



Rise of the redback

As the internationalisation of the renminbi continues to gather pace, treasurers can no longer afford to turn a blind eye. Companies around the world are now asking what the rise of the redback means for their business and how they can make the most of the opportunities that it presents.



The Corporate View

Kate Smedley

Group Treasurer
2 Sisters Food Group



Women in Treasury

Anita Prasad

General Manager, Treasury
Capital Management
Microsoft

Cash Management

Alternative investments

Treasury Practice

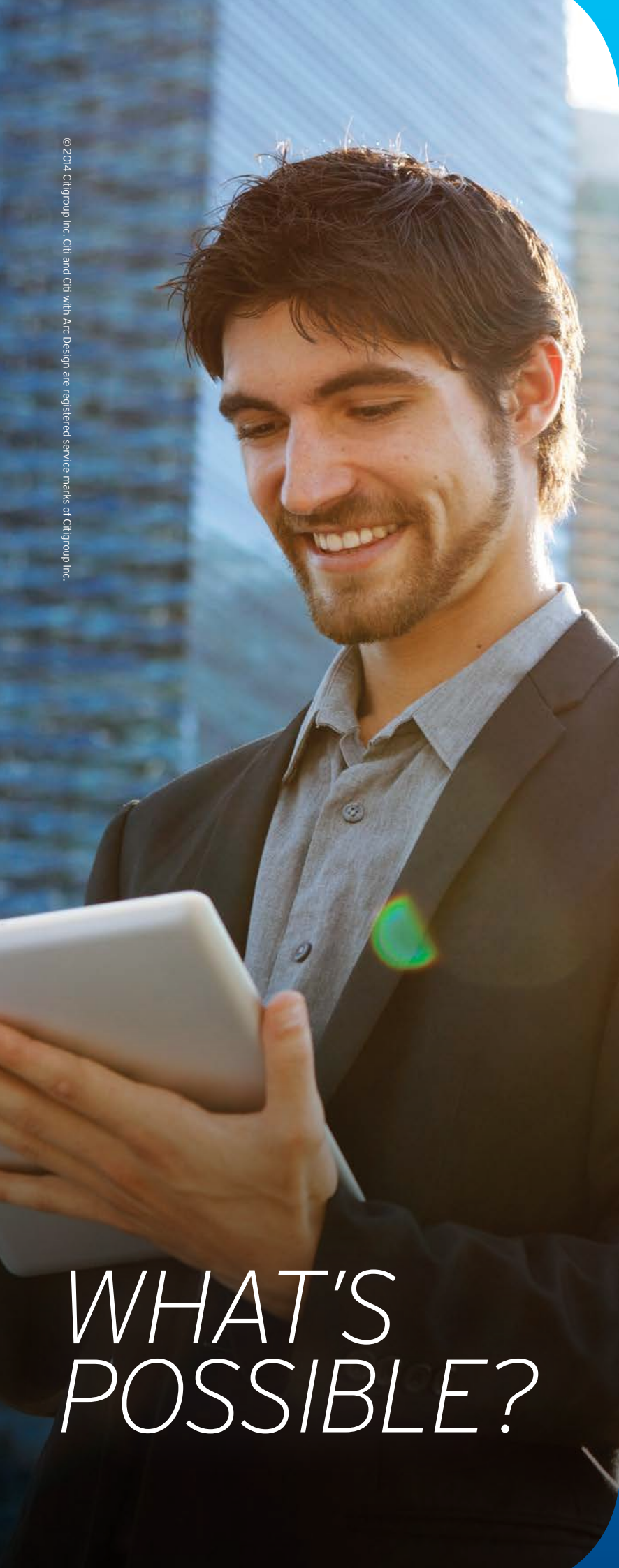
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Technology

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Reflections and projections

It's hard to believe that the end of the year is almost upon us. For those in the corporate treasury profession, 2014 has been another rollercoaster ride. There have been highs; there have been lows; and there has been an overwhelming amount of regulation. Indeed, the beginning of the year was dominated by regulatory change, not least EMIR and SEPA.

Getting ready for the start of trade reporting under EMIR was a major agenda item (some would say 'headache') for many corporate treasurers. Rather unsurprisingly, a significant proportion of corporate organisations missed the 12th February 2014 deadline for reporting and teething problems also occurred at certain trade repositories (TRs). In short, it was a half-hearted launch, with obvious areas of non-compliance.

But for officials at the European Securities and Markets Authority (ESMA), sticking to their deadline and keeping their pride intact seemed to be a better option than postponing it until 100% compliance could be achieved. Since launch, more and more technology solutions have come to market to help all parties in derivative trades to meet the reporting requirements efficiently. Banks have also stepped in to help out their corporate clients with delegated reporting services.

What isn't yet clear is quite how and when the sanctions for trade reporting errors or non-compliance will be applied. Any TRs breaking the rules will be sanctioned by ESMA, whereas participants in a trade are subject to fines from national regulators (which could apparently reach up to €5.4m in Sweden). As of the beginning of December 2014, TRs will need to report any trades that they reject due to missing information to ESMA. This could mark the start of the authorities looking to pinpoint – and punish – non-compliance.

While there was no backtracking on EMIR, it was an entirely different scenario for SEPA. With the migration deadline set for 1st February 2014 – and corporates having been building up to this date for years – the European Commission announced a quite unexpected change of heart. It allowed a so-called 'grace period' giving businesses an additional six months to prepare their new systems before legacy payments systems were switched off.

Welcomed by many smaller companies, this rather last minute reprieve frustrated many larger corporates who had dedicated a large amount of time to getting ready for the deadline. Often, this dedication was to the detriment of other treasury projects, and to personal lives too – with holidays (and even weddings!) put on hold – so the frustration was quite understandable. Nevertheless, those that were ready by the February deadline doubtless reaped the benefits of early SEPA compliance.

Although these two significant deadlines are now behind us, both SEPA and EMIR will continue to require attention over the year ahead. Projects that were rushed through can no doubt be optimised. Those outside of the Eurozone must work towards the 31st October 2016 SEPA deadline. And mandatory central clearing of OTC derivatives is slated to begin in H1 2015 under EMIR (although the vast majority of corporates will be exempt from this, it is still worth noting what will be on your banks' to-do lists).

Other regulations to keep a close eye on over the next 12 months include bank resolution measures, Basel III and the Financial Transactions Tax. Of course, regulation is just one piece of the overall treasury landscape, but it is likely that 2015 will be another year that is overshadowed by change.



RMB internationalisation: a new world order

Despite China's march to become a global economic powerhouse, its currency has struggled to achieve widespread international adoption. However, renminbi internationalisation is now slowly gaining momentum – the question for treasurers is what this means for their businesses. Here we examine the reback's journey so far, and the challenges that remain.



Anita Prasad
General Manager, Treasury
Capital Management, Microsoft

After starting her career in academia, Anita Prasad, General Manager, Treasury Capital Management at Microsoft has gone on to become a leader in treasury at one of the largest and most innovative technology companies in the world. In this interview, Anita talks about the uniqueness of the treasury function, the treasurer's role as a risk manager, and the importance of having a good work/life balance.



Separate Accounts: one size doesn't always fit all

BlackRock's Head of Product Strategy for its EMEA Cash Management Group explains why Separate Accounts can provide investors with enhanced flexibility and the opportunity to obtain greater yield than money market funds.

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Are you ready for the future?

As the treasury function comes under increasingly stringent cost constraints, many treasurers have an eye on the future as they seek ever more innovative ways of doing their jobs more efficiently and technologies to free them up to do the tasks that add the most value. In this feature, we look at what the future holds for the function, from mobile treasury tools to the rise of the CTO.



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THE BIGGER PICTURE 21

Retiring the state: pension reform in Chile

The 1980 shake up of Chile's pension system by the country's then military government led to the establishment of a new, fully private system of insurance that quickly became an object of envy for other countries. But how successful was the new system in practice and why, today, are the reforms revered as a landmark, in both welfare policy history and finance?



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Alternative investments join the mainstream

In cases where liquidity is not an issue, alternative investments are becoming an increasingly popular component of modern investment portfolios. Here we examine why alternatives are now becoming part of the mainstream investment landscape and how new regulatory developments could go on to shape the sector's future.



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Kate Smedley
Group Treasurer



Kate Smedley's journey in treasury has seen her work for a broadcaster, an airports operator, a construction group, and most recently, a food manufacturer. She talks to Treasury Today about the benefits of working in a flexible way and how some corporates are adapting the way they employ and develop treasury staff.

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Emptying the drawer: farewell to security tokens?

Corporate treasurers often find themselves with a number of different identification and authentication devices and PINs for each bank that offers them electronic and online banking. As the pile of security tokens in the treasurer's desk drawer mounts, we ask whether it is time to find another means of accessing corporate online banking.

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

Why it's time to get to know your CPO

Back in 2007, the Aberdeen Group published the results of a survey of finance executives that would not have made very good reading for anybody working in corporate procurement. Very few CFOs, the survey found, felt that the procurement department delivered much tangible value to the organisation. The extent to which sentiment has changed in the past seven years is remarkable. Chief Procurement Officers (CPOs), much like treasurers, are beginning to find their voice. Where in the past, the function was thought of externally as little more than a back office department of negotiators and contract specialists, the department is beginning now to attract recognition for what it can contribute to the business strategically.

But the fact of the matter is that most corporate procurement departments are only scratching the surface of what they can deliver. Bigger improvements can be secured down the line, but if that is to happen, experts say that the department will need to develop closer working relationships with other areas of the company, including treasury.

Collaboration of that nature is absolutely essential when it comes to developing new policies such as a Supplier Relationship Management (SRM) programme. "Quite often we go into a room and we ask three different people from different areas of the organisation – finance, treasury, and procurement, for example – what their objectives are and we will get three different answers," says Ian Dagg, Director of Procurement Consulting, at Xoomworks. But Dagg says this is beginning to change and, in the coming years, the more astute companies will be expecting treasury and procurement to develop a much closer understanding. Here he provides three reasons why he thinks this is the case:

1. Managing risk in uncertain times

The financial crisis should have hammered home to all businesses the importance of managing supplier risk, given that so many firms found out the hard way that their due diligence of suppliers to be lacking when the crisis was at its height.

2. The rise of supplier finance

When it comes to the issue of supplier finance, it goes without saying that treasurers should feel comfortable reaching out to the company CPO, who as negotiators of contracts are ideally placed to gauge who it might be appropriate to bring into a scheme.

3. The need to improve working capital

According to REL, a division of the Hackett Group, European companies have somewhere in the region of €762 billion in excess working capital. Treasurers under pressure to improve working capital metrics should look to join forces with their colleagues in procurement and establish some common goals.

Corporates prepare for harsh Russian winter

When the West first imposed economic sanctions on Russia in the immediate aftermath of the Crimea crisis, there was heated debate in political circles as to whether the actions taken were strong enough. This time around, nobody should be in any doubt. The latest sanctions will almost certainly hit the Russian economy hard. They target a variety of Russian companies in the banking, energy and arms industries – including some of the country's biggest names – adding further limits to their ability to access European and US capital markets for their financing needs.

The timing could not have been more inopportune for Russian corporates. By the end of 2015, about \$96 billion of Russian corporate debt will reach maturity according to recent research by Moody's, 60% of which is denominated in foreign currency. And with the new sanctions now coming into effect, the job of refinancing that debt just got that little bit harder.

One would expect the sanctions to have a profound impact on those that have been directly targeted, driving up their funding costs and, in the long term, potentially damaging credit ratings. However, two such companies, Rosneft and Gazprom, have already stated publicly that they believe the impact on business will be only minimal.

Are such statements merely bravado? One person with a good idea about how anxious Russian businesses are at the moment is Brian Zimble, Managing Partner at law firm Morgan Lewis's Moscow office. The financial executives of the companies that have been targeted are certainly facing some degree of disruptions to their financing plans, since many companies had earlier planned to tap US or European sources of financing. Some executives are very alarmed by these latest developments, explains Zimble, while others are taking them in their stride. After all, the sanctions do much more than just restrict the lending options of the targeted businesses internationally. By targeting organisations within the domestic banking system, they are also tightening the supply of credit at home. ■

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This much I know

Anita Prasad

General Manager, Treasury Capital Management



Do you feel that women respond to the needs of treasury in the same way that men do – or do they bring something different?

Each person, man or woman, is unique and building a high-performance team relies on these individual experiences and attributes. I have been in the corporate world now for over 20 years, and the environments where cross-functional projects have succeeded have been the situations where we have had diversity of experience and an inclusive culture. A great team is like a jigsaw puzzle – each person needs to be unique and yet fit in well.

Is balancing professional and family life becoming easier?

I believe that work and life do, and should, bleed into each other. Work is an important part of our lives and defines who we are. Technology, in my experience, is the great enabler; with your smartphones, tablets, laptops all in sync with our data in the cloud you now have the flexibility to work from wherever you might be – we are not chained to our desks anymore. Having a passion for what you do at work, makes this much easier because you are no longer balancing but enjoying two intertwined aspects of your life.



“I believe that work and life do, and should, bleed into each other. Work is an important part of our lives and defines who we are.”

How much opportunity is there for career progression within your role?

Microsoft is consistently in the top few of the ‘best companies to work for’ surveys. The company truly believes its employees are its greatest asset, and invests a lot in development, training, and the retention of the talent we bring into the company.

In terms of future growth there are tremendous opportunities within treasury and within Microsoft as a whole, because we truly believe in moving people from finance into roles in other parts of the business, so they can take the expertise and knowledge they have developed in the treasury and apply it elsewhere. I am fortunate to work for a leader, George Zinn, CVP and treasurer, who lives this company’s values each day and encourages people on his team to take on challenging responsibilities and grow their impact.

Will we one day have true equality in the workplace?

Acknowledging gender gaps is important but we must be mindful because if we look through this filter at every situation, we are likely to end up like the proverbial hammer that only sees nails! Sure, there is still a shortage of women in senior ranks of the corporate world, but we are moving in the right direction. When I look around, I see several women in senior leadership positions, within treasury and finance – such as Amy Hood, our EVP and CFO – but also across other corporations. I know that I am still inspired when I see these strong and successful women in senior roles.

I think the role of mentors is critical, so I challenge everyone of us to give back and be that role model and mentor to at least one young woman early in her career.

How can treasurers make their voice heard?

We have a unique capability in treasury and finance to make sense of a lot of issues and risks around the globe. Being proactive, understanding and predicting these risks, and connecting the dots are crucial responsibilities, but we also need to communicate this to key stakeholders in a language they can understand. Converting complexity to simple concepts is key to becoming a trusted partner.

It is perhaps surprising that Anita Prasad began her career in academia, not treasury. “I started out being very interested in economics and trade theory,” she says. “I did a master’s degree in economics, then got into the foreign currency aspect of trade theory and ended up doing a PhD in finance.” For five years she was professor of finance and international business at the University of Wisconsin.

It was only when she relocated to the Bay Area that she considered a switch to the corporate world. “I wanted to focus more on the applied side of the research I was working on. Given my background in currency risk management, the treasury function was the most appropriate place to land,” says Anita.

What was academia’s loss has certainly been Microsoft’s treasury department’s gain, as Anita has brought her analytical skills to bear on achieving business goals that she had previously researched. “I have been fortunate enough to work across various finance, tax, treasury and M&A functions and the experience allows me to take a systems perspective when evaluating key business issues. An environment where the leadership team allows you the freedom to take on complex and challenging issues makes it fun.”

“Treasurers are the company’s risk managers, but this is no longer just financial market risk. There is global uncertainty all around us, and treasurers need to think proactively and broadly about the impact this will have on the business.”

Though she has successfully transitioned from college circles to treasury, Anita feels there is no clear path for young people to move into treasury careers.

“When you look at the finance curriculums of top universities, there is no education that’s focused purely on the treasury function. This is perhaps something we as treasury professionals should try and influence,” she explains. “The treasury is a unique field within finance, and having a programme that focuses on the treasury would be worthwhile.”

Thinking proactively

As it has for most corporates, keeping up with new regulations has put pressure on Microsoft’s treasury function. However, she says there is not one regulation in particular that has put a strain on her team. “So much has been going on over the past several years and the regulatory landscape is changing almost every single day. We are focused on monitoring these regulatory developments across the major countries that we operate in and proactively think about solutions.” Anita adds that she actively encourages her team to leverage their banking partners and exploit treasury peer networks to improve their awareness and benchmark solutions around the world.

She says the biggest challenge facing treasurers at the moment is looking beyond the traditional boundaries of the role. “Treasurers are the company’s risk managers, but this is no longer just financial market risk. There is global uncertainty all around us, and treasurers need to think proactively and broadly about the impact this will have on the business.”

She adds that being a woman has not posed particular challenges in her line of work. “I’ve been very fortunate to work in a meritocracy where if I deliver impactful business results, I never feel it’s harder to be a woman,” explains Anita. “Though the percentage of women in senior engineering and technology jobs is still lower than men, there are a lot of good female role models in the finance profession.” ■



Anita Prasad is responsible for corporate finance, capital structure, share buybacks and dividend policy, structured investments, global cash and liquidity, treasury operations, and credit services for MS online businesses. Previously Anita was Vice President of Treasury and Tax at LSI Logic Corporation. She was an Assistant Professor at the University of Wisconsin, Milwaukee and holds a Bachelors and Masters in Economics, an MBA in MIS, and a PhD in Finance and International Business.

ON THE WEB

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

Treasury information

“ For the treasury function, information is key. With the constant evolution of technology and the rise of big data, have there been any notable changes in the way that treasury departments obtain their information? Also, how can treasurers manage enhanced data and turn it into tangible business information? ”

Martin Bellin, Managing Director, BELLIN:



If we turn the clock back ten years or so, traditional treasury functions typically operated with a standard approach: centralising everything at their headquarters and forcing subsidiaries to provide Excel-based reports. But it was gradually becoming obvious to more and more corporates that the centralised approach was no longer serving companies as well as they would have hoped. A new way of thinking – a new concept – was required.

At BELLIN, we call this concept ‘Load Balanced Treasury’. It is built on the idea that a central treasury application is provided to all group companies to support their local day-to-day work in the best possible way.

The benefit is that both account statements and payments can be automatically uploaded into the system at the local level, allowing for all subsidiaries to have access to data in real-time. The results are tremendous. The platform contains complete, real-time data, important in running all global treasury operations. Furthermore, hedging and funding and an optimised distribution of cash have become much easier.

The implementation of the ‘Load Balanced Treasury’ concept does require certain technology, however. Only full web-based systems can serve this purpose well. It does not matter whether they are cloud-based or installed at any of the company’s data centres, but it matters a great deal that the chosen system can be provided on any device. It must be available on desktop computers, laptops and all kinds of handheld devices or smartphones without installation. Only then can the group companies and distributed users in different divisions all over the world start using the application simultaneously. The result is the availability of real-time information to the central treasury at any time.

SWIFT’s initiative to modify Alliance Lite2 for use in hosted- or cloud-based business applications has been a significant boost to this new model. Circa 30 different companies have already signed up for BELLIN’s SWIFT service – which embraces Lite2 – in order to reduce the amount of work in data collection and to optimise the concept of ‘Load Balanced Treasury’. This clearly illustrates how important changes in technology are to the treasury’s ability to collect up-to-date, accurate data.

And as technology continues to develop, the TMS landscape will be very different in five years’ time compared with today’s standard set-up. The secret is to embrace change, not fight it.

Markus Hofstaetter, Senior Manager, Financial Management, Head of Treasury Services, KPMG:



Today, treasury performance is not only judged on managing complex cash and liquidity processes, financing, and financial risks, successfully and in an efficient manner. Treasurers are also judged on the accuracy, speed, consequence and accessibility of their reporting.

Due to the trend towards enhanced centralisation and automation in treasury over the last few years, treasury-related know-how, significant financial processes (and thus data) have been pooled in centralised treasury functions with the help of professional treasury management systems (TMS). By doing so, financial control, transparency and efficiency have increased significantly, relieving operational business units from many treasury-related activities. At the same time, this has also enlarged the demand to act as an internal business partner and information provider – not just a data provider.

Access to such information places treasurers in the privileged position of having both control of the information with the unique bigger picture view, and the empowerment to act on it internally and externally. A group-wide view over cash positions, liquidity forecasts, debt service schedules, payments, financial risk exposures, hedging positions, risk simulations and treasury accounting are just a few of the key topics a treasurer should centrally manage and report on.

A considerable amount of the required information can be derived from a modern TMS – and this should therefore qualify as the ultimate reporting and analysis tool, even for smaller treasury units using SaaS-versions. However, reporting is still a critical element for all systems, from entry to high-end solutions, as system standard reports rarely meet the treasurer’s requirements beyond transactional information and thus, have to be tailored to a treasurer’s needs. This causes either high costs for system

design and implementation, or ends up in a high manual workload for multi-tabbed Excel-spreadsheets and slide decks. Hence, more and more external solutions are being selected to transform big data volumes into valuable information and reports. The range of applied solutions varies from huge data warehouse solutions (SAP etc.) to lean, flexible and easy-to-use reporting tools (eg Qlikview) that are also available on mobile devices.

Nowadays, modern treasury IT strategies do not merely strive for straight through processing or homogeneous system landscapes, but also consider added-value through sophisticated and flexible reporting facilities (and therefore accept a certain amount of heterogeneity). Professional and automated interface management, high bandwidth for big data traffic volumes, cheap hardware, virtual server landscapes and sophisticated business continuity management approaches for critical processes allow heterogeneous system combinations. However, these new capabilities have not been integrated systematically in all treasuries and finance functions.

Leading treasurers are increasingly expected to be as much information dealers as idea lobbyists and strategic finance consultants to their CFOs and CEOs. They therefore need to advise the C-suite based on reliable information, which requires sophisticated reporting, presented in a comprehensive manner and available immediately upon request. This is very much the road we see modern treasury systems going down.

Elaine N. Filus, CTP, Principal, Treasury Strategies:



The statement that information is key for the treasury function is certainly correct. Currently, our clients are placing a high priority on having 100% global cash visibility on a daily basis. This information is becoming increasingly important as corporations place a high priority on counterparty risk management and controls over cash assets. With this information a treasurer has full knowledge of worldwide exposures. From there, they are in a strong position to build risk and liquidity management strategies accordingly.

Tools such as ERP's and TMS's are being used more and more to automatically consolidate bank data in one place and massage it into something tangible that can be used by the business. Traditionally, a corporate would have to gather information from each bank individually and manually consolidate that information across banks, so this is a great improvement. Also, SWIFT for Corporates has had a big impact in recent times. The service that SWIFT provides has made it much easier for corporates to gather bank information from multiple banks globally, significantly improving the availability of information.

Despite the advent of this technology there are still many corporates that rely on traditional bank online platforms and Excel to collate and manage information. When it comes to managing the information, I have seen some fantastic spreadsheets that can do everything the corporate requires. However, there remains a large degree of inefficiency and risk in managing information this way; especially as the data becomes greater and the spreadsheets more complex. This approach can be very time consuming and there is significant risk of data entry errors, corrupted formulas, and broken links in the worksheet.

The rise of Software-as-a-Service (SaaS) is breaking down the barriers to entry for smaller corporates, by minimising the cost of an automated solution, and more companies are beginning to reap the rewards of using a TMS.

A challenge that comes with increasingly better technology, although a welcome one, is knowing how to fully leverage the new information that is available to best add value to the corporation. In the last few years, both ERP providers and off-the-shelf TMS providers have been working on developing more robust functionality that automatically pulls in simple bank data, and then transforms it into business intelligence. This can benefit the treasurer in areas such as risk management, bank relationship management, FX exposure management and others.

The presentation of this business intelligence to senior management is also important. The technology providers have, therefore, been working on developing dashboards that summarise key performance indicators, such as cash balances, total liquidity and FX exposures, down to the fundamental level and present this on one page, providing tangible business information that is clear and concise.

Even with these technological advancements, and the ability to manage vast amounts of data and present it concisely, the treasurer still has a key role in providing colour commentary and wisdom. We are seeing from conversations with our clients that this is something treasury is spending increasingly more time doing – not only reporting on the present for senior management, but also forecasting the future, and devising strategies to add value. There is currently no technology that can achieve this better than a skilled corporate treasurer. ■

The next question:

"I've recently heard talk about e-invoicing being integrated into supply chain finance platforms. Is this really happening? Also, what other developments in the e-invoicing space should treasurers be aware of?"

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

Now is the time for VNAV



David Blake

Director, International Fixed Income, Northern Trust Asset Management



Northern Trust | Asset Management

As negative yields beset European markets, Northern Trust Asset Management talks to Treasury Today about money fund management and the changes it has made to ensure uninterrupted delivery of security and liquidity in its products.

Most investors in the money market fund (MMF) space will be aware that changes are afoot in this industry. With the SEC having laid out its plans in July for the US, and its European counterparts currently debating along similar lines (but yet to declare its hand), these changes are likely to shake things up quite a bit.

Many investors – certainly those anchored in the world of corporate treasury – will also be aware that regulatory reform could impact them indirectly, as the likes of Basel III and CRD IV reach the financial services sector, casting a shadow over the desirability for banks of very short maturities and reducing the supply of eligible assets in the process. It will be a rare investor too who has not witnessed interest rates fall away to almost zero and, in Europe, even stray into negative territory.

These observations serve as the backdrop to a significant change by one global asset manager to the way it approaches its euro MMF. When in August 2014, Northern Trust Asset Management launched its variable net asset value (VNAV) Euro Liquidity Fund it was taking a somewhat vanguard position (most funds remain focused on the constant net asset value, or CNAV, model). But the significance of the change for the market will not translate into client upheaval.

The impact of moving to a VNAV fund should be minimal for our clients,” comments David Blake, Director, International Fixed Income, Asset Management for Northern Trust. “We have a core belief of how a MMF should be run; our investment philosophy in terms of liquidity policy, eligible investments, portfolio diversification all remain the same,” he adds. “To us a VNAV fund is identical to a CNAV fund in terms of its underlying investments, so effectively it is just a change of accounting treatment, from amortised cost accounting to variable price accounting.”

Northern Trust did a lot of “road-testing” over a two-year period before launching its VNAV fund. The reaction, Blake reports, was mostly favourable. Acceptance in certain cases was “a journey”, with some clients hanging on to the idea of ‘CNAV with a positive return’. But the reality of the situation is that interest rates are negative in Europe – and likely to remain in this territory for some time – and there is a fundamental incompatibility between a CNAV structure and a negative rate of return. For Blake, change was inevitable.

Although ‘breaking the buck’, where the price drops below the fixed rate of ‘1’, is a cardinal sin in the money market world, he is at pains to mark the distinction between asset impairment or default (as happened to the now infamous Reserve Fund in the US), and simply

being forced to endure a negative central bank rate. A negative rate is not a failure, “just the price of doing business in euros at the moment”.

This distinction aside, in a negative rate environment, holding cash is expensive. However cash is held by some clients because they need to, notes Blake. And whether it’s for operational needs or to satisfy investment or asset allocation decisions, money funds remain an effective vehicle for that cash. Whilst positive returns cannot be produced out of nothing (or less than nothing), Northern Trust’s investment philosophy steers all of its funds towards the preservation of capital and same-day liquidity first and foremost; only then will it seek to maximise return. “We position ourselves at the more conservative end of the spectrum,” he comments. Whereas some managers may dabble with increased risk to try to extract yield, where it is simply not possible to go out on the curve (and you would have to go some way out these days for notably better yield) he advocates “facing up to reality” by changing accounting structures; a change for Northern Trust made concrete by its VNAV Euro Liquidity Fund.

Challenges had to be overcome on the journey into VNAV. “Our investment guidelines and holdings are the same and our cut-off times and payment instruction deadlines are the same too. But there has been a lot of work behind the scenes to make that happen at a transfer agency and fund accounting level,” Blake explains. He adds that adoption of VNAV was never a foregone conclusion as the most appropriate alternative accounting mechanism to deal with negative interest rates. The team considered the reverse distribution mechanism (also known as ‘CNAV with unit cancellation’). In this model, instead of varying the price of the fund as in VNAV, the price is maintained at a steady ‘1’ but shares are necessarily redeemed to cover any negative accruals. “Economically it is identical to VNAV but the transparency of variable pricing seems greater to us than not knowing how many units are held in a fund,” he explains. But perhaps even more persuasively, with the likelihood that European regulators will follow the SEC down the VNAV line, he adds that it made little sense to adopt anything else.

With clients being closely involved in the ‘design’ process of its VNAV fund, Northern Trust has been able to provide a euro-based vehicle – alongside its existing sterling and dollar CNAV funds – that can operate effectively in the current environment and pre-empt likely mandatory market changes without stepping outside of its own and indeed most treasurers’ core values of transparency, security and liquidity. The time for VNAV seems to have arrived.

A political conundrum

While the financial markets have become increasingly sensitive to political developments, politicians themselves seem unable to come up with real solutions to the economic problems facing citizens. Furthermore, the public is confused and dismayed by the extremes of impotent politics and unrestricted powers for the state, and now distrusts politicians progressively more, says ECR Research.

Markets are paying increasing attention to political developments. They seem to have become equally (or even more) sensitive to opinion polls, election results, and other political news than to economic data. Markets can be merciless when out to 'get' disappointing politicians. At the same time, they can be over optimistic about leaders who seem to be pushing for reforms.

What the markets crave are leaders with fresh ideas. The growth model – based on high commodity prices, low interest rates, excessive indebtedness, and rising globalisation – has come under pressure in recent years. Unfortunately, politicians are increasingly mired in a web of geopolitical hazard, disappointing economic growth, and domestic political stagnation.

American scientist Thomas Sowell said about politics, “there are no solutions; there are only trade-offs.” It is always a matter of weighing the pros against the cons, negotiating with opponents, pandering to grassroots supporters, and so on. Eventually, the preferred solution morphs into a warped, distorted, and rough-edged outcome of political struggle and strife, a compromise, in other words. Such a trade-off can work reasonably well but the result often falls far short of the original points of departure. It can even exacerbate the existing problems.

In the recent past, the political system of the world's largest economy (and most powerful country) has produced neither real solutions nor feasible compromises. US Democrats and Republicans seem to have each other in a hold. The consequences can be outright disastrous (see last year's government shutdown). “There are no solutions; there are only partisan battles,” seems a fitting description of Washington's status quo.

Political paralysis

The US is far from the only nation state where democratic processes falter. Many European countries suffer from political paralysis, not least because of the rise of populism since the 1990s, which appears to have accelerated in recent times. Perhaps it is worth remembering that today's unrest is more 'normal' than the relative political stability of recent decades, when a limited number of well-established parties would take turns in office, resulting in respectable but boring predictability within rigid political structures.

Populism gained ground due to major trends which cannot be reversed easily and make it harder for politicians to do what their voters want them to do. Globalisation is one of the root causes. Upcoming generations are no longer assured of higher living standards. Simultaneously, the comfort provided by a secure

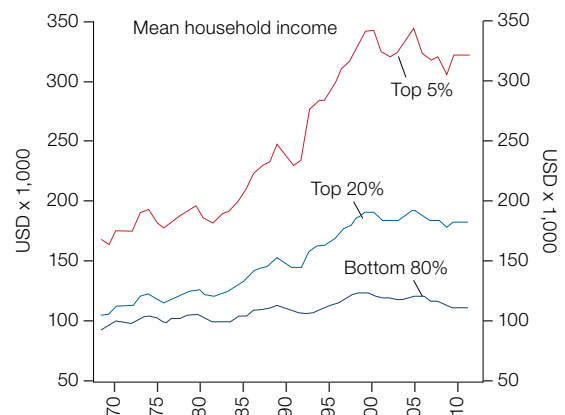
national identity has been eroded due to immigration, international organisations, and fading borders. According to many experts, globalisation also has a hand in increased inequality. The populist countermovement has focused on issues ranging from 'unique national identities' to aversion against (central) government. In Europe, these tendencies are also represented by the Eurosceptic and anti-EU parties.

Populism is not necessarily negative, though. Just as a recession can counteract morbid economic growth, or clean up a business sector, populist outpourings could serve to 'disinfect' a corrupt and stilted political system. A major challenge for politicians is to make distinctions between well-founded dissatisfaction and rabble-rousing, deception, and blatant racism. Ideally, they should address justified complaints and passionate populist protests through the implementation of sound reforms.

The problem is that the political elite are mostly incapable of harnessing and channelling populism in a constructive manner. At the same time, a significant number of populist politicians just seem interested in kicking up disturbances and amassing power at the expense of the disenfranchised, based on a dangerous distortion of the facts. An apt term to describe the current situation, coined by the late political scientist Samuel Huntington, is 'political decay'.

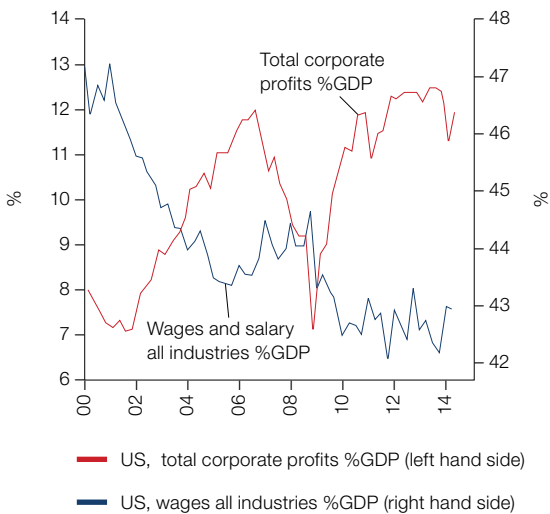
Political institutions need to be securely embedded in society to provide firm foundations for the latter. At the same time,

Chart 1: US income inequality has grown significantly in the past decades



Source: Thomson Reuters Datastream/ECR

Chart 2: Corporate profit growth at the cost of wages contribute to US political unrest



Source: Thomson Reuters Datastream/ECR

they have to be flexible enough to zero in on and adapt to political, social, and economic trends. This is a delicate equilibrium, which seems to have been upset in the US (and elsewhere). Lobbyists and special interest groups have 'hijacked' the political system whereas the common good is woefully underrepresented. On top of this, an overactive legal apparatus has a crippling effect on politics and society as a whole, in the sense that (too) many issues end up in court whereas judges are increasingly inclined to interfere in affairs of state. That is to say, the different branches of government no longer balance each other out. On the contrary; they increasingly overlap and obstruct each other. Francis Fukuyama talks of 'vetocracies', which lead to political deadlock.

At the opposite side of the spectrum, we see that governments perform tasks that are not supervised by anybody. This applies, for example, to some intelligence services and military units.

Confused and dismayed by these extremes – impotent politics versus unrestricted powers for the state – the public distrusts politicians progressively more. As a result, it demands rules that hamper efficiency. In addition, people are less and less prepared to pay taxes as they suspect that the money will disappear into a (bureaucratic) black hole. This is

all the more dangerous because voters have high expectations of the government.

European politicians, too, have plenty of worries; dangerous types of populism seem firmly entrenched. But that is just the tip of the iceberg. As the EU continues to expand, Europe starts to resemble the United States, where interest groups have a grip on politicians. In Europe, the judiciary has also become more important.

The challenge ahead

Faltering politics is not something that will change any time soon. Few politicians – if any – will voluntarily say goodbye to the capital flows generated by the lobby groups and of course anyone with a 'special interest' will try to keep the system afloat for as long as possible. In addition, both the US and Europe often see further democratisation as the solution to erratic politics. It remains to be seen if this is a valid standpoint. Most 'normal people' do not have the time (or the inclination) to study complicated political topics, which works to the advantage of those interest groups that have plenty of time, money, and capabilities to scrutinise and influence political processes.

Democracy is unlikely to function better in the near future. It appears that only an external shock can bring politicians and the electorate to their senses. Yet, it is imperative that Western politicians wake up to reality. Geopolitical challenges and economic shifts are putting pressure on the existing world order. The West faces three major challenges right now: the rise of Asia, an assertive, some would say aggressive Russia, and the violent advance of IS/ISIS and other extremists.

The US is essential to addressing these challenges. However, America seems increasingly unwilling and unable to resume its former role as the world's policeman while at the same time many other countries still depend too much on Washington for security and leadership. At the same time, the organisations that were thought up and dominated by the West still constitute the global order. Presently, Putin and IS are testing the strength of this order. In this uncertain climate, it would be unrealistic to expect convincing solutions to pervasive political and economic problems. The compromises that evolve are far from satisfactory.

The West will not quickly find an adequate answer to Russia's attitude and the violent emergence of ISIS. Nor do we expect a great deal from domestic reforms. Over the short term, the actions and words of the central banks may continue to drive the markets. Meanwhile, geopolitical events will pose a constant threat. Nothing suggests that the West will be able to counter these risks in a satisfactory manner. ■



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RMB internationalisation: a new world order

While China's economy has grown to become a powerhouse, its currency has struggled to achieve global adoption. But now as the internationalisation of the renminbi slowly gains momentum, treasurers around the world are starting to ask themselves what this means for their businesses. We look at the redback's progress so far, the challenges that remain, and the implications for corporates.

It is unlikely to have escaped your notice that China is on the verge of becoming the world's biggest economy. In fact, it may be already. In October International Monetary Fund (IMF) projections showed that China's GDP for 2014 would marginally exceed that of the US for the first time (at least based on purchasing power parity). And while there is debate as to whether, according to what measure of GDP you use, the US is still the world's top economy, it is nevertheless indisputable that China has become a veritable economic powerhouse.

However, despite the country's economic rise, the prevalence of its currency internationally has failed to keep pace with the growth of China's global influence – as of October 2014, RMB was only the seventh-most traded currency in the world. But of course, things take time. And we cannot expect internationalisation to be meteoric – we must look to the medium-term for redback domination.

What this means is that treasurers must start thinking now about the rise of the renminbi and how they may need to integrate the currency into their treasury risk policies much sooner than they had anticipated if its internationalisation continues at its current pace. After all, RMB volumes across Thomson Reuters' Matching and FXall in the first quarter of 2014 reached record highs, and the dollar-renminbi entered the top ten traded currency pairs on FXall in March 2014 and is typically one of the top four traded pairs by volume on Matching.

"The renminbi has gone from the 20th most traded currency just two years ago to the seventh most traded today – a very substantial improvement," says Janet Ming, Head of China Desk at RBS. "As China continues to strengthen its position in global trade, RMB will further improve its position."

The steps to internationalisation

The RMB's rise is not a serendipitous occurrence, but part of a concerted plan. Its progress marks one of the early steps on a path that Beijing hopes will result in the RMB becoming widely held in reserve by foreign central banks. In 'RMB Roadmap', a whitepaper published in May by Asia Securities Industry and Financial Markets Association (ASIFMA), Standard Chartered, and Thomson Reuters, the authors set out five milestones along this path:

1. Becoming a deposit currency internationally.
2. Being used increasingly for trade.
3. Becoming an investment currency.
4. Central banks agreeing bilateral swap agreements with the People's Bank of China.
5. Being accepted globally as a reserve currency.

The majority of industry insiders that Treasury Today has spoken to recently believe the renminbi will be a fully convertible currency by 2020, and that the redback has made significant progress in that direction to date. "Although not yet fully convertible, we know that around 40 central banks are already diversifying some of their reserve currency in RMB. If this redenomination continues, and the investment flows keep multiplying, RMB should become a G4 currency, alongside the dollar, euro and sterling, by 2020," says Carmen Ling, Global Head RMB Solutions for Corporate and Institutional Clients at Standard Chartered.

Foreign governments are not standing idly by watching the RMB's rise to prominence, either. In October, the UK became the first Western government to issue a renminbi-denominated sovereign bond. The RMB three billion bond was the largest ever RMB bond from a non-Chinese issuer, and has been seen as a strong statement of intent by the UK to build up RMB reserves (prior to the issuance of the bond, Britain only held reserves in US dollar, euro, yen and Canadian dollar).

"The UK's decision to issue a sovereign bond in RMB was certainly a strong symbolic gesture," says Evan Goldstein, Global Head of RMB Solutions at Deutsche Bank. "When other central banks start to build up RMB deposits and diversify their currency holdings, then Beijing will have achieved its objective. But the currency will only be truly global after major capital account reforms take place, and there is convergence between the off and onshore market in terms of interest rates, FX rates, and pricing mechanisms."

The renminbi's progress along this path has been accompanied by a nascent two-way volatility in the USD/CNY exchange rate – earlier this year, after three and a half years of appreciation against the dollar, the RMB experienced a spike, going from 6.05 in January to almost 6.26 in May, before recommencing its path of appreciation once again (see Chart 1). "As the RMB becomes

Chart 1: USD/CNY 2010 - 2014



Source: Google Finance

a more international currency, its exchange rate will also be more liberalised and market-driven – it is no longer a one-way bet,” adds Standard Chartered’s Ling.

The internationalisation process is being facilitated by Beijing’s capital account liberalisation plan. China took steps towards large-scale capital account opening in 2002 with its Qualified Foreign Institutional Investor (QFII) programme, which allows licensed overseas investors to trade in RMB-denominated shares. This was followed up in 2007 with the Qualified Domestic Institutional Investor (QDII) scheme, which allows capital raised from Chinese investors to be invested abroad.

In late 2012, China’s State Administration of Foreign Exchange (SAFE) took the first steps towards allowing foreign currency, two-way cash pooling, as well as centralised payment and collection on a company’s current account. It also technically allowed netting for trade settlement to take place. This was a huge advance for corporates with operations in China, who had previously experienced problems with trapped cash in the country, although that is not to say that the issue of trapped cash has been eliminated.

The role of the PBoC

One key factor dictating how rapidly internationalisation can progress is Beijing’s ability and willingness to encourage worldwide acceptance of RMB. “It has become increasingly apparent that the People’s Bank of China (PBoC) sees the internationalisation of the RMB as unfolding through the creation of a global network of offshore RMB clearing banks, currency swap agreements, integrated e-infrastructure, and related regulatory underpinnings,” says Jim Kwiatkowski, Global Head of Sales, FX, Thomson Reuters.

At the time of writing, there are seven official RMB offshore centres, in Hong Kong, Singapore, Taiwan, London, Luxembourg, Paris and Frankfurt. These financial hubs are

able to concentrate offshore RMB funds in the country itself and in the neighbouring region. The centres can use a clearing bank for RMB activity, although this is not absolutely necessary; for example, ICBC Singapore is the clearing bank in Singapore, while in Luxembourg there is no RMB clearing bank, at the time of writing.

“The use of Chinese banks as designated clearing banks on the part of the PBoC has been the predominant method by which China has been trying to deploy RMB on the international market, as part of its current account reform process,” says Deutsche Bank’s Goldstein. “The appointment of more of these clearing banks in various markets around the world is a positive sign, and illustrates the greater degree of cooperation and coordination between the PBoC and other central banks. It has also allowed for the introduction of a local time frame for RMB clearing.”

Hong Kong was the first such hub to be established, and in May 2013 the daily value of RMB cleared through Hong Kong’s real-time gross settlement (RTGS) system exceeded that of HKD for the first time.

Goldstein says collaboration is key in the process. “China has been very active in working with other countries and market infrastructure organisations to understand how the RMB is being used in the offshore market and also the ways in which it can improve acceptance of the currency for investment,” he says. For example, through this collaboration, The Hong Kong Monetary Authority has started offering banks a RMB repo facility and extended local RMB clearing house times.

The Shanghai Free Trade Zone (FTZ) is a key part of this collaborative development of the currency. Launched in September 2013, the zone has allowed regulators to experiment with initiatives on a small scale before they are implemented more widely. “The FTZ serves as a holistic testing ground for financial reform,” explains RBS’s Ming.

“The Government wants a fully market-driven environment with liberalised interest rates and exchange rates, and the Zone gives them some idea of the shape of things to come as the currency gradually becomes fully convertible. Anything being tested inside the FTZ is of strategic importance for companies outside the Zone because things happening there could very soon be happening outside it.”

Furthermore, the Shanghai FTZ is relatively easily replicable, meaning Beijing could expand its experiment before wider implementation. Guangdong and Tianjin, for example, could have their own FTZs before long. And as the implementation of reforms expands, within FTZs and beyond, corporates should be able to do more with the currency.

Cash management opportunities

For corporates, the range of RMB services on offer from banks is increasing in line with the internationalisation of the currency. A number of banks already provide basic onshore and offshore RMB trading solutions; furthermore, the provision of more advanced services is also on the up.

According to data from Thomson Reuters, dim sum bond issuance has grown considerably in 2014, and this looks set to continue to be a useful tool for capital raising. The amount of dim sum bond issuance between January and May this year was RMB 188.5 billion – more than the total for all of 2013 (RMB 186.9 billion). “The renminbi continues to be a strong issuance currency in 2014. As cross-border renminbi trade channels continue to embed further with China’s growing influence on international trade, coupled with tight credit conditions onshore, conditions for dim sum bond growth will remain favourable,” says Thomson Reuters’ Kwiatkowski.

It appears that treasurers are encouraged by the cash management opportunities the process will ultimately give them. “RMB internationalisation gives us comfort that we will be able to utilise the range of treasury products that we are ordinarily able to utilise in markets where there are fewer restrictions,” says Craig Weeks, Regional Treasurer, Asia Pacific at SABMiller. “This will allow us to raise capital more efficiently, with more transparency over the prices we are getting, whether for borrowing or for FX.”

Corporate users of RMB outside of APAC are also likely to experience improved cash management as a result of the aforementioned development of the offshore RMB clearing banks, particularly in Europe. “Having RMB clearing infrastructure in Europe will allow corporates in this part of the world to have more efficient RMB settlement, reduced transaction costs and better risk mitigation,” says Ming of RBS.

Beyond cash management, RMB internationalisation could also be a disruptive influence for good in trade finance for certain corporates. “By introducing an alternative trade settlement currency to the USD or euro, wider RMB use would help some users,” explains Standard Chartered’s Ling. “For example a Brazilian company that has traditionally traded with Chinese partners using USD, could eliminate this third element of currency risk by switching to RMB as the trade currency.”

However, this switching would also require the corporate to fully understand the settlement risk and market risk of the RMB, too. “Once corporates start to redenominate their trades in RMB,

the next challenge will be to distribute the benefits of the currency throughout the supply chain,” adds Ling.

Internationalisation will also mean a redrafting of treasury risk policies. “For treasurers, full RMB internationalisation would mean that the currency would play a role in corporate treasury policies, influencing their hedging and risk management,” says Deutsche Bank’s Goldstein. He adds that his bank is starting to see shades of this even now. “We have multinational clients in China that have been very successful in growing their onshore business through a subsidiary. The build-up of RMB on their books is significant enough that their head offices now want to manage that currency risk and the position itself offshore, because it has become a significant consideration for them in terms of their total book.”

Escaping isolation

Despite Beijing’s grand ambitions for the redback, it has its work cut out in spreading the reach of the renminbi across the globe. While China accounts for more than 10% of global trade, its currency is used for only 2% of trade. “At the moment China is not freely linked to the global financial system, and gaining more exposure and experience will be a gradual process,” says RBS’s Ming. “The pace of financial deregulation in China over the past two years has been the fastest of all APAC countries, but there is still a long way to go. China needs to make sure its financial system is mature and robust enough to face global competition.”

While the offshore RMB market was explicitly created to allow the RMB to internationalise, the onshore market remains separate from the global market. As a result the RMB is essentially fragmented at the moment into three main markets: the onshore RMB (CNY) market, the dollar-settled non-deliverable forward (NDF) market, and the offshore RMB (CNH) market.

“Each of these markets has its own demand and supply dynamics because of capital controls and the partial convertibility of the RMB as between the onshore and offshore markets,” says Thomson Reuters’s Kwiatkowski. “These conditions have resulted in the three separate, but related, markets with differentiated FX and interest rates and securities pricing.” However, he goes on to say that as capital controls ease and linkages grow, the level of difficulty in making cross-border transfers will drop, resulting in offshore/onshore convergence.

Addressing pricing differentials is a key factor here. “It is important to understand the difference in and the application of onshore and offshore pricing,” says SABMiller’s Weeks. “Further, establishing efficient liquidity solutions within the country is a target.”

Despite the remaining hurdles, RBS’s Ming is bullish. “This is a currency you cannot afford to ignore,” she concludes. “The question is how to maximise the benefits from a treasury perspective. While the internationalisation process is ongoing, treasury managers need to stay on top of the challenges, understand the implications for their business, and try their best to integrate their Chinese operation into the regional or global treasury system.”

So as the renminbi continues its march to worldwide adoption, treasurers would do well to start thinking about putting their own RMB plans in place. ■

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Are you ready for the future?

Corporate treasurers constantly have one eye on the future, and with many treasury functions under increasingly stringent cost constraints, treasurers are seeking ever more innovative ways of doing their jobs more efficiently and technologies to free them up to do the tasks that add the most value. From mobile treasury tools to the rise of the CTO, we look at what the future holds for the function.

From entering, approving and settling trades, to opening a new bank account, technology permeates almost every aspect of treasury work. And as treasurers look to 2015, many will ponder how advancements in the tools available to them will alter the function in the future. Here we speak to a number of treasury technology experts to find out what developments we can expect in the year ahead, and beyond.

We begin with mobile technology. It seems that no corporate treasury conference would be complete without a mobile treasury panel, although treasurers may sometimes wonder when exactly the promises of technologists will materialise into usable and useful solutions.

In the wake of a number of developments that could transform the mobile payments space, 2014 could be considered the year of mobile. In April, the UK's Payments Council launched Paym, the first mobile payment solution with the ability to link between

nearly every current account in the UK using only mobile numbers. Later in September, Apple unveiled plans for its Apple Pay digital wallet. However, while most high-profile mobile news has been on the consumer side, what about the mobile technology that treasurers can get their hands on?

"Pretty much every treasury RFP we receive includes an element where prospects want to know what our mobile capabilities are," says Paul Bramwell, Senior Vice President – Treasury Solutions at SunGard. "Mobile is still at the novelty stage, where treasurers think it is interesting to have a strategy for it, but in reality its usefulness is still limited at present."

The fact is, many key treasury tasks do not lend themselves well to mobile as a platform. Think about it: would you really want your treasury manager doing FX deals in the pub? Or buying commercial paper on the train to work? Probably not. It is for this reason that mobile penetration is unlikely ever

to be as pervasive in corporate treasury as it is in the consumer space. "We don't see there being such rapid migration to mobile as there has been in retail," says Alastair Brown, Head of eChannels in the Global Transaction Services business at RBS. "There, the whole value chain is translated into a digital solution. In treasury departments it will supplement, rather than replace, what's already there."

That said, mobile can be a useful channel for monitoring and approvals, and it is here that technology could develop rapidly over the next few years. "The segregation of duties and the approval queue are key aspects of treasury. The ability to log in to your treasury application using a mobile device whenever you have some approvals waiting for you is a big draw," adds Bramwell. "For payments which are high-value, low-volume, and critically important to the business, mobile approvals give far greater flexibility to the treasury department whose treasurer is often away from their desk."

In future, the mobile medium could also greatly enhance visibility into cash and investments. "Dashboard components built into mobile treasury applications allow CFOs and treasurers to see what their current position is," says Bramwell. "Valuable information such as how much cash they have, the mark-to-market position of their derivatives, and the number of deals that have gone through in a day, give them a snapshot of exactly where they are at a given time."

The notion of flexibility that mobile solutions can offer treasurers is compelling. This flexibility is also inherent in another developing channel: the cloud.

In the cloud

Corporates are increasingly looking to the cloud for solutions to their treasury technology needs. "One of the big emerging trends is cloud deployment, which is becoming more accepted now as a deployment medium and methodology," says SunGard's Bramwell. "Treasurers were perhaps initially sceptical of the web as a medium in terms of security and usability, but they are becoming far more convinced now. There are several players who offer treasurers software-as-a-service (SaaS)/cloud solutions, and the market has adopted web-based services as a very viable option."

Reval is one such player offering SaaS treasury solutions. "SaaS is a delivery model that allows us to create an environment in which a multi-tenant community shares the same version of application software to run their treasury risk management solutions," explains Phil Pettinato, Chief Technology Officer at Reval. "The economies of scale and the accessibility of cloud and SaaS technology enable corporates to operate their global organisation on a platform that works across all their different locations."

Pettinato says this kind of flexible solution is especially beneficial to growing companies and those that are acquisitive. "These are configurable, extensible and extendable solutions corporates can expand upon to accommodate their growth and meet regulatory changes in the marketplace," he adds.

For corporates that are uncomfortable sharing data in a public cloud outside their own firewall, there is an alternative. "There is a significant minority of companies who want to control their data in a secure private cloud environment," says SunGard's Bramwell. "That means having the infrastructure dedicated to you as an individual company, with no shared elements, which then offers considerably more scope for customisation."

Private cloud services are more costly than those in the public cloud, but they do give corporates the ability to bring the process back in-house at a future point should they so wish.

The increase in the use of cloud-based services within the treasury is linked to another technology trend worth watching – the rise to prominence of the Chief Technology Office (CTO) in the corporate world.

The rise of the CTO

Formerly the preserve of technology companies, now corporates in a variety of sectors, not to mention banks, are appointing their own CTOs and CIOs (chief information officers; they differ in that CTOs are typically responsible for technology innovation and development, while CIOs focus more on the organisation of technology) to keep pace with technology advancements.

In the UK for example, drinks group Diageo, hardly known for its technology credentials, has a dedicated CTO, and in May, Deutsche Bank appointed a CIO for its Corporate Banking and Securities and Global Transaction Banking business.

"Mobile is still at the novelty stage, where treasurers think it is interesting to have a strategy for it, but in reality its usefulness is still limited at present."

Paul Bramwell, Senior Vice President - Treasury Solutions, SunGard

This trend could be interpreted as a positive and proactive step in embracing technology outside the tech sector. However, the creation of a standalone role focused on technology can create challenges in treasury and finance if the CTO is not in close contact with other functions impacted by technology. For instance, if the implementation of a new TMS is led by the CTO with too little input from the treasurer or CFO, the project is likely to end in failure.

"The problem with the CTO role is that there is a separation of roles," says Ian Pearson, a futurologist at futures consultancy Futurizon. "As more advanced technology is integrated into payments and cash management systems, if you've got a CTO that is distanced from the finance or treasury department, these need to be brought closer together. There should be some overlapping function that forces them to have regular meetings at the very least to make sure that adequate security is in place, that they are using the right technology, and that this technology is compliant with the company's existing finance systems. Today this is too separated in many companies."

This improved communication and visibility between functions is one evolution that could well take place in increasing numbers of MNCs in the years to come, but within the treasury function itself, visibility, particularly over cash and liquidity management, looks set to remain a challenge.

Moving on from the financial crisis

Following the turbulence of 2007/08, the way corporates manage their cash and liquidity has evolved, partly because many

treasurers realised their control processes were overly lax, but also because they are more wary of relying on a single financial institution to handle all their transactions. The increasingly stringent regulation on banks has also had an impact. This has led to treasurers monitoring their positions more frequently and in more depth. It has also resulted in the expansion of the number of banking relationships a company has. As these two trends look set to continue, the role of technology should become ever more important to the treasurer.

“In the past, corporates would typically have a single bank providing all their liquidity needs, and the treasurer would view the company’s positions periodically. Now the active monitoring and management of their cash positions is more of a pressing business need, and for MNCs this is often across accounts at multiple financial institutions,” says Mike Jackson, Head of US Cash Management at Fundtech. “Even if a bank isn’t meeting all of a company’s liquidity needs, they still need to have a technology solution in place that allows their client to aggregate all the relevant information and closely manage their position.”

Just as the financial crisis forced treasurers to review their cash and liquidity management policies, it also made many corporates take a step back to look more closely at their risk management and mitigation. One key way to address this is by analysing the data arising out of treasury operations. But in order to analyse crucial data such as historical banks transactions, for example, treasurers are often hamstrung by the technology they have in-house: the typical reporting tool in a treasury management system (TMS) often limits analysis to a 12-month period at best, especially if the business has an annual, repetitive nature to its cash flows.

It is here that in the future banks could come to the aid of their clients with the wealth of data they collect on their behalf. “Treasurers in general probably don’t realise the potential benefits available from the data that comes from what we have transacted on their behalf,” says RBS’s Brown. “We have spent a lot of time thinking about the technology mechanics around handling big data, such as stitching data together, making sure the data set is consistent, and eliminating redundancy or duplication. The question is, what do corporates want to get out of this massive asset? Now we are working in close collaboration with our clients looking at the areas they are trying to get information on – this is going to be a big differentiator over the next 12 to 18 months.”

He adds that as the pressures of regulation and resource constraints continue to impact treasurers, they are likely to seek outside help – notably, though not exclusively, from banks – to make use of their data. “Corporate treasurers are telling us that they are expected to do more and more – they have to take a bigger risk agenda and take a bigger role in the strategic decision-making of their firms, and they are under cost constraints. It is a role in change,” he says. “Based on the data from transactions we process, we as a bank are in the useful position of being able to provide an across-the-board view of the client’s business. The question we need to address is what will tomorrow’s corporate treasurers want from their data?”

So far we have looked at developments that, while they are ones to watch for the future, are nevertheless already starting to have an impact on treasury operations. Now we look at a more ground-breaking advancement.

Brave new world

Looking further ahead, nascent technologies such as wearable devices and augmented reality could have a profound impact on corporate treasuries. As with many new technologies, wearable technology will likely make an impact on the consumer space before becoming widespread for use in treasury and finance.

Visor technology, such as the Google Glass, launched in May 2014, could be of use in retail by providing instant price comparisons and facilitating contactless payments. Futurizon’s Pearson says this comparability capability could also be of great use to some corporates. “Augmented reality and visor technology could potentially generate huge savings for companies that they can’t achieve at the moment,” he says. “For example, local stock managers could glance at an item in a warehouse and be given information on how much it cost, how much energy it uses, the alternatives available, and the savings that could be made. It is a very strong potential tool for optimising costs, and can go to a management level.”

Augmented reality could also impact negotiations. Imagine sitting down to negotiate with a supplier or banking partner armed with all the information you could ever possibly want. “This technology could offer every advantage possible in negotiation,” adds Pearson. “You can negotiate from a position of extreme strength knowing just about everything there is possible to know about a competitor – you will effectively be able to bring in an entire team to provide you with real-time figures.”

However, this could consequently create an ultra-competitive environment that diminishes trust in the negotiating room, similar to a chess player who might feel that playing an opponent backed by a supercomputer is neither fun nor fair. “There could be a backlash against using the technology in this way, as people might not want to feel under pressure all the time. Rules could be drawn up to ensure this kind of technology cannot be taken into the negotiating room,” he concludes.

Future-proofing treasury

As they look at the technology challenges and opportunities that lie ahead, treasurers must be careful to future-proof their businesses. If they pick the wrong technology, they could be confronted with the costly problem of obsolescence a few years down the line.

“Technology moves on and it moves on fast,” says SunGard’s Bramwell. “Corporates need a technology partner that can adapt very quickly and easily to make sure they don’t end up obsolete, using technology that is unsupported, not by their vendor but by the underlying supplier of the operating systems.”

He cites Microsoft’s recent decision to end support for Visual Basic 6 and Windows XP as an example of technology that will soon be unsupported. This termination of support can create a serious audit issue for treasurers. Similarly, corporate users of the Microsoft.NET framework were faced with the choice of HTML5 or Microsoft’s proprietary Silverlight plug-in. “Silverlight was picked by many vendors, but it is becoming far less prevalent now and at some point it will reach end of life,” he says.

“Corporates need a clear strategy for the future,” concludes Bramwell. “You need to be ahead of the game, otherwise you could end up with obsolete technology.” ■



Pension reform in Chile: retiring the state

In 1980, Chile's military government approved a decree that would radically reshape the country's pensions. The new, fully private system of insurance that was created quickly became an object of envy for other countries, some of whom would go on to attempt similar reforms of their own. How successful was the new system in practice and why, today, are the reforms revered as a landmark, in both the history of welfare policy and finance?

Chile's privatised pension insurance is one of the most celebrated and indeed imitated arrangements of its kind in the world today. The system of privatised accounts managed by private funds introduced in 1981 was deemed to be so successful that it became a model from which countries as diverse as Poland and Nigeria have borrowed elements from. In 2004, US President George W. Bush even went so far as to call it a "great example" which America could learn "lessons from" when reforming its own pension system. If imitation is indeed the sincerest form of flattery, then Chile's pension system clearly has a lot of admirers.

The murky political setting from which Chile's pension revolution arose cannot be avoided, however. In the early 1980s, Chile was ruled by the military regime of General Augusto Pinochet – now widely acknowledged to have committed numerous human rights abuses, including the kidnap, torture and murder of large numbers of its own citizens.

In democracies, welfare reform is always challenging, not least because those who are accountable to the electorate are mindful that somebody almost always loses out. 'Win-win' scenarios, as we will see, are very much a rarity in pension reform. But for reasons that should be obvious, a public

backlash is not something the Pinochet regime would have spent too much time agonising over.

The ‘Chicago Boys’

General Pinochet first seized power following a military coup d’état on 11th September 1973, that came about after a severe economic crisis and perceived breakdown in democracy destabilised the presidency of socialist leader Salvador Allende. After deposing Allende, who died in uncertain circumstances as troops surrounded La Moneda Palace, Pinochet’s first priority in power was to do something about Chile’s inflation-ravished economy. With no economic expertise within their own ranks, the military regime brought in a group of Chilean economists educated in Chicago under the tutelage of the eminent American economist Milton Friedman.

“So severe was the danger of a complete collapse, small minor tweaks would not suffice. The country, the Chicago Boys said, needed nothing less than a form of economic shock therapy.”

The ‘Chicago Boys’, as they came to be known, were just about the counter opposite of the Allende regime in ideological terms. While Allende’s government had seen the solution to Chile’s economic predicament as more nationalisation and more central planning, the Chicago Boys, in stark contrast, advocated leaving market forces to steer the economy.

But so severe was the danger of a complete collapse they argued, that small, minor tweaks would simply not suffice. The country, the Chicago Boys said, needed nothing less than a form of economic ‘shock therapy’, an unfortunate term – given the grim political realities amid which the policy was implemented – that had been coined by their mentor, Friedman. A multitude of free market policies were subsequently introduced in a very short space of time. Government intervention and public enterprises were restricted; businesses expropriated under Allende were returned to the private sector; price controls were abolished and financial markets deregulated; labour unions were suppressed; and progressive taxes either abolished or significantly reduced.

Within a couple of years, inflation began to return to more manageable levels and, after the recession of 1975, growth began to accelerate once again, thanks largely to a surge in foreign direct investment, and the country entered into a boom that would last the rest of the decade. Now, spurred on by shock therapy’s apparent success, the Pinochet regime set its sights on the state’s final remaining frontier: the welfare system.

The Piñera plan

Social security in Chile first came into being in the early 1920s with reforms that established a system in which retirement income was provided by a range of state administered

pay-as-you-go (PAYGO) pension funds. PAYGO schemes have, perhaps unfairly, been likened by some to a “Ponzi” scheme: active contributors finance retirement payments to pensioners and increasing obligations are supposedly met by both drawing on the stock of accumulated savings and their accumulated net income. This arrangement worked, to begin with. However, by the early 1970s benefits had been increased to such a degree that the system in Chile was no longer financially sustainable, even if the government chose to raise contribution rates (which were, by that time, already representing more than 50% of a workers annual salary).

José Piñera, Chile’s Minister of Labour, and one of the leading members of the Chicago Boys, had longed for many years to oversee the overhaul of Chile’s pension system. For Piñera, the Bismarckian PAYG system inherited by the Pinochet regime was an anathema to his laissez-faire principles. For one thing, the system was mildly redistributive. However, in Piñera’s eyes the worst sin of all was that it almost completely ignored the investment potential of the market. In the late 1970s he drew up a plan that would radically change that.

On 4th November 1980, the military government approved decrees designed to reshape the country’s pension system. The state managed and, by then, insolvent pension regime, was to be replaced by a system based on individual retirement accounts administered by private companies, or “administradoras de fondos de pensiones” (AFPs).

All Chileans already in employment – with the exception of the armed forces – would have a choice on whether to opt in to the new scheme, or remain on the ‘grandfather’ system, but were offered financial incentives to go private. New entrants to the labour market however, were not offered the former state pension. Under the new, privatised system, workers no longer paid a social security tax to the state or collected a state-funded pension. Instead, those that opted to switch to the new system were required to deposit 10% of their wages to an AFP of their choice. Workers were also free to contribute an additional 10% of their wages each month if they hoped to retire early or obtain a higher pension. One of the keys to the new system was the ability for contributors to change from one AFP to another. That helped to foster competition between the various providers to offer a higher return on investment, better customer service and lower commission.

Once the age of retirement is reached, Chileans on the private scheme had two options. First, a programme of withdrawals could be set up, subject to limits based on the life expectancy of the retirees and their dependents. Alternatively, contributors could choose to use capital in their account to purchase an annuity from a private life insurance company.

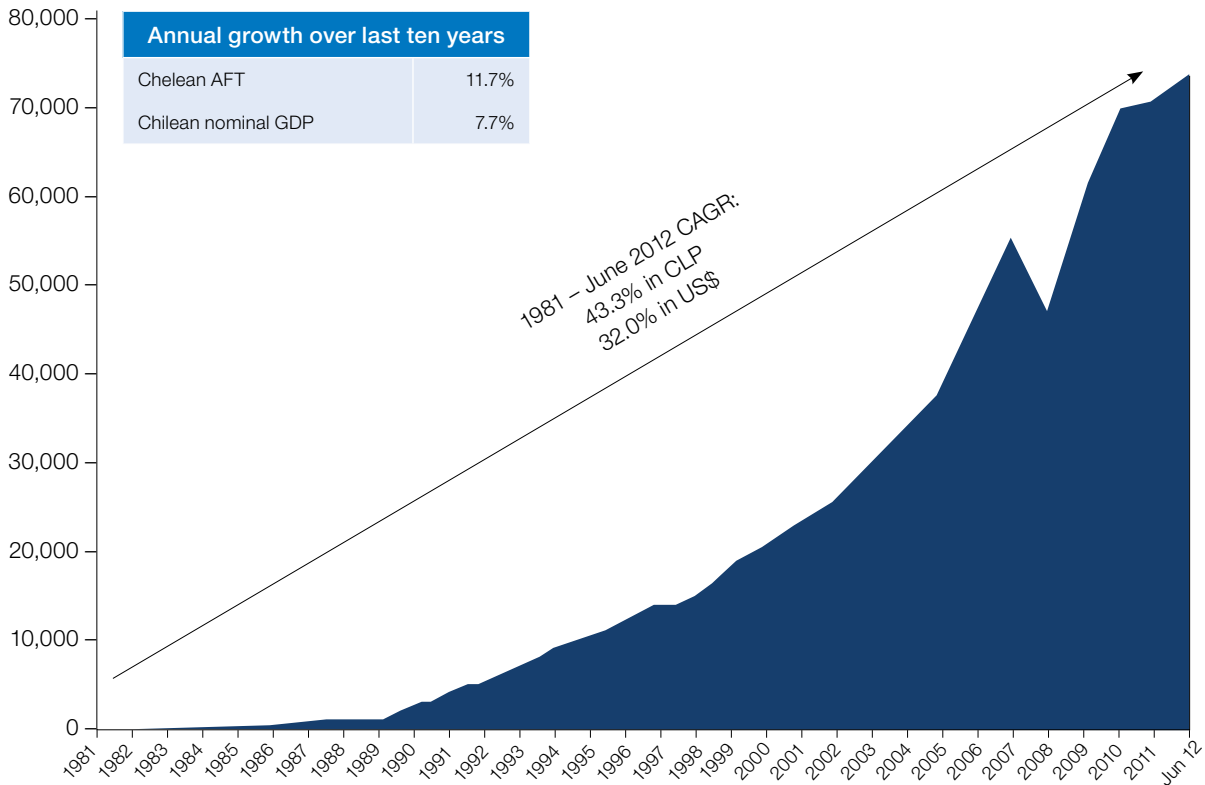
“Miracle of Chile”

There was clearly much to admire in the new pension system Piñera helped establish. Since the system became active on 1st May 1981 the funds have averaged a real return on investment of around 10-12% per year, around three times higher than even Piñera himself anticipated. Of course, like with any investment vehicle, annual yields have fluctuated to a degree, however, when it comes to pensions, it is the average over the long term that is important.

There were some knock-on benefits too. As Chileans began to deposit money into the new private scheme, a huge pool of

Chilean AFP System AUM

AUM (Chilean peso (CLP) billion)



Source: Superintendencia de Pensiones (Chile), IMF World Economic Outlook

capital, approximately \$162 billion or 62% of GDP, accumulated. When this capital began, in turn, to be invested back into the Chilean economy it provided an enormous boost in investment, helping to drive the growth surge of the 1980s that some observers, including Piñera's one-time mentor Friedman, called the "Miracle of Chile".

Using these facts, Piñera has been able to make a convincing case that his reforms were not only the right thing to do economically, but also from a social justice perspective. "The new pension system has made a significant contribution to the reduction of poverty," he claimed in a recent by-lined article for *The Washington Post*. This feat was accomplished, he continued, by "increasing the size and certainty of old-age, survivors and disability pensions and by the indirect, but very powerful, effect of promoting economic growth and employment."

Ageing gracefully?

The general thrust of Piñera's argument is difficult to dispute. With a measure as radical as wholesale privatisation of a public benefit scheme, however, debate was always going to be polarised to some degree. In recent years, Chileans, now ruled democratically, have revisited the Piñera reforms and a number of shortcomings have been highlighted.

One of the perceived shortcomings was a lack of universal coverage. Private pensions, by their very nature, only covered those Chileans who had paid in. Therefore, labour market

trends, such as long periods of unemployment, informal employment or withdrawal from the labour market due to family obligations, meant that a significant number of workers – up to 40% by some estimates – were not making the regular payments that would guarantee them an adequate pension in retirement. Something had to be done.

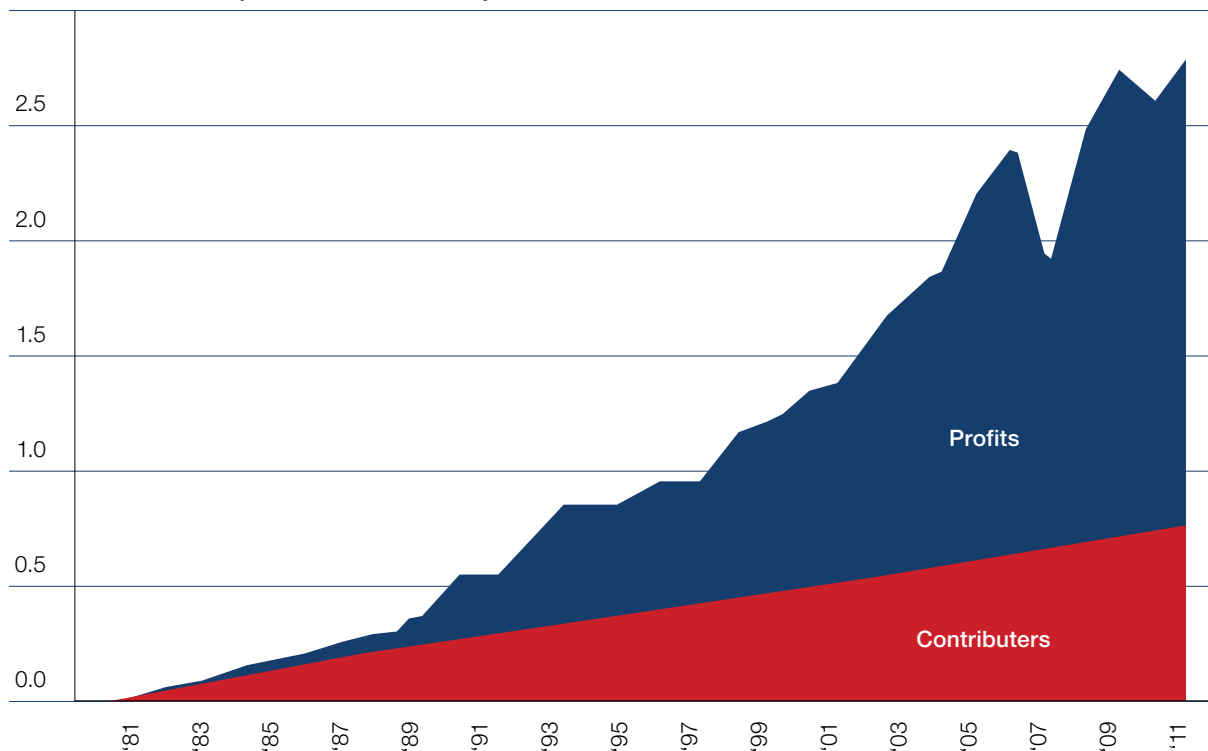
In 2008, the Chilean government, under the presidency of the Socialist Party leader Michelle Bachelet, decided the time was right for a revamp. But the Piñera reforms were not swept under the carpet entirely – at least for the time being. Instead Bachelet government brought in a World Bank-approved "three pillar" reform to provide a basic universal pension for individuals within the bottom 60% of income distribution not covered by a private scheme. Under the new system, individuals who did not contribute to a pension during their working life are provided with a small monthly sum of around \$150, while those who did contribute but accumulated little are entitled to an additional subsidy of the same amount.

The overhaul may not stop there, however. This year, Bachelet was elected for a second time after winning a landslide victory over the conservative Independent Democratic Union candidate, Evelyn Matthei. On the campaign trail, Bachelet made repeated promises to look again at the private pension system, and analyse whether it has lived up to its promises. No formal decision has been made, as yet. However, conservative opponents are concerned that this might spell the end for a system which they say remains the "envy of the world".

The Chilean Model

In Chile 73% of retirement savings come from the profits on investments. Just 27% come from contributions.

3.0 In inflation-adjusted Chilean currency units



Source: Chilean Association of Pension Fund Administrators (AFP)

Learning from Chile

But should other countries continue to hold Chile up as an example to envy and to learn from? The reforms introduced by Piñera certainly helped to bring dynamism to the Chilean economy and addressed the shortcomings of the old system (the same shortcomings many state pension systems in the West are now grappling with). But the large numbers of Chileans left without pension coverage shows us that the system was not perfect. A system that fails nearly half of its population cannot, after all, claim to be an unmitigated success. This, perhaps, helps to explain why, where countries have sought to learn from Chilean pension reform, few have chosen to import the model wholesale.

Instead, most countries have sought to borrow the most successful elements of the reform – namely personal accounts with private providers leveraging the investment potential of the market – but balanced with the option of state provision to provide coverage for those who still need it.

There may also be another reason why other countries have struggled to follow the Chilean plan to the exact letter. That reason is consent. It goes without saying that the experiment undertaken by Chile over a quarter of a century ago was highly radical in its nature. Indeed, the system that was

adopted was – and remains – so radical that it seems doubtful many democratically elected governments would view it as a practicable solution.

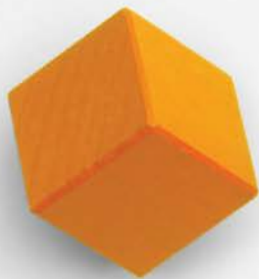
Even former UK Prime Minister, Margaret Thatcher, a close friend of Pinochet – and hardly someone who could be accused of harbouring socialist sympathies – dismissed the idea of following Chile's example as too extreme when it was suggested to her. Chile, she was reported to have said, was indeed a "remarkable success" but added that Britain's "democratic institutions and the need for a high degree of consent" make "some of the measures" taken to reform pensions "quite unacceptable."

The extent to which other countries can follow Chile though may be beside the point, though. Back in 1940s war-torn Britain, William Beveridge, to many the founding father of the welfare state, designed a system of state administered insurance to protect citizens from the risks associated with life events – such as old age – that could see them slide into poverty. What José Piñera proved was that it is possible, to an extent, to take the state out of the equation in the provision of such insurance. And when that happens, those who are covered often find themselves better off as a result. "The ultimate lesson," he later wrote, "is that the only revolutions that are successful are those that trust the individual, and the wonders that individuals can do when they are free". ■

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Asset Management

INSTITUTIONAL/WHOLESALE, PROFESSIONAL OR QUALIFIED CLIENTS USE ONLY-NOT FOR RETAIL DISTRIBUTION



Alternative investments join the mainstream

Where liquidity is not an issue, alternative assets are becoming a commonplace feature of modern investment portfolios. In this feature, Treasury Today looks at the various reasons why alternatives are now becoming part of the mainstream investment landscape and how new regulatory developments might shape the sector's future.

If you are a corporate pension fund trustee, the chances are that your exposure to alternative assets has increased considerably in recent years.

Despite a challenging investment environment, in which large returns have become ever scarcer, alternative investment managers have continued to attract record levels of capital, research shows.

The 2014 Global Alternatives Survey by investment consultants Towers Watson shows pension fund assets held by the top 100 asset managers that deal with pension funds increased by over 5%, from \$1.16 trillion in 2012 to \$1.22 trillion 2013. Corporate pension funds have been big contributors to this growth. Like

other institutional investors, they are continuing to diversify their portfolios away from traditional growth asset classes, such as equities, and into the world of alternatives, where they are able to insure their portfolios against the volatility of equities. It is a trend which has gathered pace since the financial crisis.

Investment trends will come and go, of course. But as tempting as it is to dismiss the recent shift in favour of alternatives as little more than a fad, the reality is that these investment tools are not simply growing in popularity; they are, in fact, becoming increasingly part of the mainstream investment landscape.

Already, most of these assets are such a common feature in investment portfolios that most asset managers will tell you

that they no longer even think of them as ‘alternatives’, they are just another vehicle that can be used to secure stable, inflation-protected cash flows over long durations.

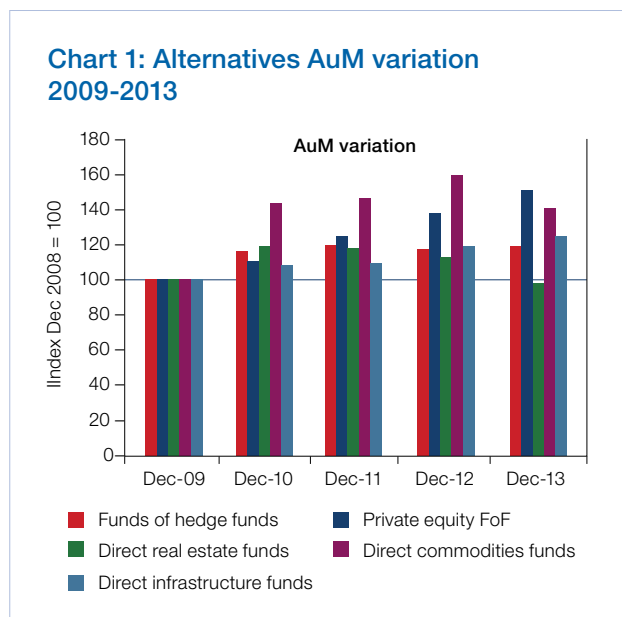
Not only does interest in alternatives continue to grow, but the range of alternative assets is also broadening. Direct real estate – the classic alternative asset – may continue to be the most popular type of investment for the time being, but we are also seeing increasing interest in other, formerly peripheral alternatives, such as infrastructure and distressed debt, in recent years too.

Beyond yield

To understand why alternative assets have become more prevalent in corporate pension fund portfolios in recent years, it would be helpful, perhaps, to take a closer look at the different characteristics of these tools and at what pension fund trustees hope to accomplish when they invest in them.

Corporate investors are not only changing the weighting they are giving to alternatives within their pension portfolios – they are also taking different routes to gain access to the asset class. Traditionally, most corporate investors make their first allocations in alternatives via the “fund of funds” route. By using a fund of funds, a professionally managed investment vehicle that allocates capital towards multiple underlying managers, investors are able to get instant diversification across sectors and geographies. There is a catch, however. Using a fund of funds also means the investor gets, in the words of Julian Brown, Director in the Investment Consulting team at JLT Employee Benefits, “a double layer of fees.”

“You have the underlying fees of the funds themselves first of all,” he says. Then, if anybody is doing anything over the top – allocating between, performing operational due diligence, consolidated reporting – there will be an additional charge on the top. “In the old days, it would be two and 20 at the underlying, and then one and ten on the top. That would mean there is a 2% management fee and 20% of all your profits are taken by the underlying managers, plus a 1% management charge and 10% performance fee by the fund of funds manager.”



Source: Towers Watson Global Alternatives Survey 2014

The weight of such fees on investment portfolios is not insignificant. It means that investors require, at the very minimum, a 5% rate of return just to cover their fees. Accordingly, most investors go into alternatives with the expectation of high returns and, in the good times, that was exactly what they got.

In the early years of the new millennium, Brown was working as the investments officer at the UK’s Nottinghamshire County Council pension fund, when he first began investing funds in private equity. At that moment in time, thanks to the buoyant economic backdrop, investors like Brown had return expectations for alternatives that were very often in the “high teens”.

“That sounds incredible now, doesn’t it?” he exclaims. “But that’s why people traditionally wanted to be in alternatives. It was always thought of as the sparkle in the portfolio; the investment which will give you some extra returns.”

Look around and you won’t see much in the way of yield these days, however. In the period post financial crisis, those stratospheric returns have all but evaporated as central banks around the world cut interest rate benchmarks to record lows and embarked on programmes of quantitative easing. In today’s low yield world, investors are naturally less prepared to accept the extra layer of fees above the individual funds, and are exploring alternative routes, such as single-strategy funds, for example. “I think its forced investors to become a bit savvier, and so those fund of funds fee structures – they are just not prepared to accept them now.”

Even if the days when turbo-charged performance was the main attraction are now gone for good, that has evidently done little to dampen the growth of the asset class. Investors today are turning to alternatives, for the most part, because they want consistent, risk-adjusted returns that insure them against volatility in other asset classes; those ever mercurial equities in particular. If they are able to find that protection in an asset class that also mitigates the risk to their portfolios of price inflation, then so much the better.

“That is why we are seeing so much interest in alternatives such as infrastructure, forests, and some of the real assets,” says Olivier Lebleu, Head of International Distribution at the investment fund Old Mutual. “It’s because they tend to mean a low notional investment upfront, coupled with regular inflation proof cash-flows.”

What are the ‘alternatives’?

The label ‘alternative investment’ immediately raises the question: alternative to what? Most asset managers agree that an alternative investment is any asset that is not one of the traditional asset classes such as equities, bonds or cash.

As such, alternative investments are a very broad asset class that includes under its umbrella a set of products ranging from hedge funds and private equity, to infrastructure and private real estate.

Here we take a quick look at what each of these investments has to offer:

Private real estate

Globally, the real estate market has recovered reasonably strongly, after taking a hit from the subprime mortgage debacle. In Europe, it remains the main attraction in the alternatives

space, with investors now said to be holding \$5.3 trillion worth of real estate assets across the globe. There has been a small shift of capital into other areas, however. "I am seeing a rise in allocations beyond property, and I'm sure many of my peers would say the same," says Old Mutual's Lebleu.

Hedge funds

The key thing about hedge funds is that they are able to short-sell. This is attractive to pension investors since it should mean that the funds are able to secure some form of return, even in a bear market.

"Investors understand that equity markets go up and down, but what you want from a hedge fund is a stable, absolute return profile," says JLT's Brown. In the hedge fund space there are, of course, a range of different strategies for investors to choose between, which can be levered to meet higher return expectations. "But even those are relatively modest compared to the old days of 'corporate raiders and red braces'," he says.

Infrastructure

Infrastructure has been an increasingly common target for investment in the UK in recent years. There are two drivers behind this trend, says Old Mutual's Lebleu. On the supply side, the need for private funding has grown as the UK government, constrained by fiscal pressures, has begun to step back from the financing of large infrastructure projects. Then, on the demand side, recent years have seen companies accumulate huge pools of capital that have a need for cash flows that are steady and inflation proof. "Given that governments have an incentive to push this agenda, we have seen infrastructure come to the forefront of discussions in the UK, relative to other asset classes such as forestry," says Lebleu.

Commodities

"Commodities tend to be quite a specialist asset class for investors," says JLT's Brown. If a corporate is already familiar with a particular commodity – an energy company that trades in crude, for example – it certainly helps, as understanding the complexities of the asset class is often the first hurdle.

"The thing with commodities – and all alternatives for that matter – is that there has to be an adequate level of trustee understanding before an allocation can be made," says JLT's Brown. "So if you are a trustee for an energy company, you may be quite familiar with the spot and forward pricing for commodities, and if so you would know there is often a difference that can be traded. Trustees should not invest in anything they do not understand, thus it is helpful for an understanding to already be there when we come to provide specific alternative asset class training for trustees."

The regulatory challenge

Like most corners of the financial universe, the alternative investment industry has had to manage significant regulatory changes in recent years. In Europe, particularly, we have seen the deadline for compliance with the EU Alternative Investment Fund Management Directive (AIFMD) pass in July this year.

The new directive requires all managers based and managing funds in Europe to seek official authorisation once they pass a

certain threshold. By the same token, funds that are outside the EU but plan to market to institutional investors inside Europe will have to have a number of organisational and transparency controls in place, providing investors, for example, with pre-investment disclosures and, throughout the duration of the investment, keeping treasurers informed about any material changes on risks, leverage and investment strategy.

For the corporate pension fund with funds in alternatives, building a more open and transparent market can be only a good thing, right? "It is indeed raising the bar on transparency," says Heleen Rietdijk, KPMG's global leader of AIFMD tells Treasury Today. Corporates and other investors now get the information that they need straight away and without any hassle. That will certainly help to reassure investors that their funds are being managed in the correct way.

For that reason, investors have been largely supportive of the regulation. That does not equate to wholesale approval of each and every detail, however. In particular, trade bodies representing the investment industry, namely the Alternative Investment Association (AIMA), the Investment Management Association (IMA) and the National Association of Pension Funds (NAPF) have voiced concerns around certain aspects during the consultation process. In 2010, for example, the three agencies wrote a joint letter to MEPs asking for leniency on the "third country" proposals that they believed threatened to effectively restrict investors to their domestic markets. "Compromise amendment 'N' is, we fear, unworkable," the trade bodies wrote. "In practice it will not provide access for non-EU funds and fund managers, but will instead ban European investors from investing overseas."

Thankfully for investors the words of the trade bodies did not fall entirely on deaf ears. Earlier this year, a compromise was proposed which would allow non-EU fund managers to obtain the same pan-European marketing passport as their European-based counterparts. The proposal is currently under review with the European Securities and Markets Authority (ESMA) and, if positive advice is provided, will be sent to the European Commission (EC) to become enshrined in EU law.

However, other concerns are not likely to be resolved as swiftly. The growing disparity around how alternatives are regulated in other jurisdictions is perhaps the biggest issue, says Rietdijk. In the US, regulation of alternatives is not as strict on certain organisational aspects such as the appointment of a depositary, the implementation of a remuneration policy and structuring a risk management framework as it is in the EU. One could argue that the steps taken by the EU are a positive, given the turmoil we all know can result from taking a too 'light touch' approach to regulation. Yet, as Rietdijk stresses, the authorities should still be very careful in that they do not "overextend our regulation to the extent that it makes it difficult for European fund managers to have access to the US market, because they are too expensive."

Rietdijk concludes with a warning that could be equally applicable in a multitude of other areas in the financial services ecosystem. Regulation, when it becomes overzealous, often ends up doing more harm than good. "All of this compliance can, of course, come with a cost." ■



Part-time professional

Kate Smedley
Group Treasurer



As a professional treasurer of many years' experience, working with the likes of BBC Worldwide, UK airports group BAA, Jarvis Construction and the Morrisons supermarket chain, Kate Smedley has built a reputation within the industry that has put her services in high demand. But having taken time out to start a family she found the work-life balance was more difficult to manage than expected when seeking a part-time professional position. The reason? Senior treasurers work full-time. This is not fact, just the message that she heard many times. She found a way to overcome this hurdle.

2 Sisters Food Group is a leading UK and European food manufacturer with annual sales of around £3 billion and over 24,000 colleagues across the UK, Ireland, Holland and Poland. The Group has strong market positions across branded and retailer own brand products, including in bakery, biscuits, chilled, frozen, poultry and red meat. The Group serves the retail, wholesale and foodservice markets and brands include Fox's biscuits and Goodfella's pizzas. The Group's focus is to serve every meal occasion and put customers at the heart of everything it does.

Leaving university with a "generic business degree", Kate Smedley, Group Treasurer at 2 Sisters Food Group, explored the usual world of temp jobs before finding a nine-month

contract (covering maternity leave) as PA to a Group Financial Controller. Part of the job involved currency administration, dealing with banks, applying forward contracts and so on.

The career turning point came just before the contract was due to expire, the company announcing its plans to move from Sheffield in the north of England, down south to London.

With the currency role up for grabs full-time, with a daily cash management position thrown in for good measure, Smedley took a leap of faith and became the new London-based treasury assistant. Sponsorship of ACT examinations followed, as did the realisation that the role was now too basic for the burgeoning talent. A move to BAA, a far larger business, ensued bringing considerably more responsibilities as ACT study progressed and promotion to Treasury Manager raised the game yet higher.

Having reached a point of settling down with all the usual trappings or heading off on a global adventure, Smedley boarded a plane to Ecuador and worked her way round the world, finishing up in Hong Kong having exorcised the wanderlust. On return to the UK, job hunting opened up an opportunity as Treasurer for BBC Worldwide, the Corporation's commercial arm. With no formal treasury department it fell to Smedley, under the guidance of the BBC's Group Treasurer, to establish the rules and processes.

With the success of a fully functioning treasury behind her, Smedley took the big decision to move back to Yorkshire with her husband-to-be. "I remember thinking 'this could be career suicide'," she says. "In London, if you want to move treasury jobs you just pick up the phone and speak to the agents; there is always something that looks interesting. I knew that if I moved back to Yorkshire it could be the end of all that." An Assistant Treasurer's job with Jarvis Construction came up (working with Gary Slawther: see Corporate View, February 2014), offering a fascinating work environment and confirmation that she had made the right decision.

A move to the rapidly expanding TV and broadband specialist, Pace Plc, saw Smedley once more establish a treasury from scratch. "I happened to be in the right place at the right time," she recalls, adding that this was one of her best career moves ever, being able to call upon all her experience to date to bring about an entire new way of working for the company.

Going part-time

But soon, Smedley found herself at the point of taking maternity leave, and her thoughts turned to part-time work. "I loved the job and the seniority and I knew that I wanted to stay in treasury; I'm not qualified or experienced to do anything else!" she comments. Furthermore, prior to returning to work the company underwent a major restructuring programme. This, for Smedley, ultimately led to her seeking another position; a 12-month contract at UK supermarket giant, Morrisons, as Interim Senior Treasury Projects Manager. The role was perhaps more junior than she was used to, leading Smedley to suggest that she undertake it on a part-time basis and thus it was agreed. As this position came to an end she was back in the market once more, and is now safely ensconced at 2 sisters Food Group, this time in the more familiar senior role of Group Treasurer.

As far as treasury experience goes, Smedley is clearly in a position to tackle most jobs but with a young family and a natural desire to balance her commitments, the mere suggestion of taking on a senior treasury role on a part-time basis can have some interesting effects on recruitment agencies, she notes. She has been fortunate so far to find employers with sufficient flexibility to meet her needs, but each time the search has been far from easy. "As soon as I

say I'd like a part-time permanent senior treasury role you can almost hear the tumbleweed blowing past in the background!"

Some agencies have been very good and listen to what is required "but with some you can see they lose interest the second you say you want part-time". She accepts that to some agencies, asking for a senior treasury position with part-time hours may sound ridiculous and she has therefore had to learn how to talk them round, explaining for example how a company will be acquiring a very high level of experience effectively for less money. But even with a well-developed power of persuasion she underlines the need to be selective with agencies, weeding out those that clearly are not interested. It can be, she adds, "a long and laborious process trying to explain myself".

The problem exists in part because the finance industry is male-dominated and the agencies – and indeed many companies – are just not used to meeting the needs of flexible working. "Typically when they are recruiting a treasurer, they want someone there five days a week. I do understand that because it is a demanding job," she says. But it is true to an extent too that the job is full-time because it has always been full-time; this fact is rarely questioned because it is a male-dominated profession and men have traditionally worked full-time and long-hours.

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There can be a lack of understanding that finding the right part-time role is difficult at this level, particularly from people who either don't work at all or who have traditionally more flexible employment conditions (government employees for example). "You can almost feel that they see it as an excuse because really I do want to work full-time and that I'm a terrible mother."

The current situation leads Smedley to believe that if two similar CVs are submitted for a job and one wants to work part-time then the employer will likely pick the full-time applicant rather than discuss the matter. There are some companies that see sense; her current employer, 2 Sisters Food Group, has been remarkably accommodating in this respect. Even though it originally wanted a full-time individual, she was able to negotiate terms that suited her and the company got the best person for the job.

There is an upside to being an experienced treasurer and living away from London; although there are far fewer senior jobs than would be found in the capital, there are also fewer people with the level of experience that companies might require. "They almost have to be a little more flexible,"

comments Smedley. "In London, where there is a wealth of treasurers, I think I would have struggled."

Selling yourself

Where a treasurer wishes to go part-time it may not be possible because the company cannot find another person with the right skills and knowledge to complete the package. Agencies would do well to try to mix and match the skills and hours requirements of individuals to make one full-time equivalent, but clearly many do not do this. Job sharing a senior treasury role is possible and all it needs is for those seeking such a role to co-ordinate their needs. "We need a network where we can discuss what jobs are coming up and what work schedule each person wants to follow," suggests Smedley. By pairing up individuals of matching skills it would be possible to approach an employer seeking a full-time employee as a team. "But doing something like that feels a long way off!"

Having spoken to many recruitment agencies in the region, each time highlighting her need to work part-time for the next few years, Smedley continues to actively promote this idea. When other women of similar standing in the profession (and Smedley says it will most likely be a woman seeking to balance professional employment and childcare) approach those agencies, she hopes that they will think about matching the right people to the right job.

An alternative may be to set up a group on LinkedIn; this is a tool that she says has been extremely valuable in finding work (as indeed other treasurers have reported) and could be used to enable people in the same geographic region seeking part-time work in the same field and at the same level to co-ordinate their search. It may also be useful to try to meet treasurers and senior finance people directly (perhaps at regional ACT meetings or at a conference) to sound them out about work availability; an extra pair of skilled hands may be required in the interim, perhaps to flexibly cover a period during a major technology implementation or a merger. "The key to making a success of this is to talk to as many people as possible, to make sure the right people are aware of who you are, what your level of experience is, and the fact that you do want to work part-time."

Making others aware of your status once you have started working part-time is not always an easy task, reports Smedley. Quite often colleagues and even other senior managers forget which days you are at work, she says. "They probably do not mean to make you feel bad but you do have to carry a certain amount of guilt about not being available." Of course, the awkward interactions with colleagues around availability are felt far less with external parties, there being little need to explain why a date for a meeting needs to be changed.

Making it work

Because you are not visible, what may also be described as 'office banter' about relaxing in front of the television all day or generally taking it easy on the days when not in the office is also quite common (and anyone who has ever looked after a small

child even for one day will know, this is not possible anyway!). Not only that, but there seems to be a difficulty for some people in associating part-time work with a position of seniority. This probably harks back to the view that treasury is a male-dominated world in which men almost always work full-time.

There is a further perception, says Smedley, that somehow you're not doing a full job. But, as she has indeed proved, an individual could be doing a full-time job in fewer days.

There is a further perception, says Smedley, that somehow you're not doing a full job. But, as she has indeed proved, an individual could be doing a full-time job in fewer days. "You work a lot harder – sometimes at night to catch up – and you get paid less. But to reconcile that, you know you get to spend a day with your child. That is the sacrifice that many women are willing to make. The guilt still can be immense on both sides; guilty for not being at work all the time, and guilty for not spending more time with your child. It is a real juggling act."

The key to removing the difficulties faced by treasurers (or any other professionals) when working part-time lies in changing the long-held belief that the job can only be full-time and giving instead an alternative. "Having done this once with the company I work with, potentially in the future they could do this with someone else." There may come a time when the hours need to change slightly or when the choice is made to return to full-time employment. But with a flexible approach to working on both sides there is no reason why, with the right alternatives in place, this cannot be made to work.

For anyone seeking to work part-time or flexibly, as well as getting the CV up to date, Smedley advises setting up a LinkedIn group to meet like-minded people. There is no need to pay for a premium account, she says. "Way more agents will contact you than you will have even heard of, some of whom will be recruiting for senior treasury roles." Don't state you are seeking only part-time work; that can be explained later. "Do pick your agents wisely. As soon as you speak to them you will know whether they are taking you seriously or not." Another tactic is to try to bypass the agents and contact as many companies as you can find with treasury departments within an acceptable radius: "don't be afraid to say who you are what it is that you want".

The more that professional personnel work flexible or part-time hours, the more the practice will become just an accepted part of working life. Rather than overstretching existing departments, calling upon an interim treasurer to fill in the gaps makes more sense. "There are professional treasurers out there, many of whom are women with children, who would jump at such an opportunity," notes Smedley. As a treasury resource, few would argue against the value of a part-time army of professionals that are eager to get the job done. ■

Separate Accounts: building a personalised portfolio

Separate Accounts can provide cash investors with enhanced flexibility and the opportunity to obtain greater yield than money market funds (MMFs). Corinne Lewis-Reynier, Head of Product Strategy for the EMEA Cash Management Group at BlackRock, examines the benefits of Separate Accounts and the operational factors for corporate treasurers to bear in mind when considering them.

Separate Accounts differ from pooled mutual funds in that they are segregated mandates comprised solely of one company's assets. The investment strategy of the account is driven only by the specific objectives and risk tolerances of the sole shareholder, which are typically dictated by their investment policy. Separate Accounts can add value in any economic environment, but they are particularly relevant to investors at the moment owing to a confluence of factors.

The relevance of Separate Accounts

Firstly, interest rates across most of the world's major currencies are very low; in the Eurozone, for instance, overnight rates are in negative territory. This is putting pressure on corporate treasurers, who need to make sure that their operating cash is not only invested safely, but also that it is placed in an instrument in accordance with their investment policy.

"One way Separate Accounts help investors to mitigate this low-yield environment is by allowing them to hold their cash further along the yield curve," explains Corinne Lewis-Reynier, Head of Product Strategy for the EMEA Cash Management Group, BlackRock. Furthermore, Separate Accounts can be tailored to a corporate's needs, investment policy and risk guidelines – investors can dictate the level of risk they are willing to take and their provider can offer a solution to reflect this.

Regulation is another factor. On the one hand there is bank regulation. "Under Basel III, banks are having to revisit and redesign their business models for decades ahead, impacting how much they lend and for how long," says Lewis-Reynier. "Banks are now in a situation where they are unable to provide the level and breadth of services to corporates that they have in the past, which will force some corporates to rethink their relationships with banks and how they manage their short-term cash."

Money market fund (MMF) regulation is also having an impact. In the US, the Securities and Exchange Commission (SEC) has recently pronounced that in the next two years institutional prime MMFs in the US must have a Floating Net Asset Value (NAV), and while it remains to be seen how regulation in Europe could evolve, it is clear there is a general trend from Constant NAV towards Floating NAV. In this regulatory context, Separate Accounts provide an alternative to corporates as to how their cash can be managed.

The same MMF regulation is also affecting the cost of liquidity, which is exacerbated in this low-yield environment. Under the SEC's new rules, prime MMFs are obligated to hold a set level of liquidity, both overnight as well as in weekly buckets. This inherent cost of holding liquidity is passed on to investors.

Beyond the low-yield environment and the challenges posed by regulation, Separate Accounts can also help corporate treasuries to be more resource-efficient. As corporate treasuries often face increasing pressure on staffing levels, Separate Accounts provide access to specialist resources that serve as an extension of a company's treasury team. Employing an external manager can ease the pressure and enhance the quality of the investment management process through direct access to specialist credit, risk and portfolio management resources.

Flexibility

Unlike MMFs, which have a single set of guidelines in an investor prospectus, Separate Accounts give investors the opportunity to engage with an asset manager who can advise them on the benchmark that is best suited to their investment needs, set measures for their risks, and forecast what their cash needs may be in the future, all in order to provide them with an investment solution that is optimised for their individual characteristics.

Separate Accounts are arranged through the signing of an investment management agreement (IMA), which is essentially a legally binding partnership between the investor and the provider. The IMA is not set in stone, and can be revisited at any time in the future should the investor wish. "This flexibility is of great value to investors, because markets, interest rates and the credit environment are liable to change over time, and it is important to choose the right partner to maintain an ongoing dialogue throughout these changing times," says Lewis-Reynier.

The IMA is the legal framework around the guidelines and parameters of the engagement between the two institutions, and it is reviewed by the legal departments on both sides.

Points set out in the IMA include the objectives of the portfolio, and guidelines on, credit, portfolio duration and liquidity needs. Details include agreements on maturity limits, the investor's risk tolerance, and average or minimum ratings of the underlying securities the corporate is willing to invest in, as well as the investment universe the investor is comfortable with.

Operational considerations

There are a number of operational factors corporates need to consider when setting up the IMA for a Separate Account – these considerations need not be prohibitive, but should be understood by the company.

- **Accounting treatment.** The direct ownership of the securities held within a Separate Account can lead to accounting and tax considerations that differ from the standard cash and cash equivalents treatment of a constant NAV vehicle. The mark-to-market accounting treatment of variable NAV assets can vary from client to client depending on their reporting preferences, accounting policies and strategy for the Separate Account.
- **Tax considerations.** Separate Account clients should be aware of their domicile's tax laws that may impact the purchase, transfer and sale of securities across different jurisdictions. For detailed tax information it is recommended that you contact your tax consultant.
- **Gain/loss budgets.** Clients can place restrictions or limits on gains/losses they are willing to tolerate. Good managers will be very familiar with the process and will have systems to ensure limits are managed appropriately.
- **Custodial relationship.** In moving from a pooled fund to a Separate Account, the corporate will need to employ a custodian to take direct ownership of the securities. As such, the client has sole influence in the selection of both the investment manager and the custodian, the latter of which will take responsibility for the safekeeping of assets as well as undertaking administrative and transaction services.

Beyond these considerations, investors should also be conscious of their own liquidity needs, and explain to a provider exactly why they want to pursue the Separate Account route. For example, if a corporate needs to raise cash ahead of a big dividend payment, this could impact the management of their Separate Account going forward.

In addition, investors should think carefully about what they want to achieve. Whether they are seeking liquidity, yield or a little bit of both, will have a bearing on what kind of investment is best for them. Their appetite for exposure to a certain sector or country, or indeed their desire to avoid a certain sector or country, will also play a part.

Furthermore, investors need to understand current market conditions. Some US corporates with European treasury centres may wish to transpose current US guidelines in order to run their Separate Accounts in Europe in the same way they do in the US; however, there are significant structural differences between the two markets in terms of size and issuance, and it makes sense to speak to an expert about these differences.

Separate Accounts at BlackRock

To leverage the full benefits of Separate Accounts, investors need to partner with an experienced provider, who has a knowledgeable team that has weathered many different economic cycles.

"Having a partner that has a broad range of products across all the asset classes is key, and this is an important differentiator for BlackRock, because we cover all the asset classes; even if the investor is not interested in them all now, they may be in the future," says Lewis-Reynier.

"Risk management is one of the founding principles of BlackRock and our understanding of the risks investors take when they invest in certain markets or for certain durations is key to our offering. We provide our clients with tailored risk solutions, which is extremely important in the current market, and we are constantly on hand to provide scenario analysis," explains Lewis-Reynier.

"BlackRock's credit research team and relationship managers have considerable experience in the asset class and provide world-class insight and client engagement", she says. "Indeed, client contact is a key differentiating factor of Separate Accounts – we have more frequent and more detailed touchpoints with the investor, and provide daily or weekly reporting depending on their needs. We can also create tailored reporting using our suite of reporting tools."

The benefits of scale

In an environment where, largely because of Basel III, banks' provision of secondary or even primary liquidity is greatly reduced, BlackRock provides investors with scale and access to the market. BlackRock's leveraging of this scale is a huge advantage to clients, even if they themselves are small.

"Furthermore, BlackRock has a proven track record that demonstrates it has a range of different strategies to offer clients, including bespoke and pooled solutions, fixed income and exchange traded funds (ETFs)," concludes Lewis-Reynier. "As economic conditions continue to evolve, and the needs of clients change, BlackRock continues to offer a variety of solutions tested over time to meet the needs of corporates looking to invest their excess cash."

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Emptying the drawer: farewell to security tokens?

Electronic and online banking means electronic identification and authentication and for corporate treasurers, that means a different device and PIN for each bank. When the treasurer's desk drawer opens and the mountain of security tokens spills out onto the floor, then surely it is time to find another means of accessing corporate online banking?

'Too many security devices' has been the treasurers' complaint about corporate-to-bank connectivity for many years. No-one questions the need for security when executing electronic transactions but there are few plausible options to replace the cumbersome system of multiple bank-proprietary tokens (their multiple formats), simply because no single alternative system has gained sufficient ground on the others to become the de facto standard.

PKIs, CAs and digital signatures: a brief explanation

Secure remote access to electronic and online financial systems relies on a process of identification and authentication. When transactions are made, a digital signature is required to authenticate the sender and to confirm that the message was indeed sent (assuring non-repudiation) and that it was not altered in transit (confirming its integrity). Secure digital signing relies on the encryption process.

The most common model of cryptography in this context is public key encryption (also known as asymmetric cryptography because it must have a corresponding private key). In the words of IBM: "Data encrypted with the public key can only be decrypted using the corresponding private key. Data encrypted with the private key can only be decrypted using the corresponding public key".

Encryption uses an algorithm to generate a code (a 'hash value') that is almost impossible to break. Banks commonly use hash values based on 128-bit (bit is a contraction of 'binary digit') numbers which have a vast number of potential combinations (128-bit may now be considered the minimum secure value).

The broad system that manages public and private keys and which provides secure access to unsecure networks such as the internet, is known as a public key infrastructure (PKI). A PKI will typically include key depository and an independent certificate authority (CA) such as VeriSign, IdenTrust or Thawte, that issues and verifies digital certificates. These add substance to the keys and are used to verify that a web server is trusted by the CA. The CA also issues personal digital certificates, often delivered in the form of USB keys, and will confirm their validity (or otherwise) when these are used to gain access to a secure site. A PKI also includes a

registration authority (RA), such as a bank, to verify public key users (eg its clients) for the CA before a personal digital certificate is issued and its associated key is activated.

For a bank client to use a registered personal digital certificate, two-factor authentication is often used. This requires 'something you have, plus something you know'. In this case the 'have' would be the security device, such as a USB key, and the 'know' would be a PIN-type code.

What are the security choices?

In terms of how financial institutions enable authentication and validation, the choices are few. Banks may use their own proprietary set-up, offering secure ID tokens which may be physically connected to a computer (such as a USB device) or be offered as a standalone one-time pass code generator (as used by many online consumer banking sites).

There are some advanced technologies being used that take the USB token to the next level, such as Barclays Corporate Banking which, from 2015 will be offering UK clients a compact biometric device which can read and verify the users' unique vein patterns in their fingers. This is still essentially a two-factor authentication tool but it takes the form of a personal scanner, using infrared light to detect the vein pattern in a living finger and so the authentication factors are rolled into one; nothing else is needed. It matches the pattern with that of a digitally captured and encrypted version previously recorded and stored by the user on a SIM card. Michael Muller, Head of Cash Management at Barclays Corporate Banking told Treasury Today at the launch of the device that he saw it as "an important part of our digital strategy" and was "optimistic" that biometric technology will join the mainstream fight against fraud.

Other banks opt to work with third-party providers such as IdenTrust (which was originally formed through bank co-operation but is now commercial). By far the most common form is the USB device and treasurers will often have one for each bank they work with. The much-talked about drawer full of devices is no myth; it is an awkward fact of making secure transactions.

If treasurers just want to make sure those transactions are secure, Andrew Burns, Director of TMS system vendor, Kyriba UK, notes that from a process standpoint, life has become

more complicated as organisations start to centralise their payments processes (via a shared service centre for example).

Within a decentralised structure, payments could be issued and released at a local level, executed perhaps by a local Finance Director via an electronic banking platform. "When the payments requirement has been centralised, suddenly there are individuals responsible for multiple approvals for multiple banks," he explains. This is where the problem of multiple security devices arises; having 30 different tokens in a drawer is not uncommon. If the holder of those devices is travelling, all those devices have to go along too. "It's just not practical," he states.

The challenge therefore is to find a practical alternative, and Burns believes that although "nothing has gained critical mass", SWIFT's 3SKey is making most headway. "It uses the SWIFT infrastructure which is a trusted banking network independent of any individual bank security method," he notes. "I think the main worry for banks which are driving these security measures is that they do not want to outsource their KYC process, relying on authentication by somebody else's processes in the PKI that they use," says Burns. This is not necessarily the issue for 3SKey but he feels that many companies will not move until they know where the market is going. "They won't invest money in a product and move away from their existing one if that's not going to be the solution that sticks around."

Without momentum, it will be difficult to get going. "For a treasurer, if too many of your banks are not registered for 3SKey it becomes difficult to use that methodology; it dilutes the value proposition if you still have many tokens plus the 3SKey."

The main contender: SWIFT explains 3SKey

The hierarchy of security system sees SWIFT effectively as the neutral third-party infrastructure provider, the financial institution as the service provider and the corporate client as the customer, with individual employees as the end-point. "3SKey is all about personal not organisational-level digital signatures," explains Neil Gray, Senior Manager for SWIFT's Corporates Business in the UK and Ireland. The first stage of the process involves that individual receiving a token (in the form of a USB) from his or her service provider. Currently, the banks subscribing to the 3SKey service will order a stock of these tokens. The banks will issue tokens to their corporate clients and the client will distribute one to each employee in treasury or AP/AR as required. At this point, the token needs to be activated. This is done by plugging it into the USB port of a computer and accessing via the internet (not the SWIFT network) the relevant 3SKey portal where the activation button is presented.

This generates a digital certificate on the token; SWIFT is acting as the CA and as such has no direct relation with the corporate or token user. The next stage is for the individual to register the token (either in person or online) with each of the different banks on the corporate's panel (assuming that they are subscribed into the 3SKey scheme); the banks here acting as the RA. This pairs the individual's identity with the certificate on the token. "There is no hierarchy of banks in registration or use; they are all completely independent of each other," comments Gray.

The registered token can be used to digitally sign in a variety of ways for different channels, such as signing and sending a batch payment file via the SWIFT network or a bank's proprietary host-to-host system or as a means of authentication on a bank's online portal. In each scenario, the

bank is able to automatically revert to SWIFT (as the CA) to check the status of each certificate being used, enabling it to either execute or deny the request being made via the token. If an activated token is lost or stolen, Gray points out that the two-factor authentication system it uses would require anyone trying to use the token also to know the associated PIN.

The only limitation the USB-based 3SKey currently has is with mobile devices that do not support a USB port.

The only limitation the USB-based 3SKey currently has is with mobile devices that do not support a USB port. "We are conscious that treasurers are building mobile devices into their operations," Gray comments. "We are actively working on an extension to support mobile platforms as well". Details of the exact nature of the solution are not yet announced.

However, the use of 3SKey is not restricted to banking, having potential for example to extend into the space occupied by online trading portals or cloud-based financial platforms, says Gray. "This gives a stronger login access and when a customer wants to execute a transaction, the system can prompt the user to re-enter the PIN, effectively acting as the user's signature to the deal."

The roll-out status of 3SKey (as at August 2014) shows 38 bank subscribers (generally at group level, so including support across multiple countries). Currently, its reach is 113 countries. Around 51,000 tokens have been distributed, with 21,000 active users across some 4,300 corporates. SWIFT claims 17 of the top 20 cash management banks globally support 3SKey. "Typically corporates will start off in one business context before approaching their other banks; they are pushing their other banks to support it if they aren't already subscribed. A bank that has newly subscribed to the service to support one might then question why it continues to support its own proprietary technology. This is something we have seen with Societe Generale."

Using 3SKey: the bank view

Societe Generale is indeed one bank that has successfully adopted 3SKey as its sole security measure in the context of its Sogecash Web portal and host solutions. It started rolling it out in 2010 and is so convinced of its merits that this year the bank has announced to all clients that it is replacing its PKI proprietary solution with the single 3SKey device. Although there was no choice in the matter for clients, the response has been positive.

"We were looking for a multi-bank solution because when we discussed this with treasurers they quite often told us that they had too many security devices to manage for all their banks," says Emmanuelle Fischer, Head of Marketing & Products for Payments and Cash Management, Societe Generale Global Transaction Banking. "We found an easier and cheaper solution for corporate clients that could be used with many banks and which is also compatible with most of the products we offer to them."

Societe Generale has been very proactive in its approach to 3SKey. "I think there is a trend towards adoption and I think

treasurers will be pushing their banks to deliver a single solution,” she explains, adding that there is some movement by the European Commission to work towards harmonisation of security devices.

“The only drawback with 3SKey is that you cannot plug it into a mobile device,” comments Fischer. “We have to go along with the trend of the past few years that sees more treasurers wanting their cash management applications on their smartphone or tablet computer.” Societe Generale has therefore been developing a solution for mobile devices, seemingly as SWIFT is also considering such a proposition but the bank clearly working towards its own more pressing commercial launch date. “Almost one year ago we launched our first cash management application for mobile; we will launch a new version later this year that will allow treasurers to validate transactions on their mobile devices and for that we needed to work on our own security solution.”

Mobile issues aside, Fischer sees a steady growth of the number of users. “We are confident that it will become one of the standards for all global digital signatures, to authenticate users on web portals and to sign all files when sending them to banks. But I think there could be additional applications for all digital contact with banks. Our clients are increasingly sensitive to security issues and although some see these devices as a constraint, many more are seeing the benefits.”

Whilst she feels SWIFT probably initially saw 3SKey as a tool for large corporates to sign orders on the SWIFT network, Fischer sees more mid-sized companies adopting it, with all users exploiting it beyond that network. “In our case, it is used to authenticate customers on our web portal, allowing them to make any transactions, but it is also used for other protocols such as FTP, SFTP and, in France, EBICS TS.”

Using 3SKey: the corporate view

Although French engineering and technology consulting company Alten has been connected to SWIFTNet since 2008, many of its subsidiaries outside France remained linked to their banks through e-banking services only. The growth of its business led to an increase in the complexity of systems and the number of banks its treasury needed to connect into. “This creates difficulties and is hard to maintain on both the functional and technical sides,” explains Guillaume Peslin, Global Treasurer of Alten.

When in France, the ETEBAC 5 corporate-to-bank communication platform was replaced by EBICS, corporates could no longer digitally sign payment files which were then verified by the bank upon receipt, the problem was magnified.

“When SWIFT launched 3SKey in 2010, we immediately saw an opportunity to reduce the complexity of e-banking identification,” he says. Alten’s treasury department implemented the solution to work with Societe Generale’s ‘Sogecash Web’ online banking portal. “Now, when we update our authentication process, 3SKey requests all bank systems to facilitate the maintenance; this was done previously with a single ETEBAC card for France,” adds Peslin.

For any security solution to become a compelling proposition for the wider business community, it needs to be able to replace most or all other forms of security device; in short it needs to be the de facto standard. Getting banks to agree on anything is never an easy option.

Having used 3SKey for some while, he believes it “could also be a good tool to facilitate eBAM” (electronic bank account management), which Alten is now aiming to adopt. Despite its apparent flexibility, for 3SKey to move forward, Peslin notes one essential requirement: “the compliance of banks and their systems is key”.

A call to action

For any security solution to become a compelling proposition for the wider business community, it needs to be able to replace most or all other forms of security device; in short it needs to be the de facto standard. Getting banks to agree on anything is never an easy option. This appears to be the issue with moving the whole security aspect of corporate online banking away from that drawer full of single bank proprietary tokens towards a unified model of identification and authentication.

3SKey seems to be the current favourite; most banks (certainly those offering transaction services) are already on the SWIFT network anyway so it is a small step for them. For it to become the standard, Burns suggests that banks need “a bit of a push” from their corporate clients. “The technology goes in the direction of where the pain is; if treasurers can go to their banks and say they need a better solution then the banks will start to move,” he says. “But banks are so inundated at the moment with so many different demands – not least by the regulators – that they have to prioritise. If corporates do not raise the issue of security tokens then the banks will not move.” ■



Getting to grips with reconciliation

The pressure is on for corporate treasurers to do more with less. Straight-through reconciliation is something which can help to free up time for treasury teams whilst simultaneously bringing about vast improvements in the efficiency of the working capital cycle. But before we can begin to think of ways to improve a process, it might be helpful to first reacquaint ourselves with the basics. In this article, we look at what the reconciliation process is, why it is important to treasurers, and what companies can do to optimise the exercise.

It's no secret that corporate treasury teams today are feeling ever more squeezed, both in terms of their time and resources. It's something that industry experts are calling the 'T-bar' effect. Not only have treasurers been taking on an increasingly strategic role within their organisations in recent years, but they are also having to juggle those new responsibilities with a more extensive operational role too.

Streamlining the account reconciliation not only frees up time that treasurers can then re-deploy to strategic matters, it could also – by enhancing the working capital cycle – make a

tangible impact on the bottom line. But what exactly is reconciliation and what does it mean for your business?

The term reconciliation refers to the process of ensuring that two independent sets of records – typically the balances of two accounts – are in agreement. At a fundamental level, it is an activity individuals often perform every day or so, when we check our bank account balance to make sure that each transaction is valid. The reasons are similar in the business context. It is performed for the purpose of internal control; to check for fraud and to prevent errors and ensure financial

statements contain accurate information. This is vital because for publicly traded companies in particular, the occurrence of such errors can have very serious implications.

Bank reconciliations

A general ledger – colloquially known as ‘the books’ – is a collection of all balance sheet and income statements, thereby offering a complete record of every transaction over the life of a company. Supporting the general ledger are sub-ledgers, containing details of transactions within a specific account, like the detail for all issued invoices and cash receipts held in accounts receivable, for example. Sub-ledgers are typically summarised before being posted to the general ledger at the end of each business day.

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There is always the possibility of errors, however. To check all accounts are accurate, it is necessary to reconcile the balances of the general ledger with the balances of the sub-ledger on a periodic basis in order to identify any inaccuracies in the data. The process begins by analysing the general ledger and the sub-ledger balances to identify any differences, paying close attention to items such as non-recurring transactions where the potential for error is highest. Naturally, this is quite a complex process when performed in a corporate environment where hundreds of thousands of transactions may be flowing in and out on a daily basis. This means it is imperative to have technology, an ERP or specialist payments software that can provide a degree of automation to various stages of the process.

When a company receives a bank statement, it is also necessary to verify that the amounts detailed on the statement are consistent with the amounts in the company’s general ledger, a process called bank reconciliation. Again, this can be a cumbersome process, not least because amounts which appear in the company’s cash account one month might not appear on a bank statement until later. There are a number of circumstances that could lead to such outcomes. A cheque might, for example, be written at the end of February, which would not clear the bank account until early March – even though the amount would, in all likelihood, have been deducted immediately. An alternative example would be a bank service charge deducted at the end of the month, but not seen on a bank statement until early the next. Obviously, given the two examples provided above, there are often differences found between the balances on a bank statement and the balances of cash accounts. In order to report a true and accurate cash position, some degree of adjustment may be required.

Step-by-step

If there is one golden rule of the bank reconciliation process it is to add the values present on one set of records but absent

on the others. The details of the process can be summed up in a few key steps. Here we provide a brief overview of each step, including the key things that the individual or team performing the reconciliations should look out for:

1. Adjust the balance per bank

Adjusting the balance on the bank statement to the true balance should be the very first step. To achieve this, one will need to add deposits that are in transit, deduct any outstanding cheques and account for any bank errors that are identified.

In the case of deposits in transit, that is amounts which have been received and recorded but do not appear yet on the bank statement, there is no need to adjust the company’s records. They must, however, be listed on the bank reconciliation as an “increase in the balance per bank”, in order that the true cash position be reported.

Similarly outstanding cheques that have been written and recorded in the company’s cash account, but have not yet cleared do not mean that the company’s records have to be adjusted. A “decrease in the balance per bank” should, however, be listed on the bank reconciliation.

Finally, the bank should be notified of any errors it has made on a transaction, whether that be an incorrect amount or omission of an amount. The adjustment made might be an increase or decrease in the balance shown on the bank statement, depending on the nature of the error. Once again, the company’s own records are left unchanged.

If bank reconciliation is not performed on a timely basis, the company would consequently be exposing itself to enormous risks. These risks manifest themselves in a number of forms. The company might, for example, have individuals stealing from its accounts. Equally, the company’s banks might be making fee mistakes and charging the company too much.

2. Adjust the balance per books

Once the balance per bank has been adjusted it is necessary to look at what might need to be amended on the company’s own books. This entails making deductions for items such as bank service charges, unpaid cheques, and cheque printing charges. Interest earnings and notes receivable collected by the bank must be added, while errors in the company’s cash account may need to added or deducted depending on the nature of the error.

First on the list of things to be deducted are bank service charges, the fees deducted from the bank statement charged for the bank’s services on the checking account. The banks might deduct such charges without prior notification. Indeed, the company usually only learns such amounts have been deducted after receiving its statement from the bank. Since the charges have already been deducted from the bank statement, the only adjustment needed to be made is to a decrease of the relevant amount in the company’s cash account.

Once these and any unpaid cheques and cheque printing fees have been deducted, the final step is to add values which increase the balances on the company's chequing accounts but have not yet been listed on the books. Notes receivable, documents such as promissory notes issued as evidence of debt, fall into this category, as do interest earned on account balances. Again, these figures will be automatically added to the bank statement, so to reconcile one must simply add what is on the bank statement to the books.

3. Compare adjusted balances

Now that adjustments have been made to the balance per bank and the balance per books, the respective amounts should be of equal value. If that is not the case an error has evidently been made, and the process must be repeated again – checking carefully for anything overlooked on the first occasion – until the values shown on each are identical. To complete the process, adjustments made to the balance of books must be recorded through journal entries, whilst any adjustments to the cash balance will need to be addressed by crediting one account from another.

Considering both the scale and importance of bank reconciliation, corporates will naturally want to optimise the way the process is performed as much as possible

Why is bank reconciliation important?

As we can see from the above, the bank reconciliation process might end up being a very lengthy, protracted procedure, especially in large organisations. Without the right technology in place, it may mean trawling through dozens of general and sub-ledgers and bank statements from a multitude of accounts covering, in some cases, hundreds of thousands of transactions. And even when there is an ERP or TMS that is able to perform some of the heavy lifting, some degree of manual intervention is almost always required. So why do companies go to all the trouble of performing this exercise on a regular basis?

The answer is relatively straightforward: risk. If bank reconciliation is not performed on a timely basis, the company would consequently be exposing itself to enormous risks. These risks manifest themselves in a number of forms. The company might, for example, have individuals stealing from its accounts. Equally, the company's banks might be making fee mistakes and charging the company too much. Without banking reconciliation procedures in place to ensure the

accuracy of the books and accounts, there is a possibility that neither issue would come to the attention of the company.

If the balances at the company's various banks can be confirmed to be correct, by comparing them with the accounting records, however, it can provide an added level of confidence to the treasurer that what he sees in the books is an accurate representation of the company's cash position. Such information is vital, not only to help the treasurer make important decisions about investments and financing requirements, but also to certify that everything is in check for the auditors. Bank reconciliation, then, should be seen as a critical control to ensure a company's financial integrity.

Best practices in bank reconciliation

Considering both the scale and importance of bank reconciliation, corporates will naturally want to optimise the way the process is performed as much as possible. Thankfully, there are a number of well-established guidelines companies can follow to improve the effectiveness and efficiency of their reconciliation practices and avoid some of the common, yet preventable, problems that can occur.

Here's a list of things companies can do:

- **Rationalise the number of bank accounts**
As a business grows and new processes are introduced, bank accounts quickly begin to accumulate. Quite often companies will find themselves with a large number of bank accounts that are effectively redundant. Of course, the greater the number of accounts one has, the greater the workload when it comes to performing bank reconciliations. If the treasury is able to perform a regular account reconciliation exercise, therefore, they might find the number of account reconciliations required can be dramatically reduced.
- **Automate (as much as possible)**
Manual reconciliations will always be prone to error, no matter how meticulously the process is performed. In companies with high transaction volumes, the need for a high level of manual input can also be very time consuming, costly and, not to mention, open to fraud. Therefore using tailored reconciliation software which can be deployed quickly, flexibly and cost effectively can be extremely beneficial.
- **Reconcile daily**
Performing account reconciliations on a daily basis can provide the treasurer with greater assurance over the general ledger balances. It can also help the team to keep on top of the work. After all, reconciling a handful of transactions at the end of each day should be much less demanding than tackling a whole multitude at the end of the month. Don't let them build up. ■



INSIGHT AND ANALYSIS

The year ahead: challenges and opportunities

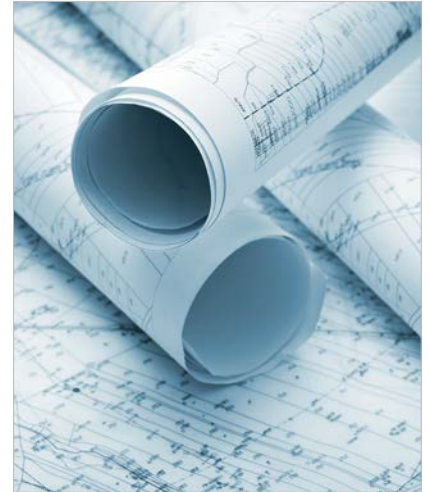
With the holiday season on the horizon, treasurers will no doubt be turning their attention to the year ahead. Treasury Today talks to a number of industry experts to determine what they believe will be top of the corporate agenda over the next 12 months and what challenges and opportunities treasurers can expect to encounter in 2015.



CORPORATE FINANCE

Getting the right funding mix

The diversification of funding can offer corporates many advantages and ultimately lead to greater financial stability in the long run. But what is the right funding mix for any given company? In this article, we explore the different options and strategies that corporates can use to achieve the right level of diversification.



RISK MANAGEMENT

Disaster planning

The financial damage that can be caused to a corporate by a disaster, from a hurricane to a cyber-attack, is potentially vast. While corporates shouldn't be constantly panicking about 'what if' scenarios, it is important to have a plan in place should the worst happen. Treasury Today looks at what constitutes best practice in the field of disaster planning and outlines how treasurers can ensure that their department is protected.

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

Martin Bellin, Managing Director, BELLIN; **Paul Bramwell**, Senior Vice President – Treasury Solutions, SunGard; **Alastair Brown**, Head of eChannels, RBS; **Julian Brown**, Director, JLT Employee Benefits; **Andrew Burns**, Director, Kyriba UK; **Elaine N. Filus**, CTP, Principal, Treasury Strategies; **Emmanuelle Fischer**, Head of Marketing & Products for Payments and Cash Management, Societe Generale Global Transaction Banking; **Evan Goldstein**, Global Head of RMB Solutions, Deutsche Bank; **Neil Gray**, Senior Manager, SWIFT; **Markus Hofstaetter**, Senior Manager, Financial Management, Head of Treasury Services, KPMG; **Mike Jackson**, SVP, Head of US Cash Management, Fundtech; **Jim Kwiatkowski**, Global Head of Sales, FX, Thomson Reuters; **Olivier Lebleu**, Head of International Distribution, Old Mutual; **Corinne Lewis-Reynier**, Head of Product Strategy for the EMEA Cash Management Group, BlackRock; **Carmen Ling**, Global Head RMB Solutions for Corporate and Institutional Clients, Standard Chartered; **Janet Ming**, Head of China Desk, RBS; **Michael Muller**, Head of Cash Management, Barclays Corporate Banking; **Ian Pearson**, Futurologist, Futurizon Limited; **Guillaume Peslin**, Global Treasurer of Alten; **Phil Pettinato**, Chief Technology Officer, Reval; **Anita Prasad**, General Manager, Treasury Capital Management, Microsoft; **Heleen Rietdijk**, Global Leader of AIFMD, KPMG; **Kate Smedley**, Group Treasurer, 2 Sisters Food Group; **Craig Weeks**, Regional Treasurer, Asia Pacific, SABMiller; **Peggy Yankovich**, Global Head of Corporate Cards, HSBC.

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