is that winning an Adam Smith Award is recognition for a lot of hard work by many talented

people; they are a way of simply announcing to the world that you are best-in-class. Margaret McDonnell, Treasury Operations Manager at Pfizer, another of this year's winners, views the team's 'Treasury Today Top Treasury Team' award as confirmation that they are taking the right steps to continuously improve. "We are benchmarking ourselves against the best companies – and showing that we are best in class".

Pfizer's VP and Assistant Treasurer, Amit Singh acknowledges the importance of sharing best practice through the Adam Smith Awards because this way companies "learn from each other how resources are put to best use rather than trying to reinvent the wheel each time".

Of course, Microsoft and Pfizer are huge companies but winning an Adam Smith Award is not about size as Itron's VP and Treasurer, Byron Jackson attests. He is particularly proud of being able to show that as a medium sized company "with a strict budget" it has still been able to win a global award. Scooping the Best Process Re-engineering Solution "demonstrates the ability of our team to architect the best practice in treasury and secure the integration of treasury processes into the wider financial processes of the company", he states. Jackson's Itron colleague, Ed Barrie, Assistant Treasurer, declared that the award not only "validates our vision around architecture and processes internally" but is also "one of the few ways the team can achieve external validation". Itron's EMEA Treasurer, Beatrice Ransquin, further commented that every member of the team had put a lot of effort into the project and felt that "recognition of the work is important".

"It is a wonderful appreciation and kudos for us," declared Mondelēz International's Treasury Director, Mike Foye. "It is very pleasing to see that our work is recognised and it's good to be able to talk to colleagues about winning such a prestigious award." An Adam Smith Award, he continued, "really does allow us to get the message through to people about the achievements of treasury". Continuing with the theme of recognition, Wyndham Worldwide's Corporate Treasury Director EMEAI, Mike Cassidy, said that the award for the team's international transformation project "gives us more visibility in the organisation and hopefully gives people a greater understanding of what treasury does".

And the winner is…

Each category in the Adam Smith Awards has a winner and one or two highly commended entrants. The judging is monumentally difficult and nothing is clear cut except that all who progress thus far are exceptional treasury talents. Treasury Today will soon be presenting the individual case studies in detail as part of the Adam Smith Awards Yearbook. But as a taste of what is to come, here is a brief (as it can be with such engaging projects) run down of each category winner and how they stood out in an outstanding field.

The Treasury Today Top Treasury Team for overall excellence is open to any corporate team that has made an outstanding contribution to its organisation and recognises those who have made the world of corporate treasury that much better. The winner in 2014 was the New York and Dublin-based teams from Pfizer.

Somewhat hyperactive in their approach to treasury, the Pfizer teams' submission covered no less than seven key projects ranging from a supply chain financing programme in Asia to EMIR reporting and an in-house vehicle financing solution. In addition, their submission in the Best Risk Management solution category was worthy of a Highly Commended in its own right. The dedication and expertise demonstrated by members of both teams, plus the wider Pfizer organisation, is exceptional, showcasing examples of enterprise-wide teamwork and collaboration. The bar keeps moving ever higher.

Any solution which demonstrates how the company manages its cash is eligible to enter the Best Cash Management Solution. The well-deserved 2014 winner was Intel Corporation, led by Regan Nanbara. Its goal was to manage this vast multinational company from one bank account outside of the US and that is precisely what it has achieved. Having moved away from four non-US cash pools each holding various balances, it now operates a single cash concentration infrastructure relying on a target-balance saccount structure.

The Best Liquidity Management/Short-Term Investing Solution this year went to Brembo SPA and Giancarlo Cicuttini. Over the past three years, Brembo has undertaken a series of initiatives to move from a decentralised treasury structure to a centralised structure that concentrates most of its cash and liquidity management with a single global bank.

Efficient working capital is a key challenge for companies of all shapes and sizes and this is why the Best Working Capital Management/FSC, AP/AR Solution is always hotly contested. This year, the winner was Mondelez International Finance AG, led by Tom Jack. Mondelez needed to bring

transformational solutions to its Business Services Centre (EBSC). The primary goal was to release resources within the EBSC to focus on more value-adding tasks for the market organisations and to simplify its banking infrastructure. Faced with duplications in process, complex bank set-ups using a wide variety of electronic banking platforms and associated payment formats and security controls, the team's 'One Bank' project delivered some impressive benefits – and an Adam Smith Award.

The recent economic turmoil has certainly focused the attention on relationships and to win the 'First Class' Bank Relationship Management award, Holcim Ltd, under the guidance of Stefano Bianchi, drastically changed its banking and funding setup in Europe in two steps. It implemented a cross-border zero-balance euro pooling structure, replacing local pools and local working capital facilities in each country. It then selected a single cash management and funding bank for the Eurozone, where previously it had no less than 46 banks. It was a major undertaking made all the more impressive by achieving it in just 12 months, incorporating ten countries and 100 entities within its scope.

No longer just a convenient means of settling T&E bills, corporate cards have become an integral part of the cash management set-up. WorleyParsons Limited and Simon Holt took the Best Card Solution by creating a monumental programme which will incorporate over 4,500 cards with over $400 million in 'cardable' spend per annum. The project is set to cover over 40 countries in Asia Pacific, EMEA, Canada, the US and South America and all data from the programme will be integrated into the company's Global Reporting and Account Management (GRAM) portal.

The increased level of corporate bond issuance is no surprise in the current environment but some issuances just take your breath away. This year's winner of the Best Financing Solution was Microsoft, represented by George Zinn, Joel Combs and Anita Prasad. Microsoft achieved all its objectives and set several industry records by issuing a multi-currency and multi-tranche debt of $8 billion. The strategy generated over $175 million of savings in interest expense purely from leveraging the euro-denominated issuance instead of issuing just in USD. As with all these stories, be certain to read all about it in the Treasury Today Adam Smith Awards Yearbook.

Best Foreign Exchange Solution looks for innovation whether found in a single transaction, a suite of transactions or a complete change in FX strategy or policy. The 2014 winner, Wyndham Worldwide Corporation, has undertaken a treasury transformation programme which includes optimising the company's liquidity management structure, putting in place a netting programme and improving FX risk management practices. The result has been significant improvements in the company's FX scorecard metrics.

FX of course can have a significant level of risk attached to it, but just being in business exposes a company to many other forms of risk. Part of the treasurer's job is to mitigate financial risk and at Toyota Financial Services (TFS), Vanita Aggarwal and her team demonstrated true innovation achieved by attaining the best from people, processes and technology. TFS achieved its objective of improving funding options and maintaining regulatory best practice without taking on additional operational risk. The company was seeking an 'uncharted territory' solution to reliably synchronise complex data across two contrasting environments. The Adam Smith Award for Best Risk Management Solution demonstrates the level of TFS' success.

The use of key performance indicators (KPIs) has in recent years risen up the treasury agenda alongside a growing appetite to benchmark against the industry's best performers and practices. The level of uptake for Treasury Today's own annual Corporate Treasury Benchmarking Study reveals this much to be true. Some company's use the process to great effect and Brocade Communications Systems' Chris Hanson and Yun Kong collected the Best in Class Benchmarking award. The team established a benchmarking project to identify best professional practices and organisational standards to maximise value for the company. It now uses benchmarking to achieve efficiency and productivity gains, reduce manual errors, reduce bank fees, mitigate counterparty risk and optimise the company's bank and account structure as it sought a 'holistic' solution.

The power of technology to transform treasury is significant and projects that achieve greatness deserve recognition. Itron's Best Process Re-engineering Solution winning team are engaged in a truly global multi-faceted project that has focused on delivering an architecture that simplifies, standardises and centralises all treasury processes across 130 countries. It is aiming for a best-in-class automated straight through reconciliation model and enhanced liquidity optimisation. The project is not over yet, but the achievements to date are more than impressive.

The very nature of innovation at the cutting edge means it is not always easy to categorise but may nonetheless be of great importance. The Adam Smith Awards One to Watch category was collected this year by Microsoft's Pankaj Gudimella, Jayna Bundy and Jamie Christel. The Microsoft treasury team has 1,300 bank accounts with 85 banks worldwide and makes over 12,000 treasury wire payments each year, totalling over $240 billion. Their solution, Wire Request Tool (WRT), is built using Internet Explorer, SQL server, Visual Studio and leverages the Windows Azure cloud platform.

Clearly the effort of businesses such as these is proof positive that treasury does not stand still in its pursuit of excellence. Adam Smith Awards seeks to mirror this dynamism. For 2014 Treasury Today has introduced a new category: Middle East Regional Award for Best Practice. This recognises the number of entries that we are seeing which address issues specific to this important region. Inaugural winner, Honeywell, led by Ciar Timon, faces certain issues which it has overcome with aplomb. Implementing a solution in Iraq, for example, which is still relatively politically and economically unstable, has comparatively high transaction costs and is one of the most complicated countries in the region for routing LCs, is quite an achievement. It is certainly one for which Honeywell must be applauded not least because it makes for fascinating reading when the story is revealed in this year's Adam Smith Awards Yearbook.

Another relatively new category, introduced in 2013, is the Treasury Today 'Woman of the Year'. This is open to any woman operating in the corporate treasury environment who can demonstrate real innovation and achievement and is someone who is a real inspiration in her current role. Anita Prasad from Microsoft has all these qualities and more and is deservedly awarded this title for 2014. Anita was nominated by a member of her team who told Treasury Today that Anita is the epitome of a strong female leader in Microsoft's organisation. "She demonstrates leadership with the highest integrity and is a strong promoter of talent for high potential men and women in the organisation." Our judges were unanimous in their decision.

The final relative newcomer award is Judges' Choice. This was introduced in 2012 and is awarded as a way of celebrating something that is just that little bit different. This year, Etihad Airways, led by Ricky Thirion, took the prize for their ingenious sale and leaseback (SLB) scheme that forms part of the larger investment of Etihad Airways in Jet Airways. Originally submitted under the Best Financing Solution category, the Adam Smith Awards judges felt that the scheme's most innovative nature, securing take-off and landing slots at London's Heathrow Airport as the underlying security to the transaction, truly delivered something different.

If that has whetted your team's appetite to demonstrate all that is good and great in treasury, note that nominations for the 2015 Adam Smith Awards open on 30th January 2015.

The Award winners for the Treasury Today Adam Smith Awards for Best Practice and Inniovation 2014 can be found at: **treasurytoday.com/adamsmith/2014/winners**

Tax and treasury: working together

While the implications of tax on the work of corporate treasurers can be enormous, within the traditional corporate set-up, tax planning was the exclusive domain of the tax department – not the treasury. But recent years have seen the strategic importance of the treasury function grow and, for some treasurers, that has meant taking a bigger role in tax management. With that in mind, we take a closer look at the key ways in which tax is shaping modern treasury practices.

Once upon a time, most treasurers did not have much direct involvement in tax planning. Tax decisions were typically left to the specialists, while treasurers got on with doing what they do best – managing cash.

Things are starting to change. Whether it's the unorthodox methods that companies like Apple are using to deal with their trapped cash, or meeting the requirements of regulations such as the Foreign Account Tax Compliance Act (FATCA), tax issues are assuming an increased importance in the world of corporate treasury. Tax and treasury have always sat side-by-side, structurally, within most organisations. And there are, for that very reason, a number of businesses that have a single head of both functions. One such company is Irish airline Aer Lingus. "Aer Lingus, like a number of other companies, has recognised that there is a close relationship between tax and treasury," says Tom Milligan, the group's Director of Insurance, Tax and Treasury. "Whether it is managing assets and liabilities, or compiling forecasts, tax and treasury here are absolutely working together."

Having responsibility for both tax and treasury sometimes pulls Milligan into strategic debates in areas that might be unfamiliar to the average treasurer. Fleet planning is a case in point. Aer Lingus's aircraft fleet is comprised of owned, operating-leased, and finance-leased aircraft. When the company plans to expand its fleet, a process which typically begins many years in

advance, it does so on the basis of available seats per kilometre (ASK), an equation that is used in commercial aviation to measure passenger carrying capacity. But in order to provide these ASKs, the most tax-efficient route to financing the fleet must first be determined.

It is no surprise then that Milligan and his treasury team are heavily involved in the decision-making process. "How those aircraft come into the fleet will be a combination of those owned, operational-leased and finance-leased methods decided by the fleet planning committee, which I sit on," explains Milligan. "And I can bring to that committee both the tax and financing implications of the different methods of bringing those aircraft in."

Working side-by-side

The point is that when financing expertise is combined with in-depth knowledge of tax affairs, it can help the business to achieve the most tax-efficient financing structure: something which can be of enormous strategic value. Keeping tax under the same roof as treasury is not an arrangement unique to Aer Lingus, but it is not particularly widespread either. Where it does exist, it is very often the case that one of the disciplines – tax or treasury – remains the main area of expertise, with a team helping with the management of the other area.

"You don't tend to get tax and treasury managers so much anymore," says Mike Richards, Managing Director of MR Recruitment. That is at least partly because tax management is seen as an area that requires a high-level of knowledge expertise, he explains. "There are treasurers, who, of course, have a good knowledge of tax. But it is such a specialism – even more so than treasury – that the roles are more often than not kept separate"

Nevertheless, the fact that such roles do exist tells us something about the closeness of the two functions. This proximity demonstrates that, even when the two functions are managed separately, it is still a good idea for treasurers to develop a rounded understanding of the tax implications of their decisions – even if most do not require quite the same level of expertise as Milligan does in his role. If the treasury and tax manager are not the same person, then they are at least very likely to be working ever more closely together.

Synthetic repatriation

Working closely together can have a number of other benefits. The first of these concerns the growth of cash stockpiles on the balance sheets of many multinationals in tandem with the availability of cheap financing on the capital markets. To illustrate the point, it may be useful to look at a funding deal recently secured by a large consumer electronics company. In April 2014, Apple announced one of the largest corporate bond offerings of the year so far. The $12 billion bundle of floating and fixed-rate notes ranging between three and 30 years were issued in order to help the tech giant fund a $90 billion share buyback programme. To observers, however, there was something initially puzzling about the news. Why would the world's most cash-rich company – with a reported $150 billion cash pile on its balance sheet – need to go to the bond markets for financing? Would it not be cheaper for the company to finance the buyback through its cash reserves instead?

The reason it didn't, of course, is corporate tax. Nearly all of the cash on Apple's balance sheet is held by overseas entities and had the company chosen to fund the buyback by bringing home all of its cash from international operations then it would, under US tax law, have been obliged to pay 32% to the Inland Revenue Service (IRS). For Apple, that would have meant a whopping $45 billion tax bill. Considered in that light, it's not difficult to see why, especially in the current ultra-low rate environment, Apple's financial executives saw a bond issue as the cheapest way of meeting the company's domestic cash needs. This strategy is not unique to Apple. A recently published report by Standard & Poor's analyst Andrew Chang looked at roughly 1,700 US-based multinational companies and found that debt has become a very significant factor in the growth of cash on the balance sheet for a lot of these companies.

For every dollar of cash they accumulated over the past three years, debt increased by almost $4, the study found. At first, the cash flow of most of the companies analysed appears to be more than sufficient to meet their domestic needs – be that capex, buybacks, or dividends. But when Chang looked at it more closely he realised that a substantial amount of the cash on the balance sheet was coming from flows that were being generated overseas. Companies were understandably reluctant to repatriate these flows under the current US tax code. "Essentially there is a mismatch of cash flow and cash uses," Chang tells Treasury Today. "What we found was that a lot of companies are now issuing debt at very low interest rates in order to 'synthetically' access the cash that they have overseas as an alternative to paying a very high rate of tax. This is a trend which we expect to continue over the near term, barring any significant tax reform in the US."

Changing regulation

The other main trend that is forcing treasurers to become more mindful of tax issues is regulation. Today, the introduction of regulation means that treasurers simply cannot ignore tax issues. FATCA, which came into effect at the beginning of July 2014, is the most significant of these. The regulation was introduced by the US government to prevent US taxpayers from avoiding tax by investing through non-US financial institutions and offshore investment vehicles. Although FATCA is aimed at financial corporates, in certain circumstances treasury centres and holding companies could find themselves defined as a foreign financial institution (FFI) under the regulation. Some treasury centres will be exempt, but the obligation will be on tax and treasury managers to evaluate whether they or their subsidiary is defined as a FFI under the regulation or not. Whatever the outcome, it means more regulation for the treasurer to understand and digest, as Aer Lingus's Milligan acknowledges. "Compliance around tax is assuming a much greater focus than it had a couple of years ago and a lot of it is to do with anti-avoidance legislation such as FATCA," he notes.

There is also the prospect of a co-ordinated tax on financial transactions in Europe. As with FATCA, banks and other financial institutions are meant to be the primary target of the proposed Financial Transactions Tax (FTT). Nobody is in any doubt, however, that end users such as corporates would also suffer, indirectly, if one were to be introduced. In fact, with the levies expected to put a squeeze on liquidity in the bond and derivatives markets, nearly every area of treasury operations – from intercompany funding and risk management to external financing – could be affected to some degree.

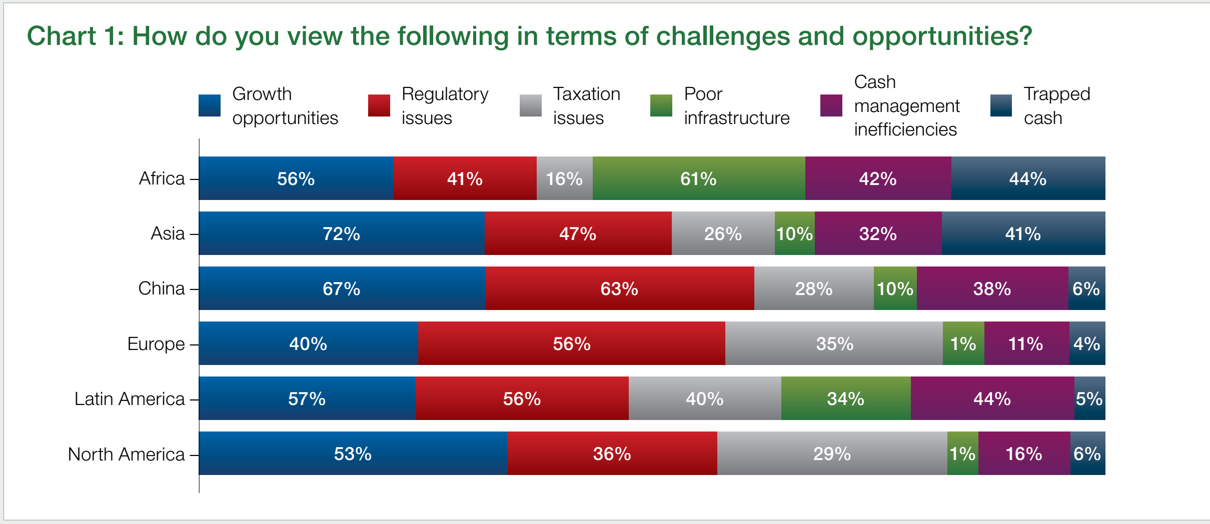
Owing to political disagreements, the probability of such a tax being introduced across every EU country now appears

A global issue

A good understanding of tax becomes particularly essential for the treasurers of businesses that operate in multiple legal jurisdictions, where tax can have an enormous impact on everything from risk management to inter-company funding decisions.

It is commonly understood that tax issues tend to become more salient for companies as they enter emerging markets. However, Treasury Today's 2013 European Corporate Treasury Benchmarking Study reveals a slightly more nuanced picture. Although one emerging region, Latin America, was seen by the largest number of treasurers (40%) as an area where tax issues pose a great challenge, in other regions dominated by emerging economies, such as Asia, tax issues were actually seen as problematic by a fewer number (26%) than in Europe where 35% cited tax issues as a challenge.

Chart 1: How do you view the following in terms of challenges and opportunities?



Source: Treasury Today 2013 European Corporate Treasury Benchmarking Study

This demonstrates that even if your cross-border activities are limited to advanced markets, such as Europe or the US, tax issues cannot be ignored. "Particularly when you move cross-border, you have to be conscious that nearly everything you do has a tax implication," says Neil Fleming, Director of Treasury Solutions at Capita Asset Services. "So usually it becomes a partnership relationship between tax and treasury. I don't think a treasurer would try anything new without getting tax involved to some degree."

unlikely. But experts say that the prospect has still given companies some pause for thought, particularly with respect to how their treasury operations are organised across geographies. "I have heard some anecdotal evidence that some companies might move some of their treasury operations out of the FTT countries into non-FTT countries, simply so that the FTT won't be an issue when or if it is implemented," says Capita's Fleming. "That would be an extreme step, but it will definitely be a consideration for some. And I think a few may well do that depending, perhaps, on the scale of their hedging activities in Europe."

So recent regulatory demands, just like the issues around trapped cash, are certainly impacting, not only the way tax and treasury departments interact with one another, but also wider strategic decisions taken by the business. But there is also one another way in which such issues are having a profound influence on treasury. That is by encouraging treasurers to build a much deeper knowledge of tax affairs.

A new skill-set

In survey after survey, treasurers say that their role has changed significantly in the past couple of years as they get drawn into areas that were once outside their purview. Tax, as the above examples testify, is certainly one of these areas. If the experts are right, and this trend continues in the years ahead, then treasurers will surely find themselves requiring a much more detailed knowledge of tax issues than they have had until now. "I think that at the level of global treasury it is going to create the need for a whole new skill set," says Fleming. "Now there are many treasury departments who need to arrange funding on the US capital markets – even though they have significant cash overseas – and that means they will enhance their capital market skills."

Moreover, with so much cash building up in overseas subsidiaries, treasurers of those companies affected by US tax policy on repatriation may also need to become a little bit more adventurous in their approach to liquidity management. "That is certainly driving them to look beyond bank deposits," says Fleming. "Since these organisations have become so cash rich, they are having to consider increasingly sophisticated investment techniques to diversify their counterparty risk and are looking more to collateralised deposits, short-dated bonds, and treasury bills that a typical corporate would not normally get involved in."

This is not the end of the story, however. Tax rules are constantly changing and keeping on top of all the many nuances will, no doubt, require specialist expert advice. Treasurers, then, may find themselves using that hotline to the tax manager more and more in the years ahead – wherever the business operates. ■

Turkey: land of opportunity?

Turkey's demographics alone make the country stand out: with a median age below 30 and high per-capita GDP, there is significant growth potential. The question is whether the nation can develop a financial and political environment that will attract major private investment from abroad.

What is known as modern Turkey was founded in 1923 from the remaining Anatolian parts of the defeated Ottoman Empire. Following a period of one-party rule, the number of political parties has expanded in the country, although democracy has been interrupted by instability and military coups in 1960, 1971 and 1980, and an ouster of the Islamic-oriented government in 1997.

Turkey's economy is predominantly free-market based and is led by its industry and service sectors, with its traditional agricultural segment also accounting for a significant portion of employment. In recent years the automotive, construction and electronics industries have played an increasingly important role in the economy, overtaking the textiles sector, which has traditionally been one of Turkey's key exports. Turkey's primary import trading partners are Russia, Germany, China and the USA, and its top export trading partners are Germany, Iraq, the UK and Italy. The country applies the EU customs code, and has free trade agreements with a number of countries, including the EU and the European Free Trade Association.

In May 2014, the Central Bank of the Republic of Turkey reduced its benchmark interest rate for the first time in a year, dropping the rate half a percent to 9.5%. Although some economists were critical of the reduction, claiming it could lead to Turkey exceeding its 5% inflation target, Prime Minister Recep Tayyip Erdogan argued the opposite – that the rate cut was not bold enough to stimulate investment.

Erdogan's comments caused concern in some quarters about the government putting political pressure on the central bank. But the debate over stimulating economic growth also put the spotlight on Turkey's recent record of growth. Though the country registered GDP growth of 2.17% in 2013, it had been as high as 9.2% in 2010, and as low as -4.8% in 2009. Indeed, Turkey has fluctuated between positive and negative economic growth since the early 1990s.

In the near term, there is reason for cautious optimism. In a May 2014 research note, analysts at Morgan Stanley said they expected GDP growth in Turkey to remain limited to 2.5% in 2014, but to recover in 2015, reaching up to 3.9% for the year.

Household debt challenge

One threat to Turkey's growth is the country's level of debt, both corporate and consumer. "After the global financial crisis, we saw significant growth on the personal lending side. Some of this has come at a time where rates have been significantly lower – mid- and high-single digits – than rates have been historically in Turkey," says David Aserkoff, an Equity Strategist at J.P. Morgan.

Turkish household debt as a share of disposable income has rocketed from 7.5% in 2003 to 55.2% in 2013. "This rapid acceleration in loan growth suggests to us that it will become more difficult for the country to engineer domestic-demand driven growth in the coming years," says Celal Celikcan, Country Treasurer at Citibank Turkey. The government has even gone as far as to urge Turks against using credit cards, and the banking regulator has put in place caps on card limits.

"The significant increase in the debt levels outstanding we have seen did not proportionally increase the payment burden, as rates were low. Now rates are rising, and the central bank is starting to put macro-prudential regulation on the banks to limit consumer lending. We do not think that it's a significant problem, but it is something a lot of investors are watching more closely now than they did say, a year ago," adds Aserkoff. Investors are also likely to be watching movements in the lira exchange rate.

Lira liquidity

The Turkish lira (TRY) is relatively liquid for an emerging market currency, with the spot market estimated to have a daily volume of around $10 billion. "Volume- and liquidity-wise the TRY spot market can be said to be one of the leaders of the emerging markets, along with the MXN, BRL and RUB," says Citi's Celikcan.

The TRY has weakened against the USD since 2013. "The currency has depreciated a lot over the last year, from around 1.80 to around 2.10, where we are now. That's a 15% move in a year, and it was even higher – as weak as 2.30. Higher rates at the central bank have helped steady it, and the slightly better environment for emerging market FX in the last couple of months has also helped steady it," says J.P. Morgan's Aserkoff. "Turkey does have significant export competitiveness again, so to a certain extent the drop in the currency has been a positive, and I think going forward we should expect a relatively firm Turkish lira," he adds.

Payments landscape

Turkey's payment infrastructure is reasonably advanced. Furthermore, two developments in recent years – one on the infrastructural side and the other on the regulatory side – have laid the foundations for an even more advanced payments network in the future. The Central Bank of the Republic of Turkey has recently made a significant change to the country's payments and securities settlement systems by differentiating transfers between customers and transfers between banks. The move is intended to make the system more flexible, effective and technologically efficient.

Key facts

Population: 74 million*

GDP per capita 2013 (US dollars): 10,523**

GDP percent change 2013: 2.17**

Current account balance 2013 (US dollars/ billions): -48.497**

Inflation (average consumer prices) percent change: (2013) 8.89**

Ease of doing business (2013) rank: 69 out of 189 globally*

Corruption perceptions index (2013) rank: 53 out of 175 globally***

Sources:
**World Bank*
*** IMF World Economic Outlook April 2014*
****Transparency International*

In addition, the 'Law on Payment and Security Reconciliation Systems, Payment Services and Electronic Money Organisation,' passed in June 2013, introduced a new regulatory landscape covering the principles and procedures of payment and security reconciliation systems, payment services, payment organisation and electronic money organisation. Within this framework, new definitions and license requirements were established, requiring certain organisations to take further action in order to achieve regulatory compliance.

The four largest banks operating in Turkey – Türkiye Garanti Bankasi AS, Türkiye Is Bankası (Isbank), TC Ziraat Bankası AS and Akbank – control more than half of the banking sector's total assets. Three of the largest seven banks in Turkey – TC Ziraat Bankası, Halkbank and Vakifbank – are state-owned. In all there are 47 banks operating in Turkey, of which 13 are investment banks. For banks operating in Turkey, the repatriation of capital is subject to the approval of the country's Banking Regulation and Supervision Agency.

Several Turkish banks already have the infrastructure in place to enable mobile P2P payments. Given Turkey's young population (see the section on demographics below), and the large number of mobile telephones in use in the country (almost 68 million according to the CIA's World Factbook, ranking Turkey 20th in the world by number of mobile phones in use), a proliferation in mobile payments seems inevitable. As of May 2013, 15 banks in Turkey offered mobile banking services.

The use of cheques is gradually declining in Turkey, although they are still widely used for high value corporate payments. The use of direct debits is possible in Turkey, although they are still not widespread.

The 'Law on Payments and Securities Settlement Systems, Payment Services and Electronic Money Institutions," introduced by the central bank, provides legal support to developments in the payments area and has strengthened financial stability by supporting the efficient and uninterrupted operation of these systems. Further regulation supporting the use of electronic payments is expected, which should drive growth in the space.

Bank regulation is handled by Turkey's Banking Regulation and Supervisory Agency. Transactions between residents and non-residents must be reported to the central bank, and banks are responsible for submitting transaction data to the central bank on behalf of their corporate clients. Turkey's Central bank operates TIC-RTGS, the country's real-time gross settlement (RTGS) system. It also operates a retail RTGS payment for the consumer space, which was launched at the end of 2012. Cross-border payment instructions are channelled through SWIFT; settlement takes place through accounts with correspondent banks abroad.

Managing cash in Turkey

Turkey is relatively well developed in terms of cash management services, with a wide range of products available, including electronic banking, payments, liquidity management and information monitoring, as well as traditional accounts payable and accounts receivable tools. An increasing number of banks in Turkey are also capable of building more complex products by integrating different product sets, including the provision of e-invoice integration for payments, card integration for direct debits, and payments with e-signatures and mobile signatures.

> "This should be a great country to invest in, and companies that have got it right so far have done incredibly well."
>
> David Aserkoff, Equity Strategist at J.P. Morgan

While traditional liquidity and investment products are widely available in the Turkish market, and the provision of more complex services is increasing, the range of sophisticated products on offer remains limited. However, changes in the regulatory landscape have allowed some local players to develop domestic and cross-border cash concentration solutions, albeit restricted to a certain extent by Turkish tax law and fiscal policy. Turkish corporates therefore lag slightly behind their European peers in terms of the cash and liquidity management solutions and investment products they can call upon.

Demand and time deposits are available in TRY, as well as in several major foreign currencies. Time deposits in Turkey typically have maturities of one, three, six or 12 months. Equities and corporate bonds are settled on a T+2 basis. Government securities settle on either the trade date, or on a negotiated settlement date.

Single-currency cash concentration is allowed in Turkey on an in-country basis between resident and non-resident entities. Cross-border cash concentration is also allowed, although owing to exchange controls its use is somewhat limited. Notional pooling, however, is not permitted in the country.

From a taxation perspective, the standard corporate tax rate in Turkey is 20%; capital gains by resident companies in Turkey are also taxed at this rate. There are no tax rules governing cash pooling arrangements in the country.

The Turkish government's plans to make Istanbul an international financial hub should boost the provision of cash management services over the coming years. Another development that would undoubtedly boost the sophistication of cash management in the country would be EU membership.

Turkey has made a bid for accession to the European Union (EU), although potential full EU membership is generally considered to be a number of years away. Should it be approved, one of the key and immediate benefits would likely be that it would give foreign investors in the country a much greater sense of stability.

Turkey is a republican parliamentary democracy. Prime Minister Recep Tayyip Erdogan, of the ruling Justice and Development party (AKP), has been in office since 2003, and Abdullah Gul has been president since 2007. Many have tipped the AKP to win the next parliamentary elections in June 2015, in which case Erdogan could move over to the presidency, and Gul could move in the opposite direction into the premiership.

And Turkey's economic and political future looks reasonably bright, at least judging by the country's demographic profile.

Demographics: triple crown

One of the country's key strengths is its demographics. "Turkey wins the demographics triple crown," says J.P. Morgan's Aserkoff. "With its large population, population growth, and high per-capita GDP, Turkey matters. MNCs need a Turkey strategy. The country has done a great job, since the crisis began, in diversifying its export base out of Europe into MENA and the rest of Africa. Now that Turkey is rebounding we're seeing Turkish exports into Europe growing again quite quickly and double-digit year-on-year gains into markets like Germany and Italy. The population continues to grow. This should be a great country to invest in, and companies that have got it right so far have done incredibly well. It's pretty obvious that the opportunities are massive," he says.

Turkey's young population alone – the median age is below 30 – is a key indicator of the opportunities its demographics present. But beyond its demographic strengths, the country also benefits from its key geographic positioning.

"As a natural bridge between both east and west, and north and south, Turkey creates an efficient platform to major markets across Europe, Eurasia, the Middle East and North Africa. Having such a strategic location, multinationals increasingly look to Turkey as a growth engine for their regional business. Turkey offers a robust platform for economic expansion on a regional scale, enabling MNCs to leverage local capabilities," explains Citi's Celikcan.

He says basing a regional corporate hub in Turkey has several key advantages. "Turkey provides access to 56 countries and multiple markets with a combined GDP of $25 trillion within a four-hour flight distance. The country also has extensive trade agreements with countries in the region and a vibrant business sector with a business-friendly investment environment," he adds.

Given Turkey's demographic and geographic advantages alone, MNCs without a Turkey strategy would be wise to start drawing one up now. ■

Counterparty risk: know your limits

In simple terms, counterparty risk is defined as the possibility that someone you do business with will be unable to meet their obligations to you. The higher the odds of a default are, the higher the level of counterparty risk. This is all well and good on paper, but as any treasurer knows, counterparty risk is far more nuanced in reality. It's a multi-faceted threat that is constantly changing and evolving. In this article, we re-emphasise the need for treasurers to keep on top of counterparty risks, examining both existing and emerging threats.

In the not so distant past, the majority of corporate counterparty risk management frameworks were based on credit ratings on the grounds that they provide simple and independent metrics of creditworthiness. There is no need to explain the negatives of this over-reliance on credit ratings, which have been well documented in the global press. One positive impact of this dependency, however, was that it functioned as a wake-up call to banks, ratings agencies and corporates alike.

Yet despite the significant progress that has been made post-crisis in understanding and managing counterparty risk, many corporate organisations still lack formal counterparty risk exposure policies or frameworks, not to mention the appropriate knowledge or tools to analyse and monitor these exposures. So how can treasurers stay on top of counterparty risk?

Start at the source

Effective measurement and control of counterparty risk starts with identifying the different sources of risk facing the organisation. The following table, while by no means exhaustive, provides a good starting point, outlining a number of traditional sources of counterparty risk.

In addition to these more traditional sources of counterparty risk, new threats are constantly emerging. One of these is the risk of working with corrupt or 'undesirable' counterparties. Indeed, there is a growing global trend for both regulators and consumers to hold corporates accountable for the actions of the third parties that they choose to interact with.

"As such, organisations cannot afford to neglect the non-financial due diligence they must now do to comply with US and UK anti-bribery laws," says Ian Barclay, Managing Director at investigations, intelligence and risk management specialist, Stroz Friedberg, Hong Kong. "Failing to adequately assess the counterparties that the company does business with can not only expose the organisation to reputational damage, but to operational risk, government investigations, financial penalties and potential criminal liability," he notes.

Newspaper headlines certainly provide plenty of evidence to support this. For instance, GlaxoSmithKline Plc (GSK)'s third-quarter 2013 sales of pharmaceuticals and vaccines in China fell 61% after an anti-corruption probe began. And now that the Chinese police have charged a number of GSK China personnel with corruption, the company is attempting to clean up its act by stopping payments to doctors who promote its products. While everyone supports the company's action against corruption, from a competitive standpoint, this bold move could prove very costly in what is a $1 trillion-a-year global industry.

The GSK China scandal also highlights the need to be aware of country risk when identifying and measuring counterparty exposures: bribery between sales staff and doctors is a well-documented challenge in China. Since the nature of business is only becoming more international, treasurers must ensure country risk is firmly on their counterparty radar.

Once counterparty risk sources have been accurately identified, it is time to consider the best way to measure and manage any threats. This helps the treasurer to ensure that undesirable exposures do not develop in the first place.

Measure and manage

To be clear, there is no silver bullet for measuring and managing counterparty risk. Companies will use a variety of tools and modelling techniques, largely dependent on their size and sophistication. These may range from quantitative approaches such as expected exposure and probability of default calculations, through to more qualitative measures such as assessing the strength of the counterparty's management team.

Despite there being no one size fits all tool or technique for measuring and managing counterparty risk, there are some useful rules of thumb that the majority of companies can follow. It might seem obvious, but ensuring that the full counterparty exposure is being managed and measured is one such simple, yet significant rule. The section below outlines some additional appropriate 'rule of thumb' responses to the major forms of counterparty exposure. It should be noted, however, that the correct method for measuring and managing counterparty risk depends on the particular circumstances of the corporation, and its counterparty risk policy (more on this later).

Source of risk	Threat posed	In particular, watch for …
Deposits	Potential loss of deposits in instances of bank failure.	• Large deposits. • Overexposure to any one bank/financial institution. • The bank/financial institution's credit rating.
Investments	Loss of investment – whether bonds, equities or another instrument.	• Maturity of investment. • The credit status of the company/institution/vehicle. • Market changes. • Sovereign credit rating downgrades.
Borrowing	Changes in bank lending policies could affect the level of your repayments and/or the ability to refinance.	• Mergers, acquisitions and consolidation activity by your lending banks. • Changes to a bank/financial institution's credit policy.
Trade financing	In trade finance arrangements, the supplier sometimes runs the risk of losing the balance payment.	• Changes to the credit status of the trade financier. • Legal recourse in case of default.
Leasing	In leasing agreements, if the leasing company were to fail you could lose the right to the use of the leased goods.	• Terms of the leasing arrangement. • Changes to the credit status of the leasing company.
Foreign exchange	Settlement risk – sending a payment to settle a foreign exchange deal but receive nothing or less than you were expecting in return.	• Market changes resulting in big fluctuations in exchange rates. • Large settlement exposures in exotic currencies.
Derivative instruments	If the other party fails to fulfil its obligations under the agreement you will have to meet the original payments.	• Settlement risk for derivatives is greatest in the over-the-counter (OTC) markets. Regulation is attempting to reduce this risk through the use of central counterparties (CCPs) but treasurers should be aware of the risk potential where derivative transactions are concerned as non-financial counterparties are often exempt from the mandatory clearing requirements being brought in under these new regulations.
Accounts receivable	Default or late payments.	• Late payments. • Changes in the payment behaviour of your customers. • Changes to your customers' credit status.
Suppliers	Delays in the supply chain.	• Changes in the credit status of your suppliers. • Late/incomplete deliveries.

Source: Treasury Today Best Practice Handbook, Managing Risk in Treasury

- **Deposits and investments**

The key to effectively managing the counterparty risks associated with deposits and investments is cash visibility. An accurate, up-to-date understanding of each of the institutions the corporation banks with is of crucial importance if a corporate is to correctly measure their level of market exposure. To accomplish this, some corporates remain committed to using traditional methods, such as spreadsheets, while others have moved to install specialist software that offers real-time updates and ongoing monitoring and analysis of all the corporation's counterparty exposures.

Diversification is ultimately the most effective way to protect deposits and investments from counterparty risk. Both should be spread out and held in multiple banks and institutions, geographical areas, asset classes and a variety of tenors to minimise the likelihood of a loss of capital in a crisis situation. Updating the company's investment policy is also critical here. Best practice determines that integrated risk metrics should be used to help formulate an investment policy that can adapt to the changing financial environment.

- **Borrowing**

The recent global financial crisis highlighted the importance of keeping a close check on the institutions the company borrows money from. In particular, corporates should look out for circumstances that could lead to financial institutions altering their lending policies and prices. While there should be no great risk to current agreements, banks which offer revolving credit facilities may, in difficult conditions or as a result of regulatory changes (such as Basel III), choose to increase the price of such a facility or perhaps not to renew it.

- **Foreign exchange**

The main concern for corporates when undertaking foreign exchange transactions is settlement risk. This risk is sometimes referred to by the name Herstatt after the German bank which failed during the 1970s leaving a number of unsettled FX payments to its various counterparties. It occurs when a payment to an overseas partner is sent but no corresponding funds are received in return.

The best way to eliminate this form of risk is through a service called continuous linked settlement (CLS). CLS uses a third-party intermediary to settle FX trades instantly, paying out in the respective currencies when each party confirms that they have the funds to proceed with the transaction. Then, should one of the parties fail to meet the terms of the deal, the amounts originally paid out would then be returned to the relevant parties.

- **Derivatives**

Despite regulatory progress towards central clearing, counterparty risk still presents a problem for corporates

conducting derivatives transactions. It is of vital importance when conducting such deals that the counterparty with whom the agreement has been made is able to fulfil their side of the contract. To mitigate such risk a corporate needs to monitor all its derivative positions carefully and regularly carry out internal audits to prevent or detect systematic or fraudulent abuse of positions.

Within the derivative portfolio, corporates can also look to identify or create offsets to minimise aggregate counterparty exposures. As Andrew Bailey (AMCT, MSTA), National Grid Money Markets Team told Treasury Today: "Where possible, trading should take place on a collateralised basis (using bilateral credit support annexes (CSAs) with minimal thresholds, or trading on a cleared basis), while managing potential liquidity risks that may arise from mark-to-market volatility and resultant collateral requirements. Break clauses can be inserted in longer-dated instruments. Companies should also be cognisant of secondary effects of counterparty risk, such as credit value adjustment (CVA) charges, which can in part be managed using credit auctions and options."

- **Accounts receivable**

Accounts receivable, is a prime source of counterparty risk. If a company extends credit to its clients there is always some chance that they will not receive payment on time, or possibly not receive any payment at all, should the client end up defaulting on the debt. Either way, the end result is that actual cash flow will not match predicted cash flow – a scenario which left unchecked could potentially become a source of liquidity problems for the corporate.

All customers therefore should be checked thoroughly in advance of any extension of credit to identify those who pose an excessively high credit risk. Such careful checks should continue to be carried out on existing debtors too – paying particular attention to changes in payment behaviour which could possibly indicate that they are experiencing financial difficulties.

- **Trade financing and leasing**

While trade financing can actually be used by a corporation as a means of mitigating counterparty risk, it does not eliminate all the risk from a trade. Common risk management procedure for trade financing would involve assessing both the creditworthiness of the organisation providing the trade finance and the legal counterparty in the leasing agreement.

It is also important to be aware of the level of protection available in instances of default. Some trade finance providers and leasing companies belong to international banking groups, while others do not. It is therefore essential to carefully assess the balance sheets of any trade finance provider prior to conducting any business with them.

- **Supplier risk**

Supplier risk is an important, yet sometimes neglected facet of counterparty risk management. Disruption to the supply chain can have severe consequences, as the recent financial crisis illustrated. When suppliers began to go out of business during the credit crisis, many of their clients soon followed, unable to stay solvent without the necessary materials or funding to continue operating.

In order to effectively manage supplier risk a corporate should examine each level of its supply chain and identify at each stage the appropriate action to be taken should the risk posed become a reality. It may be useful to draw up a supplier risk intelligence checklist.

You can't beat them all

Finally, while every effort should be made to keep a lid on counterparty exposures, even the best risk analysis or tools in the world will still not prevent certain defaults. In addition to a robust counterparty risk management framework, therefore, controls and guidelines should be put in place for when the inevitable happens. ■

Counterparty risk management policy

An effective counterparty risk management approach should always include a clear policy. According to consultancy firm Zanders, basic items to cover in this policy should include:

- A list of eligible counterparties for treasury transactions, plus acceptance criteria for new counterparties – for example, to ensure consistent ISDA and credit support agreements are in place. This will also be linked to the credit commitment.
- Eligible instruments and transactions (which can be credit standing dependent).
- The term and duration of transactions (which can also be credit standing dependent).
- Variable maximum credit exposure limits based on credit standing.
- Exposure measurement guidelines – how is counterparty risk identified and quantified?
- Responsibility and accountability guidelines – who should have ultimate responsibility for managing counterparty risk?
- Key performance indicators (KPIs) to measure and monitor performance.
- A definition of reporting requirements and format.
- An overall framework for decision-making by staff, including treatment of breaches.
- Continuous improvement measures – what procedures are required to keep the policy up-to-date?

Source: Zanders

The power of one

Federico Falciai
Head of Cash Management Strategy

From oil to gas to electricity, Federico Falciai's working life has been based on energy and power from the start. Having moved roles from analyst to trader to auditor he is now heading up the cash management strategy unit of one of the world's largest integrated power distributors, Enel. With revenues of over €80 billion in 2013, it is his role to bring unity to a complex cash operation.

Enel is Italy's largest power company and Europe's second largest listed utility by installed capacity. It is a leading integrated player in the power and gas markets of Europe and Latin America, operating in 40 countries across four continents. Employing more than 71,000 people, it distributes electricity and gas through a network spanning around 1.9 million km to its 61 million customers. It was the first utility in the world to replace the traditional electromechanical meters with high-tech smart meters.

At the production end, Enel operates a range of hydroelectric, thermoelectric, nuclear, geo-thermal, wind, solar and other renewable power plants. It is strongly committed to renewable energy sources and to the research and development of new environmentally friendly technologies. Over 42% of the power generated by Enel last year was carbon free. In 2013, Enel posted revenues of around €80.5 billion giving it a net ordinary income of around €3 billion.

Power, in its most literal sense, seems to have an enduring fascination for Federico Falciai. In his career to date he has focused on an industry sector without which much of the modern world would grind to a halt. His role in the past few

years has been to keep the power 'machine' running as Head of Cash Management Strategy for one of the world's largest integrated power distributors, Italy-based Enel.

Having started work as a domestic supply analyst for an international oil company in 2000, Falciai later moved to its trading division where he was in charge of fuel oil and feedstock supply, and eventually audit. In 2006, he moved to the international audit unit of Enel. From here it was but a short hop to the finance division. For the past five years he has been charged with bringing order to a complex cash operation that spreads across Europe and Latin America.

It is as well then that Falciai has both been afforded and taken the opportunities to understand and apply his knowledge of the industry at an increasingly senior level. "At Enel, I had the good fortune to take part in Group cross-country and cross-unit projects which helped me acquire insights over finance processes," he recalls. Exposure to a broad sweep of activities and cultures has, he feels, helped him and his team prepare not only for the worst of the financial crisis and ensuing regulatory changes, but also for the "deep transformation" of the Enel Group from a purely Italian player to a multinational corporation. "The variety of jobs gave me an important background in terms of data analysis, problem solving and the ability to build constructive business relationships, helping me deal with both internal and external stakeholders."

Within the Group Finance and Cash Management arena, and as Head of the Cash Management Strategy unit, he assumes a number of key responsibilities. Managing relations with banking, postal and financial institutions for cash management services, he says, involves negotiating conditions and meeting the needs of the finance units at group and subsidiary level. He is also charged with monitoring the evolution of collection and payment systems market, and the related regulatory frameworks, and with promoting the best possible cash management structures at Group level which means leveraging banking system capabilities and liquidity management techniques. The Enel Group cash management model is what Falciai describes as "partially centralised". Although all principles, rules, criteria and standards are set at the central level, strategic decisions and all transactions at a specific threshold may be taken or managed either centrally or, under the group office's guidance, by the subsidiaries.

The responsibilities and reach of the cash manager places the role at the heart of the business. "There is no doubt that the role of cash management is now experiencing a renewed interest and visibility," comments Falciai. "The financial crisis, as well as technological and regulatory changes – especially SEPA, EMIR, Dodd Frank Act and various tax reforms – have placed the cash manager under the spotlight," he notes. For him, cash management processes move across the entire company, embracing cash collections, management of liquidity and cash disbursements. "The cash manager's involvement in the decision making process is more and more sought after. We are partnering with other units, becoming operationally aware and playing like a hub of information."

Making cash go further

Indeed, the financial crisis served to highlight the importance of accuracy in handling the whole cash management value chain, knowing exactly where cash is held at all times, and being able to access it, says Falciai. The spotlights in particular are on working capital optimisation, financial risk, cash flow forecasting and the rationalisation of treasury structures. As a result, he believes that the relationship with financial partners as well as business lines have been reinforced "not just to boost the effectiveness of cash processes but also to avoid the risk of leaving stones unturned".

This has been translated into a number of improving measures. With a "continuous improvement mind-set and approach" deep-seated in Enel's day-to-day activities, Falciai says the decision-making and operating processes have "long been streamlined". Through this, he believes that the monitoring of KPIs has been instrumental in supporting various cash and treasury initiatives and delivering satisfying returns. In particular he refers to the development of a Group integrated forecasting and reporting system, the investment in new payment systems capabilities, the development of customer-financing opportunities and innovative use of collections channels.

Keeping ahead of the curve when it comes to developing strategy for the Enel of tomorrow is vital. The international expansion of the group that occurred in the last decade gave it the opportunity to look at cash management with "a new perspective and dimension". A diversified spread of business features, operating in and with a large number of countries and currencies, was a cash management challenge with which the team engaged fully. "SEPA, which absorbed most of our time last year, is now deeply rooted within our global integration process," says Falciai. Within Enel, the parent company is "driving the change", coordinating and addressing all Group companies to make sure all work with the same processes and procedures regardless of location. In fact, notes Falciai, Enel no longer looks at payments and collections in isolation. This is a long-term process that requires a higher level of centralisation and standardisation of banking communication systems and file formats, he explains. For Enel to leverage Group synergies, he adds that it is a challenge "that will not be won without everyone's talent and day-to-day commitment".

Technology in the balance

Enel's growth has been achieved mainly through acquisition. Consequently, in addition to the commonly used Enterprise Resource Planning (ERP) systems such as SAP, it has inherited a number of different IT applications, customised tools, modules and systems, each developed separately and requiring a mixed degree of manual intervention. "We are currently striving for the convergence and integration of systems and processes used by all Enel Group subsidiaries," says Falciai. This will increase automation, standardise reporting messages and reduce paper-based processes and is seen as a crucial step for an efficient cash management system.

Adopting a balanced view of technology, Falciai believes that even though the implementation of specialised technology has increased functionality and the capacity to interact with other more commonly used systems such as the ERP, the use of spreadsheets is still valid as a treasury tool. This is by no means a way of hanging on to old artisan ways; the use of cutting edge smart technologies, he argues, need not diminish the skill of the cash manager. "What's behind ICT procedures must always be known in order to be able understand the data and to implement the most suitable and effective financial strategies."

Taking SEPA to the next stage

One area in which technology plays a significant role, especially in terms of payments integration, is in the roll-out of SEPA. Despite natural 'go-live' concerns, Enel Group still sees in the SEPA migration an opportunity for the entire financial industry

and payment systems users. The scale and importance of the project led to the decision to approach SEPA as a single project, coordinated at parent company level, rather than tackling it as individual and stand-alone country projects. The solutions identified were inspired, first and foremost, to ensure compliance with local regulations safeguarding business continuity, explains Falciai. "Thanks to the 'global' approach we had a general understanding of each SEPA country's peculiarities. This allowed us to leverage a range of specialist knowledge, tailoring the solutions to specific needs but still keep them as part of a common longer-term vision."

Although SEPA deadlines come and go, for Enel the project remains a work in progress. To an extent, completion is dependent upon the individual treasury strategy and operational set-ups of each part of the company. But what is clear to Falciai is that compliance with the SEPA Credit Transfer and Direct Debit schemes is not the end point but "just a step in the process of evolution in treasury management". In fact, he argues, transformation in the payments industry does not end after SEPA. "For example, a transition to cashless payments instruments has been developing thanks to the use of cards, internet and mobile payments. The strategy influences the ways companies drive their businesses and inevitably it will bring forward the elimination of existing barriers."

This is an enlightened view of the whole scheme, given that many organisations consider SEPA as a mandatory issue. "They are not focusing on the opportunities the migration aims to achieve," he comments. The SEPA roadmap, he notes, went through three main phases: awareness of the change; impact-gap analysis; and implementation. He feels that as the SEPA go-live was getting closer, concerns were raised amongst the financial community and industry that revealed a mixed level of awareness of its potential impacts and of the preparedness amongst stakeholders. Enel, it would be fair to say, has taken SEPA as an opportunity not a threat.

"Together with the Payment Services Directive, SEPA is paving the way to a real integration of cash management processes at European level," states Falciai, adding that it has the potential to bring benefits to all stakeholders – from consumer to bank to corporate. "The question is if the added-value arising from this process will be as much as expected and how much time it will take to create this value," he says. It will be necessary to take into consideration that the development of a European cross-border competitive payments market, with the removal of national barriers, will require time. At the same time, payment habits and business models on both demand and supply sides will change gradually. "Companies have to be aware that the cash management integration process will start producing the expected benefits in the medium term but, in general, it will take more time than expected."

So far, the journey along the road to SEPA for Enel has been "complex". This, notes Falciai, is mainly because not all the payment industry players were ready to fulfil the new SEPA requirements as they came into force, "even though the implementation deadline was widely debated and announced many years ago". This, he concedes, was probably due to the onset of the financial crisis and "bearish" climate in Europe which forced many to cut costs and investments in order to preserve profitability. Regardless of delays, the implementation of an "industrially-solid" SEPA engine is a key step to take, he observes. Once the reliability of the financial industry's management of SEPA is ensured, he suggests that the focus should shift to investing in systems, IT infrastructure and the development of "suitable and wide-ranging" Additional Option Services to overcome local restrictions and to benefit from the new competitive market.

"Growing worries about a drastic switch-off of domestic payment systems led local authorities and the European Commission to concede temporary waivers," notes Falciai. "Since the bank-to-bank space was heavily regulated by the SEPA Rulebook somewhat contrary to the customer-to-bank space, slightly different standards were developed and implemented. Peculiarities in national cultural habits still sees corporates preferring in-country accounts and payments players." Moreover, he says, users of payments services providers (PSPs) still prefer to bank or open accounts with a nearby institutions which they can easily contact. This "proximity factor", he says, has led to a "mixed and fragmented scenario" making it more difficult to implement an efficient larger-scale cash management system. In this context, he believes that all the regulations and technological changes aimed at overcoming domestic factors, in favour of an open market, are welcome by multinational players – corporates and banks. "For this reason, harmonisation of the communication systems with banks and standardisation of formats are crucial actions to be taken."

Bank partners

Of the banks, Falciai reports that the demand on banking services is continuously evolving, being driven by regulatory and technological changes occurring in the market. "The success of these products and services relies on their ability to meet customers' needs, which is in turn influenced by the pricing strategy," he notes. However, he is quick to add that pricing for him can never be a standalone success factor and that form and function is not always perfectly met by the industry. "I think that in some cases the overall value behind the provided service is equally distributed between the parties, while in others there is still room for improvement."

The responsibility of Falciai's team is to meet Enel's internal cash management services demand. It means first of all understanding the needs of the business and then staying focused on the wider market – including the bank space – in order to follow its evolution and "catch all the potential opportunities". Of his own position, he says he is focused on "discovering ways of leveraging the value of all synergies potentially achievable in a large, diversified and geographically distributed company".

An ocean of possibility

In the past few years, the responsibility of the cash management function has expanded in parallel with Enel's growth and business diversification. The Enel Group gives Falciai the opportunity to interact with people of many different cultures and languages which, he feels, "can only add value to our activity". Beyond the rigours of driving the strategic vision of cash management for this expansive utilities group, he believes that his seafaring heritage – he is the son and nephew of Admirals of the Italian Navy – has instilled in him not only a love of all sea-based activities and sports but also a sense of ambition without limits and the view that success can only come through teamwork, paying attention to detail and thinking through decisions; that indeed is the power of 'one'. ■

Working my way back to you

Depending on where in the world a business is based, repatriation of profits can prove extremely taxing, in every sense of the word. Treasury Today talks to a quartet of experts, each with a different perspective, and gains some valuable insight into what can, cannot and should not be done.

It is all well and good making profit overseas, but from a treasury perspective this generally desirable commercial goal can bring with it a set of issues that must be tackled correctly or cash can become the subject of punitive taxation, risk-laden currency exposure and even reputational damage. Cash repatriation is rarely straightforward – and sometimes controversial.

A Bloomberg investigation published in December 2010 ('Dodging Repatriation Tax Lets US Companies Bring Home Cash') revealed the dark secrets of schemes such as 'The Killer B' and 'The Deadly D' used to help to soften the tax blow for a number of high-profile corporates.

The Killer B earned its name from section 368(a)(1)(B) of the US Internal Revenue Code. The technique, explained Bloomberg reporter, Jesse Drucker, involved a US company selling its shares to an offshore subsidiary, the offshore unit could then use the stock to make an acquisition, tax-free. This loophole was apparently shut down by the IRS in 2006.

The Deadly D – also named after a section of tax law – allows a US company to buy a business and transfer ownership to an existing overseas subsidiary. The subsidiary then pays its parent a sum of cash up to the purchase price of the company which the parent can repatriate, tax-free. Moves are afoot to close this one down too.

With so much at stake, why and how do treasurers bring cash home?

The consultants' view

Reduction of gross debt on the balance sheet is one of the most common reasons for cash repatriation, says Paul Cuddihy, Head of Treasury and Commodity Management Consulting, KPMG. But over the past few years, managing counterparty credit risk has joined the list: cash in an overseas domestic bank account, as opposed to a global relationship bank, is an exposure too far for many treasurers. A third

driver, notes Cuddihy, is cash recycling. "Quite often cash is taken from developed markets and invested in emerging market projects, for example for a new production facility."

Tax-efficiency is never far from the conversation too, adds Chris Morgan, Head of Tax Policy, KPMG. Where a corporate with surplus cash is located in a high tax jurisdiction, lending to subsidiaries will generate a high tax charge on the interest received. "That does not make much sense especially where lending is not that company's business. It may be beneficial to repatriate funds to the head office or to a treasury operation in a low tax jurisdiction and lend it out from here," he says. However, when repatriating cash by way of dividends, the company could incur high withholding tax (paid to the jurisdiction in which the cash was residing) and, depending on the jurisdiction in which the parent company is registered, dividends might be subject to double taxation (as in the US).

Locating accounts in corporate tax friendly countries – such as Ireland with a rate of 12.5%, Andorra at 10% or, better still, Bahamas or Bermuda at 0% – is not without issue, as Google, Amazon and Starbucks found to their cost. They were not doing anything illegal, but many saw their actions as 'unfair'. Reputational risk should not be underestimated.

The heated media and political debate around the tax planning efforts of corporates is likely to move up a gear as the country-by-country reporting template that is being discussed by the OECD takes shape. "If it looks like a company is trying to strip out as much of the profits as possible – particularly from a developing country – it will attract attention," says Morgan. "It is", he adds, "a matter of balancing prudent cash management with "not being seen to push the envelope".

Regulatory guidance must be followed too. In certain jurisdictions, for example, Morgan warns that over-zealous removal of local cash reserves may breach local 'thin capitalisation' rules (applicable to companies funded almost entirely by debt). These rules are put in place partly to ensure local entities are able to continue operating. Accurate forecasting thus becomes more important. "Organisations that put in place automated cash pooling and sweeping structures often have to put in place more sophisticated forecasting and liquidity tools," notes Cuddihy. The involvement of the banks in this process is "critical".

Despite what they may claim, no bank has a truly global footprint. "What corporates tend to do is select a regional bank – for Asia, for EMEA, for the Americas – and these will link with the local banking network," he explains. Local banks are best-placed to provide local cash services such as payments and collections. A net amount may then be moved between the local and regional banks. It is, he explains, important to select a regional bank that has a network capable of satisfying requirements both at a local and central level, even if that means using partner banks. The current wariness of counterparty risk does however make careful bank selection critical.

"The best corporate structure to facilitate the efficient repatriation of cash depends on many factors," says Morgan. To enable a business to take dividends out with minimum withholding tax, for example, may require it to set up regional holding companies. It may be desirable to locate these in jurisdictions with favourable tax treaties, just as it may be equally beneficial to establish treasury centres in these locations, bearing in mind the reputational element. But with cash sweeping and pooling in the main free market areas already in place within most sophisticated organisations, Cuddihy notes that leading-edge organisations (notably in the pharmaceutical industry) are now implementing payments and receipts factories. "These structures remove the need for cash to be paid or received locally at all," he explains.

The banker's view

Treasurers are under increasing pressure to demonstrate the depth and rigour of their risk management, notes Paul Taylor, Managing Director, Regional Sales Head, GTS EMEA at Bank of America Merrill Lynch (BofAML). He believes few treasurers will today tolerate having cash spread across multiple jurisdictions for just this reason. "Whether it is counterparty risk, country, reputational or systemic risk, repatriation often feels like an easier way to manage and mitigate that risk."

In particular, emerging market volatility and the advent of certain so-called 'Black Swan' events are a deep concern for treasurers who may not be on the ground as events unfold. Being able to respond quickly, diverting cash without closing down these markets is essential and international banks argue that they have the infrastructure to facilitate the essential visibility and access for effective cash repatriation.

For Taylor, repatriation is thus often based on "the intelligent management of cash pools". A business may be managing cash in multiple pools, across multiple jurisdictions, but that cash can still be concentrated in markets where the greatest return and control can be achieved. A corporate with a multi-currency notional pool, he argues, can "optimise cash accessibility and return".

The strategic need to manage cash and exposures may be driven by the CFO (and possibly the chief risk officer) but it is the treasurer who will most likely devise the solution. "This is where bank relationships play an important role," says Taylor. The traditional banking service for repatriation is the sweeping and pooling of accounts. "As a business becomes more multi-national, it is required to put in place treasury structures and middleware to support that expansion. For a bank, the ability to support pooling, where the corporate objective is to optimise working capital management, is critical."

Actual or notional pooling (combining account balances without actually transferring funds), either on a single or multi-currency basis, is necessarily driven by technology. It relies upon the bank having the access tools, infrastructure and reach to meet its clients' needs. But Taylor believes the move into emerging markets and thus the increased threat of trapped cash is driving treasurers to look for "more intelligent" in-country solutions too. The global banks are responding by offering clients access to a variety of local short-term funds either on an entity- or country-specific basis, he says. "Where repatriation is not possible, this is a way in which treasurers can start to make more localised decisions on how to get the best possible return."

A business should establish its repatriation strategy in advance of moving into a new territory. "A treasurer will be looking at ways in which that strategy can be supported by finding a solution that can get the cash to the right place," says Taylor. Once past the investment phases, and assuming it has cash coming in, each entity will need a collections facility, an ability to manage that cash in the most effective way, and a well-

defined approach to risk management, he explains. "Treasury won't necessarily want to open accounts with domestic banks where the relationship is minimal," he says. "The need is typically for something that is in step with how they manage the rest of their cash, which gives them the same visibility, control and scalability as they have for the majority of the business, which offers the same return, and which enables them to move the cash intelligently or deploy it back into that market if the business is not yet fully matured."

The treasurer's view

There are two main reasons for bringing cash back to headquarters for Corina Keller, Head of Cash Management for Germany-based global specialty chemicals group, ALTANA: security and efficiency. This means all of the company's core banking panel are highly-rated and that the structure of the business facilitates easier redeployment of funds from cash-rich entities to where it is needed. But Keller acknowledges that repatriation is rarely straightforward.

"The first consideration is whether the cash is in a currency and location that allows transfers out of the country," she says. If not, it may be possible to exchange it in-country into euros or dollars and then remove it. However, she comments that the exchange rate is often quite unfavourable and, in China for example, there are restrictions on how much foreign currency may be held at one time. Even if cash is removed, it may be subject to a 'fee' in the originating country as is the case for example in Russia or China. Although not officially a tax, this is a cost nonetheless. "But tax is always a reason to think about how you might get the cash out," Keller says. If, for example, the intention is to declare a dividend, the threat of double taxation – withholding tax paid at the point of origination and receipt – must be considered. "It is not a restriction in that we won't do it, but we must bear in mind the level of withholding tax."

Wherever possible, ALTANA requests SWIFT MT940 customer statements from each bank account held by its overseas entities to know the balance on each account. But just as there are some banks that technically cannot comply, some charge "horrendous" fees for this service. If ALTANA cannot find a way to get the money out, at least at an acceptable cost, it may grant the relevant local entity special leave to open an additional account with a branch of one of the group's core banks. "At least then we know the funds are safe and that we have a good level of control over the cash." All non-core banks are subject to group treasury's 'bank monitoring' programme where it takes a weekly look at the ratings and outlook of each. It will then make decisions on what the highest acceptable positive balance limit should be, explains Keller. In some instances instructions have been issued to close an account and select another bank from a short-list of corporate treasury-approved institutions.

Operations in China require a different strategy. Because ALTANA has more than one entity in-country it has established an 'entrusted loan' structure. Similar to a cash pool, it means one entity will deposit cash with a bank, that bank then lends the cash to other ALTANA group entities. "It does reduce the need to send additional funds into a trapped-cash environment, but it still doesn't solve the problem of getting cash out of the country," admits Keller.

Cash may be removed in the form of an inter-company loan to HQ but the asset remains on the books of the foreign entity. This has major implications for the security of those funds. Keller marks the distinction between cash and assets. With the retention of the asset, if for some reason the economy of the country in which that asset is booked collapses and the government then seizes control of the company, that government could legally force the parent company to repay the loan.

"In a volatile world, should the need to extract cash from a country become urgent there is but one real option, says Keller, and that is to get the funds out in the form of a dividend." By declaring a dividend the cash and the asset are no longer on the books of that entity. But, as mentioned above, this can be expensive: "Sometimes you have to take a deep breath and swallow hard when you hear how much you must pay on withholding taxes." Another way to remove the funds is by merging the company into another within the group. This, notes Keller, "takes even longer to do and there are more fees involved than paying a dividend." And obviously, this is only an option if the local entity is no longer needed.

Under 'normal' circumstances, where repatriation is possible, ALTANA relies upon its core banking partners to connect into a traditional cash pool. Cash is automatically swept every day to a header account. But even in this scenario there may be legal restrictions on what can and can't be moved; cross-border pooling or participation by certain company structures is not permitted by some jurisdictions, for example.

The main instrument used by ALTANA to disperse cash is the inter-company loan. "We might instruct an entity to grant a loan to HQ and it will send us the cash for us to invest, pay-down debt or lend it to another entity," explains Keller. If making an internal loan, interest rates must be set at 'arms-length', reflecting the kind of rate achievable by the borrowing (or lending) entity in the open market and based on treasury's similarly arms-length assessment of the entity's credit risk.

"About the only good thing about the current low interest rate environment is that through inter-company lending we can repatriate most of the funds for next to nothing," comments Keller. However, she adds, "it is not necessarily the main goal of corporate treasury to repatriate all funds". The first view a treasurer has of in-country cash is usually an amount in a bank account. This is not necessarily the amount that can be repatriated, she warns. Given the complexities and anomalies likely to be faced, and given that treasury may not be aware of every in-country need for funding (eg. pension payments, ongoing legal processes, licence or tender applications and so on), it is possible that a multi-functional review may be required, consulting, for example, with the controlling, tax and legal teams. "There are always exceptions or reasons as to why it makes sense to leave some funds in-country." But with more than 60 subsidiaries and associated companies around the world, and over 80% of group sales derived outside of Germany, the movement of ALTANA's cash is never taken lightly. ■

Just the job

No longer challenged by your role? Been in your current position too long? Thinking of making a move to a new company or sector? Then read on to find out how treasury professionals can climb the career ladder while achieving job satisfaction and securing a decent level of remuneration.

As companies lift their crisis-induced hiring freezes, the job market is coming back to life. What is more, with corporates expanding into new territories, exciting career opportunities are opening up across the globe for corporate treasurers. Competition for the top jobs will be stiff, however, as – let's be honest – after a significant lull in treasury recruitment, there will be many professionals out there with proverbially itchy feet.

This is not a reflection of the loyalty of treasury staff; rather it speaks volumes about the nature of treasury positions. "In my experience treasury roles have a three to four year life cycle," says Mike Richards, Managing Director of MR Recruitment. "The first year is all about learning the role, the second is about applying this knowledge and the third year is focused on refining your work and your role. At the end of this third year, I find that tedium begins to sneak in."

Former corporate treasurer, now Chief Financial Officer at Skanska Romania, Maciej Müldner, agrees: "There is a moment when your role becomes repetitive and you feel the need to learn new skills and face a new challenge," he says. "For me this happened three years before I became CFO. It wasn't a conscious choice, it is just something that happens and you know once it does."

Often this turning point comes once all of the objectives that you have set yourself for your current role are achieved. "If you are satisfied you have ticked everything off – and have a proven track record of success within the treasury function – then you are on the right track to achieve your next move," Richards believes. "But if you haven't, this needs to be fixed before thinking about stepping up," he advises.

Ready to go

Once you feel ready to move on or up, one of the most important questions you need to ask is: where to? And this isn't just a geographical or company-specific question; it

should address all of your additional career aspirations. What salary level would you like to achieve? What position do you wish to attain longer term? How can you secure a new role that will provide job satisfaction?

Each of these aspirations will be personal of course, but there are certain standards to work towards. The tables below, for example, provide a good indicator of the average level of remuneration attached to the various treasury roles, as well as a guide to realistic salaries in 2014, compared with 2013. This data, from the 2014 MR Recruitment Survey, is collected globally and UK Sterling is simply the current choice of base currency for the survey. Conversions can be made using the following rates: GBP £ = 1, AUD $ = 1.851, CAD $ = 1.845, CHF = 1.459, EUR € = 1.198, SGD $ = 2.106 and USD $ = 1.661.

The same survey also looks at the factors which contribute to job satisfaction. The level of job satisfaction is positive overall for the industry with 68% of respondents happy in their role, although there is a bias towards the upper echelons of the treasury department.

"From my conversations with treasury professionals," says Richards, "the key reasons for job satisfaction are power and control. The higher a treasury professional moves within the department the more control they have over the environment and direction of the department." Richards believes that this is why at junior levels there is less job satisfaction. "You are at the learning stage of your career and if this is not managed correctly then frustration can begin to creep in."

This begs the question then, how can a treasury jobseeker improve their chances of landing their dream role?

Turn the tables

One of the most obvious and yet most effective tactics when answering this question is to think carefully about the skills and attributes that your potential new employer is actually looking for, rather than just focusing on what you have to offer. Often employers are not looking to take on someone who has the potential to step up into a role or to train someone internally – if the pressure is significant and there is an immediate skills gap, experience and the ability to hit the ground running are required. "Many clients I speak to want carbon copies of their previous treasurers and often want the exact same qualifications, backgrounds and level of industry experience," reveals Richards.

Post-crisis, employers are also seeking treasury professionals who can understand the business as a whole; keep a cool head when the heat is on; and apply knowledge from previous roles or experiences, thereby adding value to the company from an operational and strategic standpoint. "Of course, the core competencies of a finance person are expected," says Paul Pomroy Senior Vice President and UK Chief Financial Officer, North West Division Financial Controller for McDonalds. "But for those working in finance to be promoted they also need to have a strong personality and a variety of business experience."

Diversify to improve

Diversification is the order of the day therefore. And while this may mean taking a difficult step outside of your comfort zone, it can give you the opportunity to learn new skills and can enhance your suitability for more senior and/or executive positions in the future.

Indeed, Pomroy is a fervent believer in the benefits offered by undertaking a variety of different roles in the business in your career – and he has first-hand experience of the dividends this can pay. In 2003, Pomroy was offered a promotion in the finance department; he chose instead to take a sideways step into the business strategy department. This allowed him to gain new perspectives on the business and also to progress more effectively once he returned to the finance department. "The more senior you become the more you are expected to understand the broader business," he says "moving sideways is therefore as important as taking a forwards step sometimes. In my case I was giving up the immediate promotion for the longer-term view."

Similarly, Müldner sees his experience in different roles of the business as vital to his career progress. "Treasury is a great job, the problem is that it is extremely specialised and you need to expose yourself to other elements of the business if you want to move up." Without this diversification of roles Müldner believes that he "would have had substantial challenges taking up this new position [CFO]. It is something I would strongly advise to treasurers wishing to progress."

If the opportunity simply isn't there to move into another part of the business, undertaking some additional training may be another route to improving your career prospects.

Chart 1: Average compensation by position

Total					
Position	Responses	Average base salary	Average car allowance	Average bonus	Average total compensation
Treasury Assistant	6	£26,241	£0	£1,263	£27,504
Treasury Analyst/Dealer	55	£38,964	£273	£2,839	£42,076
Treasury Manager	131	£60,399	£1,403	£5,204	£67,006
Treasury Accountant	7	£47,221	£2,386	£3,679	£53,286
Treasury Consultant	34	£93,986	£1,520	£7,811	£103,318
Assistant Treasurer	71	£83,912	£3,401	£15,578	£102,891
Deputy Treasurer	39	£103,212	£4,084	£22,457	£129,752
International/Regional Treasurer	100	£102,129	£5,560	£19,228	£126,918
Group Treasurer	173	£130,946	£4,270	£38,692	£173,907

Source: MR Treasury Recruitment

Chart 2: 2014 salary shifts

Role	2013 Average Salary	2014 Average Salary
Treasury Analysts/Dealers	£41,416	£38,964
Treasury Managers	£64,487	£60,399
Treasury Consultants	£87,812	£93,986
Assistant Treasurers	£78,833	£83,912
Deputy Treasurers	£109,303	£103,212
International/Regional Treasurers	£107,643	£102,129
Group Treasurers	£136,477	£130,946

Source: MR Recruitment

Formal and on-the-job training

Treasury training and qualifications allow you to develop your existing skills and learn new ones, whilst also keeping up with the latest development in treasury and business. Interestingly, Müldner believes that in addition to building up one's technical skills, training has a more pivotal role to play in the development of a treasurer's soft skills too. And these soft skills such as, how to manage staff, he says, are a now a key requirement for any treasurer looking to progress up the career ladder. Having taken part in an internal management and leadership programme at Skanska to improve his own soft skills, Müldner explains that "although you do not get a certificate for taking part in these kinds of courses, they offer you valuable insights which can complement your technical expertise and help you get ahead."

For Pomroy, presentation and communication skills are also increasingly sought after in senior treasury staff. "You need to be able to bring what you are presenting to life and do more than say something is happening," he says. To develop these attributes, Pomroy recommends a mixture of classroom style learning, where you can grasp the fundamentals, and on-the-job experience which allows you to apply and hone these skills in practical situations.

Stand out from the crowd

Aside from improving your technical and soft skills, striving to add value to the business is another good way to get yourself noticed. It's a cliché to say that you should go above what is asked of you in your role, however, if you are looking to move up the career ladder, this is certainly something you will need to do. Being an excellent treasurer is one thing, but becoming a strategic business partner to the C-suite will help you stand out from the crowd when vacancies arise.

To achieve this Pomroy suggests that treasury professionals begin to "develop a close relationship with all sides of the business and understand why the business is successful." He believes this will "allow you to become an effective business partner and strategic advisor." It might seem like a difficult task to accomplish, and one that is not easy to kick-start, but when a new job is at stake, proactivity is a must. According to Müldner, "you have to just invite yourself into other areas of the company. Treasury can often seem detached from other lines of the business, so you have to bridge this gap."

Candidates that are shy or introverted must also make more of an effort to stand out from the crowd – personality is a key ingredient in the hiring process. "You need to show an inquisitive nature and explore why things are happening," says Pomroy. It is also important to show leadership and a willingness to help those junior to you develop. "Nurturing the talent pipeline below you is vital as these will be the people you will rely on when you move up," he adds.

Plan ahead

Finally, it is helpful to have a long-term strategy in place to decide what you want to achieve in your career – and how to get there. Moreover, having a plan should help to ensure that you progress up the career ladder in a logical way, allowing you to continually learn and gain new experiences. Müldner has successfully used a plan to shape his career: "My career path was a conscious decision," he says. "Maybe not the places I have worked at, but the roles I have selected, I knew what I was looking for."

Likewise, Pomroy also believes a plan is important when looking to define your career, however he believes that being ready to take advantage of opportunities as and when they occur is even more vital. "You need aspirations of where you want to go," he advises, "but more importantly you need to make yourself the most attractive candidate when the opportunity arises. While there is a natural career path, you never know when the right moment to take the next step will present itself."

Becoming CFO: tips from the professionals

Today, those working in the corporate treasury function have a wider remit within the organisation than ever before, and are increasingly involved in business development and executive decision-making. The good news is that this experience is invaluable, in particular for any treasurer wanting to become CFO. So, when there is the opportunity to get involved in a project that will give you exposure to new parts of the business, or allow you to get involved in high-level decision-making, be sure to put yourself forward.

As outlined above, it is advantageous to have a wider business background when looking to advance to senior positions. The majority of CFOs that recruitment expert Richards has had contact with have previously had experience in other areas of finance, not just treasury, he says.

While research indicates that the treasury skillset is proving increasingly desirable in CFO recruitment, the career path from treasury to the C-suite is being made even smoother by the creation of roles such as Deputy CFO. This kind of opening offers a great opportunity for an aspiring CFO to hone their skills and learn the ropes before stepping fully into the CFO's shoes. So don't feel the need to aim straight for the top – often a slightly slower or more circuitous route can be beneficial for long-term career success. ■

Treasury reporting

If there is one unifying theme running through nearly all the changes seen in the world of corporate treasury since the crisis it is that of transparency. For evidence of this trend, one needs to look no further than the growing reporting burden. Boards and senior corporate management, concerned about their companies' financial health, have begun to demand increasingly accurate and timely data on their companies' financial health. But that is not the only driver. Reporting requirements have also been at the centre of a number of the regulatory changes introduced in recent years. In this article, we return to the fundamentals of treasury reporting and look at the ways in which the practise has changed.

Nobody likes nasty surprises, least of all corporate treasurers. That is why, for the treasurer, having the proper data and intelligence is vital. Treasurers need to be able to view and report on a wide range of business intelligence data including exposures, hedging positions, cash forecasts and debts. The board demand it, external regulators demand it and, increasingly, treasurers themselves are demanding it.

Of course, without the help of a TMS, making sense of the data can be hard work – but any treasurer would agree that's more preferable to the shock of discovering a financial exposure after it is too late to doing anything about it. With an effective, cohesive reporting framework in place the treasury team should be able to quickly identify, quantify and manage the various financial risks that their companies face.

Opinions often differ on precisely what should be reported and in what way, but there are some basic elements to consider. In this article, we will return to these basics, outlining the fundamental areas that should be reported and how they should be reported.

How to report

Each company is unique in its structure, size and nature of operations. While all these factors influence the format and

scope of treasury reports and result in a variety of potential reporting styles, several features and guidelines are applicable to all treasury reports. Perhaps the most important aspect to remember is that any report produced, must be used – whether internally, or as part of an external management process. In order to be used, it needs to be usable. This means producing a report to the required timeline. The report should also be in a user-friendly format, so the relevant information is easily accessible.

The format of management reports

Information should be supplied in a clear, concise and reliable format. Certain features help to achieve this:

Reliability

- Senior management must be able to rely on the accuracy of the information given.

Brevity

- The level of detail needs to guarantee that all relevant information has been given, but details are only important to senior management if they are crucial to general decision-making. Whenever possible, the focus should be on key issues, presented in the form of rules and principles, rather than a list of details. A summary of the key points can help to focus on the relevant information.

Language

- It is vital to present key information using clear and understandable language. Whenever possible, the use of mathematics and calculations should be avoided and their meaning and effects should be expressed in plain words. Management commentary is an essential element of reporting and increases the accessibility and usability of management reports.

Illustration

- Showing is often more convincing than merely telling. Therefore reports can often benefit from graphs and illustrations to emphasise or explain important points.

Expert opinion on what items should be reported, and in what level of detail, will often vary to a certain extent. However, there are a number of fundamental areas for reporting that are common to most treasuries.

Cash flow forecast

Cash flow forecasting aims to increase the visibility of cash and liquidity positions of a firm. By predicting future cash surpluses or deficits, cash flow forecasts enable treasurers to gain a picture of investment options or borrowing requirements in advance. For a comprehensive picture a range of timescales – yearly, quarterly, monthly, weekly – should be covered. Longer-term forecasts are most useful for acquiring notice of potential financing requirements so that the extension or renewal of debt facilities can be coordinated in a timely manner. Short-term forecasts, on the other hand, tend to be used more for managing day-to-day liquidity.

The first step, logically, is to collect the required data – recurring outflows and inflows and accounts payable (AP) and accounts receivable (AR) – usually via a TMS, ERP, or bank feed. Once these figures have been collected the next job is to analyse and make sense of it. Analysis can take various forms. It might be simply moving averages – the identification of future cash flow positions through historical data – or exponential smoothing, which is a similar process but with a variety of weightings added to the data, and finally, distribution modelling, which uses previous data patterns to extrapolate future trends. Technology such as a TMS can do a lot to simplify this stage of the forecast through the conversion of data into easy-to-read graphical forms such as charts and graphs. However, for a majority of treasuries manual input through Excel spreadsheets continues to be the main tool for executing such tasks.

Foreign currency transaction exposure reports

Reports that combine currency cash flow forecasts with an analysis of hedging transactions should be compiled for each country where the company has significant exposure. This can help to identify the firm's net outstanding exposure over the relevant time period. For each period, the maximum expected loss from adverse currency movements should be estimated using a calculation of the level of net exposure, the duration for which the position is open and, lastly, the historical volatility of the currency pair in question.

Of course, when it comes to foreign exchange exposures it is the net gain or loss that really matters to the corporate treasurer. This is why more sophisticated treasury operations will often apply what is called a portfolio approach when calculating currency risk. The rationale of a portfolio approach is that while exchange rates can move in different directions on a daily basis, some currencies move in one direction and others in the opposite, thereby altering the cumulative level of risk. This is called 'portfolio effect.' In order to quantify and reveal the net exposure of a portfolio of foreign currency denominated assets and liabilities, an analysis of statistical correlations between changes in one rate and that of another using historical data needs to be performed. For the purpose of reporting, the results are usually set out in a correlation matrix displaying the correlation between all the exchange rates within the portfolio.

Debt summary

Management will naturally want to be regularly updated on the total level of debt the company has on the balance sheet. A debt summary will normally be prepared monthly. Details, by currency, are provided on the split between committed and uncommitted debt facilities. Debt maturity profiles of each facility are also compiled in order to highlight significant refinancing risks that might arise in the future. Corporates who do not use derivatives to hedge interest rate risks should also detail the split between fixed and floating rate debt to show the company's exposure to adverse changes in interest rates.

Covenant reports

Lenders will sometimes impose covenants when extending borrowing facilities to exert some control over the activities of the borrower. A covenant is essentially the setting of minimum financial performance standards that the borrower must achieve, for instance, the net worth of the company compared with its total debt. Since breaching any restrictions could result in the company being called into default, it is

imperative for the corporate treasurer to frequently report on covenants internally and externally.

Interest rate gapping

An 'interest rate gap' report is a measurement of a company's exposure to interest rate risks that is often used by the treasurer to help formulate hedging positions. Interest rate gap reports present an analysis of the company's interest bearing assets and liabilities apportioned into future time bands when rates are reset.

The gap report table should be accompanied by a commentary outlining different interest rate scenarios and the various hedging strategies that could mitigate the impact of such exposures. A comparison of the company's average weighted interest rate against current market rates or a measure of the performance of actual debt cost against current market rates or actual debt cost against a risk-neutral benchmark might also be included

Derivative reporting

Derivative products serve as useful tools for treasurers to manage their financial exposures, but can also carry significant risk if used inappropriately. It is very important, therefore, that the treasury monitors and manages not only the underlying exposure that they are hedging but also the instruments – futures, swaps, options and forwards – that they are hedging with. Regular reports should be compiled detailing all valuations, position balances and market exposures by product type, and any unhedged exposures also need to be noted. The importance of derivatives to the company should determine the frequency of this evaluation. For example, a large petrochemical multinational using a vast portfolio of different derivative products would clearly need to produce derivatives reports more frequently than a corporate that hedges less regularly. Naturally, regulation is also having a huge influence on external derivative reporting - see the article on page 16 for more information.

Counterparty credit report

As the financial crisis reminded everybody, counterparty credit exposures can sometimes put the financial health of a company – its survival even – in serious jeopardy. Managing this risk means applying, and regularly monitoring, limits for each counterparty. All deposits and any derivatives contracts that are in place should be included in the scope of these reports and any change to a counterparty's credit rating should precipitate a re-evaluation of the exposure limit attributed to that particular counterparty. There are two commonly used measurements of counterparty risk, value-at-risk (VaR) and earnings-at-risk.

VaR first emerged as a distinct financial concept in the years following the 'Black Monday' stock market crash in 1987. In basic terms, VaR is used by some companies to measure the worst-case scenario for their assets or liabilities. Market trends and fluctuations over certain time periods are analysed and, using the data accumulated, estimates of the largest loss that could be incurred under normal market conditions – or a 95% probability – can be determined. The longer the specified period, the greater the value (or earnings) at risk will be. Since the price movements of assets and liabilities are netted, the VaR associated with a given portfolio is likely to be less than the sum of its individual constituents.

VaR is a useful concept for financial reporting since it allows the treasurer to combine a range of financial risks faced by a company into one single measurement. There are some notable drawbacks which the treasurer should keep in mind, however. Firstly, VaR only accounts for financial risks. Since operational risks such as those in the supply chain are not included in the calculation, treasurers need to be aware that the metric does not provide a complete overview of the risks that a company faces at any given moment. Nevertheless, VaR is a useful tool for treasurers, particularly when it comes to establishing hedging strategies. Once the VaR associated with each hedging strategy has been determined, the treasurer can use the data to ensure the level of risk associated with the favoured strategy is acceptable.

An alternative to measuring VaR is to measure the company's Earnings-at-Risk. This technique will produce similar results to VaR, but in the form of corporate earnings, rather than shareholder value. This is more valuable than VaR for measuring the impact of counterparty risk arising from customers. For example, a company with a small number of large value customers will find that a higher proportion of earnings are at risk should one customer either default on their obligations or fail to pay on time.

In addition, as this measure focuses on earnings, it is potentially of more immediate use than VaR for the treasurer. This is because it can assess the inflows at risk at any particular time.

The key to effective reporting

Even now, nearly six years after the collapse of Lehman Brothers and the ensuing market chaos, the demand for enhanced reporting shows little sign of abating. In fact, given the large volume of new regulation affecting what companies need to report externally – FATCA and EMIR, for example – one could argue that the necessity for improvement is as strong as ever.

One thing that would improve the quality of most treasury reporting would be some careful consideration of what actually needs to be reported, rather than simply relying on previous formats. This will depend upon:

- What the treasury needs to show management.
- What the treasury needs to provide to other departments.
- What information the treasury itself requires.
- What analyses the treasury would like to do that have not been possible in the past.

Conducting a thorough analysis of what is required from a report and subsequently conveying those requirements to others can help reduce the reporting problems that often plague treasurers. It can also encourage a more open and effective attitude towards reporting throughout the company. ■

CORPORATE FINANCE

Tapping the debt capital markets

With debt issuance in some regions reaching record levels in 2014, the debt capital markets promise to be an interesting space for some time to come. This article looks at the key trends and explores what corporates need to know to successfully tap the market.

RISK MANAGEMENT

FX relationships

Multi-bank? Single-bank? Algorithmic? We look at the different kinds of FX portals available to corporates and ask whether the greater choice that FX 'supermarkets' offer provides the same utility as a direct relationship with an FX bank.

BIGGER PICTURE

Introduction of the euro

The launch of the euro more than 15 years ago heralded massive changes for treasurers both within the eurozone and beyond. In this article we look at how the euro has impacted treasuries and what the future holds for the single currency.

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

David Aserkoff, Equity Strategist, J.P. Morgan; **Andrew Bailey**, Treasury Manager, National Grid; **Ian Barclay**, Managing Director, Stroz Friedberg, Hong Kong; **Edward R. Barrie**, Assistant Treasurer, Itron Inc.; **Jennifer Boussuge**, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch; **Mike Cassidy**, Treasury Director EMEA, Wyndham Worldwide's Corporation; **Celal Celikcan**, Country Treasurer, Citibank Turkey; **Andrew Chan**, Analyst, Standard & Poors; **Peter Charles**, Director, Peter Charles Limited; **Paul Cuddihy**, Head of Treasury and Commodity Management Consulting, KPMG; **Federico Falciai**, Head of Cash Management Strategy, Enel; **Neil Fleming**, Director of Treasury Solutions, Capita Asset Management Services; **Mike Foye**, Treasury Director, Mondelez International; **Byron R. Jackson**, VP and Treasurer, Itron Inc.; **Corina Keller**, Head of Cash Management, ALTANA; **Margaret McDonnell**, Treasury Operations Manager, Pfizer; **Tom Milligan**, Director of Insurance, Tax and Treasury, Aer Lingus; **Chris Morgan**, Head of Tax Policy, KPMG; **Michael Mueller**, Head of Global Cash Management, Barclays; **Maciej Müldner**, Chief Financial Officer, Skanska Romania; **Paul Pomroy**, Senior Vice President and UK Chief Financial Officer, North West Division Financial Controller, McDonalds; **Anita Prasad**, Group Treasury Manager, Microsoft; **Beatrice G. Ransquin**, EMEA Treasurer, Itron Inc.; **Mike Richards**, Managing Director, MR Recruitment; **Amit Singh**, VP and Assistant Treasurer, Pfizer; **Paul Taylor**, Managing Director, Regional Sales Head, GTS EMEA, Bank of America Merrill Lynch; **Yann Umbricht**, Partner and Treasury UK Leader, PwC; **Karen Van den Driessche**, Treasury Director EMEA, Avnet; **Christoph Woermann**, Managing Director, Deutsche Bank

THE LEADING INTERNATIONAL TREASURY EVENT

EuroFinance's 23rd conference on

International Cash & Treasury Management

15-17 October 2014 | Hungexpo, Budapest

Embrace change or face the consequences
Dean van Leeuwen, Co-Founder, TomorrowToday Global

How to get to grips with disruptive innovation – simply
Ken Segall, Former Advertising Creative Director, Apple

The trends that will influence your business, and your life
James Woudhuysen, Professor of Forecasting & Innovation, De Montfort University

What are the risks you need to focus on in 2015?
Daniel Franklin, Executive Editor, The Economist

Discover how to face the challenge of disruption and turn obstacles into innovation at the leading global treasury event.

What new treasury models and techniques have emerged in response to continued turmoil? What are the best practice treasury teams doing? How can you maintain excellence in your core cash management competencies?

PLUS!

- Case studies from treasurers who have used disruptors to support and drive change
- The big picture view from economists, futurologists and leading journalists
- New features including Speaker's Corner, Treasury Talks and Open Spaces to facilitate interaction and delve deeper into key issues
- Exhibition of 90+ leading providers in the cash and treasury space
- Unrivalled senior-level audience of 1,800+ finance professionals

www.eurofinance.com/budapest

20% DISCOUNT
FOR TREASURY TODAY READERS
USE BOOKING CODE: **TTDAY**

Official lead sponsor

Official sponsors

Technology sponsors

Global sponsor

The Economist Group

BNP PARIBAS | The bank for a changing world

Your Trusted Partner for Global Treasury Services

We strive for your success

GREENWICH ASSOCIATES Greenwich Share Leader 2014

1st European Large Corporate Banking Market Penetration

•

1st European Large Corporate Cash Management Market Penetration

tmi AWARDS 2013 FOR INNOVATION & EXCELLENCE

Best Bank for Cash Management in Europe

With a network extending across 57 countries, BNP Paribas Cash Management offers local, regional and global solutions to meet your domestic and international treasury needs. Let's work together to build the world of tomorrow.