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February 2015

Demystifying cryptocurrencies

Some see them as the future of finance; others see them as a passing fad. Either way, cryptocurrencies continue to grab headlines across the globe. We ask whether highly volatile and decentralised cryptocurrencies, such as bitcoin, can really play a role in corporate treasury.

The Corporate View

Ricky Thirion
Group Treasurer
Etihad Airways

Technology

Treasury in the cloud

Cash Management

Banking clubs: obsolete?

The Bank Interview

Karl Trumper
Head of Trade and Working Capital, UK
Barclays

Baihas Baghdadi
Head of Trade and Working Capital, International
Barclays

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Euro MMFs under further pressure

With the prospect of transformative regulation still hanging over the sector, Europe's money market funds (MMFs) continue to operate against a backdrop of uncertainty. Recent moves by the European Central Bank (ECB) and Swiss National Bank (SNB) are only making matters more complex – for those in the industry, and for corporate treasurers who invest in the funds.

According to a research note released by ratings agency Fitch at the end of January, the yields on Swiss franc-denominated MMFs could turn negative over the coming weeks following the SNB's decision to cut (already negative) benchmark rates further, as well as ditching the currency's cap against the euro. Fitch, and its rival Moody's, also agree that the ECB's large-scale bond buying programme will likely keep yields on prime euro-denominated MMFs extremely low for a prolonged period, hastening the advent of negative yields for this type of fund. Investors in euro-denominated government MMFs have been experiencing negative yields since the end of 2014.

"The persistent low interest rate environment in the Eurozone, exacerbated by the ECB's decision to cut its deposit rate to -0.2% in September 2014, has already significantly eroded returns for euro-denominated MMFs. As of 23rd January 2015, the average yield for euro prime constant net asset value MMFs was one basis point, and this is despite the fact that managers are already waiving most or all of their management fees," said Vanessa Robert, Senior Credit Officer at Moody's, in a recent report.

Of course, negative yields may lead to outflows from MMFs as investors reassess their holdings. But the scale of the impact is uncertain as low-risk alternatives are also likely to offer negative yields, explains Fitch. This puts everyone in a difficult place. The fund managers must weigh up the best mechanisms to maintain a stable unit value, without significantly increasing credit risk or portfolio maturity. Meanwhile, treasurers must decide what to do with the money they have already invested in MMFs, when the options elsewhere are few and far between.

Treasury Today will continue to keep you updated on moves in the MMF space over the coming months – whether it be around the recently discussed bank-style regulation, or alternatives such as separately managed accounts. Make sure you get all the latest news by signing up to Treasury Insights – our weekly delivery of independent analysis on treasury trends, straight to your inbox: treasurytoday.com/treasury-insights.

Adam Smith Awards 2015 – nominations now open

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

Now in their eighth year, the Adam Smith Awards are firmly established as the ultimate industry benchmark for achievement in treasury. The Adam Smith Awards showcase the very best in class across the whole industry.

For more details visit **treasurytoday.com/adamsmith/2015**.

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treasurytoday.com
Volume 17 / Issue 2
February 2015

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Website Assistant
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Managing Director
Richard Parkinson

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

Annual Subscription Rate £285
subscriberservices@treasurytoday.com
© Treasury Today ISSN 1466-4224

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

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

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

Periodicals postage paid at Jamaica NY 11431.

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

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

Air Business Ltd is acting as our mailing agent.

The paper used in the production of this magazine is sourced from protected forests and sustainable raw materials.

IN THIS ISSUE

INSIGHT & ANALYSIS 12

Cryptocurrencies: cracking the code

With the recent rise of the volatile and decentralised bitcoin, cryptocurrencies have become headline news and – for some – seem to be the future of finance. Yet, there still remains a large degree of confusion, and fear, in the corporate community surrounding how these work and what benefits they can offer. Treasury Today looks to explain what cryptocurrencies are, how they work and what impact they may have on corporate treasury.

TRADE 22

Spotlight on project finance

In addition to funding their own projects, companies with healthy balance sheets are set to increase their investment in projects that would have previously been funded from state coffers. In this article, we look at the evolving world of project finance.

THE BANK INTERVIEW 31

Karl Trumper

Head of Trade and Working Capital, UK

Baihas Baghdadi

Head of Trade and Working Capital, International

With traditional trade markets providing less opportunity, companies are looking to diversify their export strategies and enter new growth markets. Karl Trumper and Baihas Baghdadi from Barclays outline how the bank has the tools, expertise and global presence to help the opportunity become a reality.

CASH MANAGEMENT 25

Banking clubs: a thing of the past?

The global expansionist policies of the world's major banks, for a time, saw some question the validity and rationale of banking clubs. However, as certain banks have scaled back their international ambitions, can banking clubs expand their influence and extend their coverage to help fill the gap?

TECHNOLOGY 28

Do corporates need cloud cover?

The advent of cloud technology has not only changed many aspects of personal and business life but is also beginning to change how the treasury function operates. In this article, we take a close look at cloud technology, exploring not only the opportunities available for corporates but also examining future developments in the space.

TREASURY ESSENTIALS

Treasury Insights 6
Question Answered 8
Market View 10
The Bigger Picture 16
Back to Basics 37

19 The Corporate View

Ricky Thirion
Group Treasurer

Ricky Thirion assumed the role of Group Treasurer at United Arab Emirates-based Etihad Airways in 2007. Yet, with a Master's Degree in Mechanical and Aeronautical Engineering, his journey to treasury is somewhat unconventional. We hear how Thirion came to find his niche in the corporate treasury profession and how he has built up the capabilities of the young airline to assist with its rapid expansion.

CAREER PROSPECTS 34

Upgrade or delete

At a time when the role of treasurer has taken on a new level of importance, up-to-the-minute technical knowledge is vital. But, as the rest of the business increasingly wants to hear what the treasurer has to say, it is time to evaluate the value of 'soft skills' too?

“The 2015 Adam Smith Awards are now open for nominations. If you and your team have recently completed a project of which you are proud, submit your nomination now and showcase how you overcame challenges, demonstrated exceptional best practice and innovation, and achieved your goals. I wish you every success.”
Jennifer Boussuge, Head of Global Transaction Services EMEA
Bank of America Merrill Lynch

treasurytoday
Adam Smith Awards

in association with Bank of America Merrill Lynch

Nominations now open

“Excitement rippled across Pfizer’s Treasury group when the news of us winning the 2014 Top Treasury Team award came out. What an honour! The Team had come together in sharing our best projects from a variety of fields. We had tackled some of the new and emerging Corporate Treasury issues and were happy to share them with our peers. Kudos to Treasury Today for creating this prestigious forum which helps Treasury teams benchmark ourselves in the spirit of continuous improvement.

While winning the award was undoubtedly gratifying for us, even more importantly, it further galvanised the Pfizer team. We look forward to continued partnership and knowledge sharing with Treasury Today in 2015 and beyond.”

Pfizer
Treasury Today's Top Treasury Team 2014

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Award categories for 2015

- Treasury Today’s Top Treasury Team 2015
- Best Cash Management Solution
- Best Liquidity Management/Short-Term Investing Solution
- Best Working Capital Management/AP/AR Solution
- First Class Relationship Management
- Best Trade Solution
- Best Card Solution
- Best Financing Solution
- Best Foreign Exchange Solution
- Best Risk Management Solution
- Best in Class Benchmarking
- Harnessing the Power of Technology
- One to Watch
- Best in Class Treasury Solution in the Middle East
- Best in Class Treasury Solution in Africa
- Treasury Today Woman of the Year
- A Rising Star
- Best Corporate Social Responsibility Initiative

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

FX manipulation: do you have a case?

J.P. Morgan Chase & Co recently became the first in the industry to settle a US antitrust lawsuit for alleged FX manipulation. This is a significant development in what looks likely to become a very long, drawn-out legal saga. Only now, as the first settlements are reached for civil litigation claims, are we beginning to see just how costly this might end up being for the banks. Numerous banks involved in the rigging scandal have announced in the last few months that they are making significant reserves against potential fines and other claims.

In the UK, City of London law firms say they are already in discussions with certain clients, although some of the larger law firms which work extensively for the banks were reluctant to comment. "It will be interesting to see how many FX related claims are brought against banks in 2015," says Stephen Elam, banking litigator at Cooke, Young and Keidan.

Size and scale

Precisely how many claims will be brought – and of what size – is difficult to anticipate. The litigation ball is definitely rolling though. "Anyone who engaged in FX transactions at the relevant benchmark rate with one of the banks fined by regulators might potentially have a claim. However, it will be important to consider the losses that can be claimed as a result of the bank's misconduct. In particular, if a claim for rescission of the FX transactions can be established, the parties could be put back in the position they were in pre-transaction, with potential recovery of all losses under those FX trades. If, however, losses are restricted to those resulting from the movement in benchmark rates, those losses may be much smaller", says Elam.

Either way, the bill facing the banks is likely to be very substantial, given the nature of the misconduct that was uncovered by the regulators in their investigations. Banks involved in the FX rigging had allegedly utilised customers' stop loss orders in order to manipulate the market when customers were going to buy or sell significant amounts of currency, which were triggered by the spot price of the currencies being manipulated by the banks.

No easy win

Despite the settlement announced earlier this week, corporates should be warned that the legal battle is likely to be fiercely fought by the banks. On this, there is precedent. "Look at the Libor rigging claim that was brought by Graisley Properties against Barclays," says Kalvin Chapman, Solicitor at Manchester based law firm Berg. "Barclays were fined for Libor rigging and were reported to have spent £25m defending the case. And if we are successful in getting the number of clients together that we are anticipating, I cannot believe that the banks are simply going to roll over. They are going to fight this all the way, which is why clients are advised to ensure that they have quality legal representation from firms that have a solid history in successfully taking on the banks."

Benchmarking studies reveal top priorities for 2015

The beginning of a new calendar year is a good time to take stock of what lies ahead and what has gone before. For treasurers, it can be challenging to pinpoint where your peers are planning on concentrating their efforts during 2015. There is little – reliable and accurate – information available around corporate treasury priorities. This lack of insightful data was one of the reasons why Treasury Today began its corporate treasury benchmarking programme over five years ago.

Since then, we've been able to build up a clear picture of what really matters to corporate treasury practitioners, including: the health of their working capital cycle; the technology they will be investing in; the banks they rate most highly and why; where they will be concentrating their efforts geographically; and what more they expect from their service providers going forward. Conducted on a regional basis across Europe, the Middle East and Asia Pacific, these studies also monitor larger trends from year-to-year, providing an invaluable heads-up for strategic treasury leaders.

Sneak preview

For those treasurers who are awaiting the delivery of their personalised, confidential benchmarking report, or who were unable to participate in this year's study, John Nicholas, Research Director, Treasury Today, explains the value of taking part in this important initiative. "These studies have, once again, provided some interesting and thought-provoking findings. For example, the banks' willingness to allocate their balance sheet to corporates has hitherto been a key driver in the awarding of cash management and other ancillary business in return. This year's results suggest that perhaps we are now seeing a move away

from this model as corporates focus on utilising every last cent of their own cash – assuming they know how much they have and where it is – as well as exploring alternative sources of funding," he notes.

With this in mind, those treasurers who would like to give anonymous feedback to their banks on the level/depth/suitability of the services that they currently provide should enrol for this year's benchmarking programme which will begin over the summer. If you participate, you get a full report of the findings and the option, confidentially, to benchmark your key performance indicators (KPIs) against your peers and the industry as a whole.

Table 1: Top three treasury priorities by region

Europe		Middle East		Asia	
2013	2014	2013	2014	2013	2014
Cash management/ cash pooling.	Cash management/ cash pooling.	Cash management/ cash pooling.	Bank relationships and banking group organisation.	Cash management/cash pooling.	Bank relationships and banking group organisation.
Funding/credit lines.	Bank relationships and banking group organisation.	Balance sheet optimisation.	Cash management/cash pooling.	Working capital management.	Funding/credit lines.
Working capital management.	FX risk management.	Funding/credit lines.	Improving cash flow forecasting.	Balance sheet optimisation.	Cash management/cash pooling.

To purchase a copy of the newly released 2014 findings, or to register your interest in the 2015 benchmarking programme, contact john.nicholas@treasurytoday.com.

A guide to the new regulatory galaxy

The sheer mass of information that has come with the recent explosion of regulatory measures can end up breeding a lack of understanding that results in unintended consequences. Transaction banking, an area within banks that few in the mainstream are aware of, suffers acutely from this problem.

The publication of a book that provides a comprehensive yet concise overview of this explosion of regulatory measures and what these mean for transaction banking is therefore a welcome development. "Transaction Banking and the Impact of Regulatory Change", the second book to be written by regulatory expert Ruth Wandhöfer, offers precisely that.

"I felt there was a need to explain the relevance of this business to the economy so that regulators that are bringing in these rules in a one-size-fits-all fashion are not putting everything in one bucket," Wandhöfer told Treasury Today.

Cutting through complexity

A huge amount has been written around financial regulation in recent years. Type 'Basel III' into Google, for example, and you will find around 7,140,000 results. The thought of yet another lengthy treatise on banking regulation might not sound immediately appealing to everyone, therefore. But while much of what has been written on bank regulation does little to ameliorate the confusion that exists around this subject, Wandhöfer's tome is different. It simplifies a great deal of the complexity that exists around this subject and, in doing so, shines a light on some opaque issues that are nevertheless very important to understand.

For this reason – and many others – treasurers should read this book. If they do, they will then better understand the importance of transaction banking, and how the regulation being effected now will impact the service. Once they have done so they will also appreciate that the regulators have failed to remove the causes of the crisis. There will be more in future, so be prepared.

Transaction Banking and the Impact of Regulatory Change: Basel III and Other Challenges for the Global Economy, by Ruth Wandhöfer, is available from Palgrave Macmillan, RRP £60. ■

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

Payment Services Directive 2

What is the state of play with the Payment Services Directive 2 (PSD2)? What will the major changes be? And what do I, as the treasurer of a European company, need to think about in relation to the PSD2?

David Song, European Consultant, Payments Council:

The Payment Services Directive (PSD) came into force on 1st November 2009 with the goal of making payments across Europe more efficient and easier to understand. The European Commission is now in the process of replacing PSD with PSD2, which is currently starting its First Reading in the Trilogue negotiations as part of the EU's Ordinary Legislative Procedure. Each of the three main EU institutions: the European Commission, European Parliament and Council of the EU have reached their own individual positions on the new laws, and will work together to agree a final text of the new Directive through this process, with an agreement possibly reached by Q215. Following agreement, EU Member States have two years to transpose any new agreements into national legislation.

The European Commission's objectives for PSD2 are to:

- Contribute to a further integrated and efficient European payments market.
- Improve the level playing field for payment service providers (including for new players).
- Ensure a high level of consumer protection and of payments security.
- Encourage lower prices for payments.
- Facilitate the emergence of common technical standards and interoperability.

The major alterations envisaged by the Commission's proposal are primarily consumer-focused. For example, providers of so-called 'payment initiation services' and 'account information services,' who are currently unregulated, will be brought into scope. New rules regarding the security of internet payments will also require payment service providers to use strong customer authentication by adopting multi-layered practices which will better protect customers from a data breach.

While the main implementation impact of PSD2 will be felt by payment service providers (PSPs), there are some elements of the proposals which are likely to be of interest to treasurers. The draft legislation seeks to extend the scope to one-leg transactions (where either the payer's or payee's PSP is located outside the European Economic Area) and non-EU currencies, although precisely which provisions will apply will need to be agreed during the Trilogue process as there are differing views held by the Commission, Parliament and Council on this topic.

The present version of the Payment Services Directive (PSD1) - in Article 3(n) - exempts "payment transactions between a parent undertaking and its subsidiary or between subsidiaries of the same parent undertaking." This exemption remains in place in PSD2. However, the Council of the EU, in its General Approach, proposes a new Recital to provide some context, which appears to seek to allay concerns expressed by the European Association of Corporate Treasurers (EACT). The EACT had identified some problems arising from transposition of PSD1 as to whether or not the intra-group exemption, mentioned above, applies. The Council's suggested new Recital recognises this by stating: "One of the main objectives of the introduction of SEPA was to facilitate the creation of pan-European payment factories and allow the creation of collection factories, centralising all transactions of a corporate group, using the 'on behalf' functionalities." The new Recital is, of course, subject to agreement on it being reached during Trilogue.

Article 51 of PSD1 relates to the scope of rights and obligations in relation to the provision and use of payment services. It allows PSPs to opt out of applying a number of provisions to corporate clients, subject to the clients' agreement. One such example is the irrevocability of a payment order. This corporate opt-out remains unchanged in PSD2 (Article 54). Furthermore, there is no change to the maximum execution time of payment orders introduced in PSD1.

Simon Newstead, Head of Market Engagement, RBS:

The Payment Services Directive 2 (PSD2) seeks to achieve a number of objectives that not only build upon the laws implemented in the original PSD regulation, but also reflect changes that have occurred in the payments industry. For example, since the original PSD was introduced, there has been a boom in the uptake of mobile and e-payment solutions. Partly due to this, we have seen the gradual disaggregation of the payments chain as different providers, often independent of banks, enter the payments process at different points.

It is expected that PSD2 will introduce a myriad of small amendments together with a number of significant changes, most notably bringing third party payment providers (TPPs) under the scope of the regulation. Including TPPs under the legislative umbrella will impact the industry in a number of ways, such as:

encouraging adoption of this business model by requiring existing market players to adapt in order to work with TPPs in a standardised way; and increasing the payment options available that merchants can offer customers.

Another area that PSD2 is likely to impact is so-called one-leg payment transactions, (payments that are made from within the EU to outside it or vice versa) and also intra-EU, non-EU currency transactions, such as dollar or yen payments. These types of transactions largely fell outside the scope of the original PSD and many countries therefore took different approaches to regulating them. PSD2 seeks to harmonise these rules and create a more consistent environment, something that will be welcomed by corporate treasurers.

Of course, any new law can have unintended consequences if the wording is not sufficiently precise. From a corporate treasury perspective, an example of where discussion has been taking place to avoid this risk in relation to PSD2 concerns the wording of the article that seeks to exclude parent-subsidiary payment transactions from the scope of the Directive. If the final text were not to be carefully worded, there could be a chance of those corporates operating shared services centres being classed as providing payment services, requiring them to be regulated as such. However, this is highly unlikely to happen since legislators are well aware of this potential issue.

While the changes are expected to be far more incremental than the original PSD, and should not have a dramatic impact on corporate treasurers, they can't be detached from the process. At this stage, therefore, corporate treasurers should keep track of the developments and leverage their peer groups and banking providers to ensure that they are aware of any important details that may arise from the ongoing PSD2 process.

Tim Dolan, Partner Financial Markets and Christopher Jessup, Associate, Financial Markets, King & Wood Mallesons LLP:

Tim Dolan

Christopher Jessup

In light of rapid technological developments in the payments space and different implementation and interpretations of the provisions of PSD by European regulators, the European Commission published, in July 2013, proposals for a new Payment Services Directive (PSD2) to repeal and replace PSD.

PSD2 will increase the scope of regulation. First, the geographical scope will be increased in that certain provisions (relating to transparency of terms and conditions and information requirements) will apply to 'one-legged' transactions namely, transactions where either the payer's or the payee's payment service provider (rather than both the payer or payee) is located outside the EEA. Secondly, under PSD2, the abovementioned transparency and information requirements will apply to all currencies, not just to EU currencies as is the case under PSD. Thirdly, PSD2 introduces two new payment services: a payment initiation service and an account information service.

The number of exemptions available will be reduced under PSD2, and the scope of the remaining available exemptions will be narrowed. These changes will need to be carefully reviewed by all firms that have sought to rely on any exemptions under the PSD.

Some of the most relevant conduct of business changes in PSD2 relate to security requirements, liability for unauthorised transactions and refunds.

PSD2 introduces new requirements relating to operational and security risks. These include requiring a Payment Service Provider (PSP) to: (i) report security incidents and provide annual information on its assessment of the operational and security risks associated with its payment services; (ii) notify its customers directly and without undue delay if a security incident might impact the financial interests of those customers; and (iii) apply 'strong customer authentication' in respect of electronic payment transactions.

With regard to unauthorised transactions, the maximum liability that a payment user will have for such transactions will be reduced from €150 (as it was under PSD) to €50. In addition, in the case of late execution of a payment transaction, the payer can opt to have the amount value-dated at the date the amount should have been received instead of having the amount refunded.

Refund rights in the case of direct debit transactions are to be broadened under PSD2 so that a payer will have an unconditional right of refund within eight weeks of the debit date (as long as the payee has not already fulfilled its contractual obligations).

PSD2 updates the existing regulatory framework on payment services by bringing into its scope payment service providers that were previously unregulated and addressing issues such as transparency and security of payments through new payment channels. During the two year implementation period, efforts will need to be made to ensure that PSD2 is applied in a consistent and co-ordinated manner across the EU if objectives such as the SEPA area are to be realised. Firms will also need to carefully review the application and scope of PSD2 in light of the proposed changes including those mentioned above. ■

The next question:

"I have been searching for a system to manage signature mandates. What systems are available and what benefits do they offer?"

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

ecr research

Coming up roses?

With global leaders finding it increasingly tough to keep up with the pace of change, it can be difficult to predict how geopolitics will influence the economic outlook for 2015. Nevertheless there are some key themes that treasurers should keep a keen eye on over the coming months, says ECR.

Although 2014 turned out to be, in the main, a year of crises, it was interspersed with encouraging economic news as well. The US economy is now largely on the right track (even though some data remains a little suspect) and the British economy is also growing steadily. In addition, the markets are demonstrating confidence in the economic aspirations of new rulers in Indonesia and India, and China's growth seems to be on schedule.

The global outlook is far from rosy, though. Many analysts fear, for example, that China has created unsustainable bubbles that will see current growth rates falter. On top of this, the Eurozone is in turmoil; there are question marks about the will (and ability) of Japanese Prime Minister Shinzō Abe to get the country's economy back on track; and analysts worry – to a greater or lesser extent – about three of the five BRICS, namely Brazil, South Africa and Russia.

> "These days a would-be grandmaster, staring at the global chessboard, is liable to find that the pawns have started moving around on their own."
>
> Gideon Rachman, Financial Times

As ever, politics will be a very important factor in the economic developments in – and ultimately the prospects for – these countries. Indeed, many of the major crises that broke out in 2014 were connected to (geo)politics. And it is no coincidence that most experts regard poor governance as the biggest threat to global security.

Moreover, leaders find it increasingly difficult to get a grip on national and international politics and economics in what the FT's Gideon Rachman, describes as the 'democratic age'. The world seems more complex and obtrusive than ever before. Borders – and not just physical ones – are porous. People, capital flows, criminality, information, weapons, ideas, pollution, and epidemics move around the world at speed. As Rachman writes, "These days a would-be grandmaster, staring at the global chessboard, is liable to find that the pawns have started moving around on their own."

Gazing into the crystal ball

Although this makes it harder to predict future events, it is still important to understand what the key geostrategic and (geo) economic issues impacting the financial markets will be over the next 12 months. And amidst all the uncertainty, one thing is clear – global instability and unrest will continue into 2015.

First of all, in the Middle East and North Africa (MENA) region, arrangements that were set up in the first half of the 20th century continue to come under internal and external pressure. And, there is no reason to think that the reshuffle of borders and power relations will come to an end any time soon.

Elsewhere, since the eruption of the financial crisis in 2007/2008, liberal democracy has been creaking on its foundations in many areas. History professor Mark Mazower wrote that, "by discrediting the more mythical idealisations of the market, it has encouraged the restoration of state power as a goal in itself. This programme is easily harnessed by authoritarian leaders in the name of national sovereignty and democracy." In some cases, we are seeing transitions from 'authoritarianism light' to a totalitarian regime. Conditions have hardened in countries like China, Hungary, and Turkey, but most of all in Russia. Tensions between these areas and the West could become exacerbated (unless strong leaders actively strive to reassure the markets by creating more stability – which may pose a moral conundrum).

Over in Africa, some 20 countries are "failed states" or are heading in this direction. As a result, they are exposed to the dissemination of diseases, extremism and violence. The past shows that instability can easily spread from one African country to another, and with resource-rich areas such as Nigeria, Angola, South Africa, and South Sudan so relevant to the financial markets, this is a concern. Meanwhile, in Asia, the restructuring of national security and economic order continues. This affects the relations between the US and China. Add to this the maritime tensions between China and other Asian countries, such as Japan, and the picture becomes quite cloudy. Nevertheless, Asia continues to benefit from the shift of political and economic power from West to East and from North to South. In a relative sense, the Americans are losing power and this is all the more true of Europe too.

Market hurdles in 2015

Over the past year, the markets have not been overly bothered by geopolitical crises or politico-economic setbacks. However, market sentiment is fickle and it is likely to change as the Fed tightens its belt. In combination with waning confidence in the omnipotence of central banks, the slowdown in Chinese growth, political instability, and growing risk-aversion, this could result in a 'risk-off' climate going forward.

In Europe, 2014 was a relatively quiet year, but 2015 could be very different, considering the lack of adequate reform in France and Italy, which is being compounded by the fact that the core Eurozone countries are not doing very well either. Various electoral fireworks are scheduled for 2015 as well. The main question treasurers should be considering is: will Europe opt for a fiscal union (and write down Greek debts) or is a 'Grexit' on the cards? If the other euro countries want to hang on to Greece, write-downs are unavoidable.

> "By discrediting the more mythical idealisations of the market, it has encouraged the restoration of state power as a goal in itself. This programme is easily harnessed by authoritarian leaders in the name of national sovereignty and democracy."
>
> Mark Mazower, Professor of History

In recent months, the oil price has been another area for treasurers to watch closely, losing over 40-50%. According to Jessica Tuchman Mathews, the outgoing President of the Carnegie Endowment for International Peace, a foreign policy think tank in Washington, "If, as now seems quite possible, oil prices settle at around $60 per barrel…that will be a global game changer. Virtually no economy and few economic relationships will be unaffected."

Whereas the global economy will benefit if oil prices continue to stay low – unless the pullback triggers geopolitical crises – a number of specific countries will be hard hit. The most vulnerable states are: Venezuela, Nigeria, Russia and Iran. Other countries that should be monitored if the oil price slump continues are Brazil, Iraq, Libya, and the Gulf States.

Nevertheless, the oil price pullback will help China as it continues its advance. Treasurers would do well to consider three questions here:

- Is leader Xi Jinping a true reformer who really intends to tackle corruption and turn China from a mega-exporter into an economy driven by domestic consumption?
- Is prosperity the primary aim of China's global infrastructure plans and projects or does it have a hidden geostrategic agenda as it continues to construct (rail) roads and ports on a massive scale?
- Finally, will China's slowdown in growth lead to more conflicts with neighbouring countries?

The full picture

There are many more themes that will be relevant to the markets in 2015. For example, Japanese Prime Minister Abe should not invest too much political capital, time and effort in his nationalist agenda (as he has done in the past). Instead, he would do well to focus wholeheartedly on the Japanese economy. He may have no choice. Especially since the power base of his ally, Bank of Japan (BoJ) Governor Kuroda, is crumbling within the central bank, which continues to strive to boost the economy.

Other important leaders to follow are Prime Minister Modi in India and President Jokowi in Indonesia. Both leaders are viewed as benevolent reformers who are willing (and able) to get rid of bureaucracy, corruption, and other major obstacles to growth. Both have made a decent start. However, it remains to be seen whether they will continue along the same lines once the low-hanging reform fruits have been picked.

In summary, we foresee numerous geopolitical and politico-economic risks for 2015. Despite this, steady growth in the US and the UK, the continuous emergence of countries like China, India, and Indonesia, together with low oil prices could add some sunshine to the grey skies. Yet, all in all, we do not expect much better economic weather.

The global economy is bound to grow at a slower pace than in recent decades and the unsettled climate will destabilise many countries. International and national political problems are hampering economic growth. Is an umbrella to protect against the economic drizzle and political downpour really too much of a luxury? ■

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Cryptocurrencies: cracking the code

The rise of the volatile and decentralised bitcoin has not only seen the term 'cryptocurrency' entered into the Oxford English Dictionary, but it has also made headline news and – for some – is seen to be the future of finance. But do cryptocurrencies really have the potential to create such seismic shifts and are corporates aware of their possible application within treasury and the wider financial industry?

Five years ago, British pop star Lilly Allen was offered payment for an online gig through a then obscure and unheard of means – bitcoin. Understandably, the singer rejected the seemingly paltry offer, with no inkling of how popular and valuable the cryptocurrency would become. If Allen had accepted the hundreds of thousands of bitcoins and held them until their December 2013 peak (when each coin was worth $1,240), she could reportedly be six times wealthier than she is today. Such is the benefit of hindsight.

What this story illustrates is that, since its creation in 2009, bitcoin has gone from being a virtually worthless computer algorithm lost in the depths of the internet to being touted as a genuine rival to fiat currencies. And despite there being over a hundred alternatives, bitcoin has become synonymous with the term cryptocurrency. For Gautam Jain, Managing Director and Head of Client Access at Standard Chartered, this is because "bitcoin has ultimately promoted itself better than any other cryptocurrency, it consequently has had the backing and investment, helping it to become the market leader."

The bitcoin lifecycle

Despite growing mainstream coverage to many, cryptocurrencies remain an area full of jargon and unnecessarily complex concepts – and above all, for many

corporates, they seem irrelevant. But before we begin to examine the arguments for and against bitcoin, let's take a look under the hood of the cryptocurrency.

The Oxford English Dictionary defines a cryptocurrency as 'a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank.' Unlike traditional fiat currencies that are printed by a central bank, cryptocurrencies are 'mined' by individuals and now, more commonly, by specialised mining groups. To mine a cryptocurrency, specialised software and hardware is needed in order to solve complex mathematical algorithms that become increasingly difficult the more coins that are mined. The process is often compared to the mining of commodities, such as gold, that are finite and become increasingly problematic and costly to attain.

The computer power that is used to mine a cryptocurrency is what maintains and keeps the network alive and at the heart of this network sits a decentralised public ledger that records every transaction made using the currency in real-time. All users are given their own unique bitcoin address and the cryptography built into the chain maintains its integrity and chronological order. As such, it is easy to see how much value belongs to a certain address at any point in time. It also makes adjusting the chain very difficult, so it is nearly impossible for a bitcoin user to spend more than they have.

Once mined, bitcoins can be held as an investment, converted into fiat currency or used to purchase goods and/or services. Statistics released by bitcoin payment processor BitPay show that the majority of merchants currently using the cryptocurrency choose to convert their bitcoins into fiat currencies. And the number of such merchants is growing as the benefits of bitcoin become clearer.

Revolutionary properties

For Ian Benson, Director at law firm Maclay Murray & Spens, the cryptocurrency's decentralised nature is a key attraction. "Bitcoin operates using a decentralised ledger and on a peer-to-peer basis," explains Benson. This means that it can be used independently of the finance sector – and the fees that are associated with doing this." This may spark the interest of corporates who in recent years have been focusing closely on transaction banking costs and looking to reduce fees where possible. Nevertheless, bitcoin transactions are subject to a fee if made through an exchange – this is currently around the 1% mark. But for merchants who may have to stomach fees of up to 4% from card providers such as Visa, MasterCard and American Express, the attraction is clear.

Aside from being independent from banks, cryptocurrencies are also independent from national governments. "There is no jurisdiction and no economic underpinning," says Standard Chartered's Jain. This has benefits for corporates who are engaging in cross-border activity as it is not subject to the rules and protocols that dictate the movement of fiat currencies across borders. Exchanging bitcoin across borders not only again escapes the often expensive transaction fees, but also avoids FX exposure and any value date issues – bitcoin transactions are made in real-time.

A third characteristic that could make cryptocurrencies an attractive proposition for some corporates is that payment is entirely irrevocable. "Traditional clearing and settlement systems to a lesser or greater extent involve the issue of revocation of payment instructions, particularly in the international system," says Benson. "Corporates are always faced with this risk and that is why we see companies use letters of credit to mitigate this risk, because these can't be reversed but of course they also involve paying fees to the issuer."

Analysts in favour of the cryptocurrency also believe that bitcoin offers a new way for corporates to look after their customers – and protect their data. Consumers who use bitcoin will not need to provide any personal payment information. Comparisons here can be drawn to PayPal. However, bitcoin advocates suggest that it is more secure than PayPal because bitcoin has no database of information that can be leaked if an account is hacked. And while bitcoin wallets have been subject to such attacks, new security developments, such as multi-sig technology are making this more of a challenge for cyber thieves.

As such, accepting bitcoin may prove an innovative way to attract business from security-conscious consumers. Indeed, computer giant Dell, a company currently piloting the acceptance of bitcoin, is seeing positive feedback from its customers. "We're pleased by the initial response to our current bitcoin pilot on Dell.com for consumer and small business shoppers in the US and purchases have exceeded our expectations," says Paul Walsh, Chief Information Officer at Dell Commerce Services.

Despite these apparent benefits, uptake still remains small in the corporate world. According to data from CoinDesk's 'State of Bitcoin 2014' Q3 report, just under 80,000 companies now accept bitcoin.

Treasury tribulations

This lack of, or at least rather slow rate of, adoption comes as little surprise when you consider the deluge of negative press that surrounds the cryptocurrency. In late 2014, Bloomberg classified bitcoin as the world's worst currency that year. And given the fact that the value of bitcoin dropped 56% against the USD during 2014, it's easy to understand why.

The cryptocurrency's volatility is a huge barrier to adoption, not least in the corporate sphere. In 2013, bitcoin was on average ten times more volatile than the S&P 500 and 15 times more volatile than the EUR:USD currency pair. Against this backdrop, can treasurers really afford to embrace bitcoin? Jain takes an open-minded approach in answering this question. "Corporates need to understand what the underlying value against the USD is, for example, and then understand why this goes up and down," he says. Like gold, the price of bitcoin is driven by supply and demand but also by trust – and it is this third element that may be key to a more stable price, he explains.

Benson, on the other hand, points to the derivatives market as a potential solution to bitcoin's volatility. "This is the single most important development that bitcoin can have," he says. "A futures and options market will assist in taking the volatility out of the currency and also assist corporates in hedging any balance sheet risk." There are already some companies in the market that are beginning to offer these services, including LedgerX , which hopes to launch the first US-regulated option exchange, and BitMEX, which recently launched the first 30 day Historical Volatility Futures Contract for bitcoin. "Products such as these have the potential to transform the market just as they did the traditional commodities market," Benson notes.

Air Lituanica joins the bitcoin revolution

Case study

In August 2014, Air Lituanica announced that passengers could now purchase their plane tickets using bitcoins. Speaking at the time of the announcement, Simonas Bartkus, Director of Commerce at the company said: "Bitcoin payments are highly beneficial for the aviation market – this currency helps to attract more buyers from abroad as bitcoins can be used anywhere in the world. The money transfer is fast and there are no added taxes otherwise deducted by banks and agents."

Since then, Sandra Meškauskaitė, the company's Communication Manager, has spoken with Treasury Today and explained a little more about the company's decision to accept the cryptocurrency. "Bitcoin is the most universal and reliable currency in the world. We installed it on our flight tickets booking engine and this has been a very popular decision – it is used by international customers all over the world."

One of the drivers behind the decision was to give customers more real-world payment choices. What's more, it's simple to use. "When customers choose to pay by bitcoin, they are redirected to our payment service provider's webpage (MisterTango) where they can find a QR code or bitcoin address which they can use to send the currency to. Once the payment is processed, we receive confirmation from our payment service provider and we then sell the ticket to the customer."

In terms of security and risk management, Air Lituanica does not store payments in bitcoin. "MisterTango sells the bitcoins on the Bitmarket.lt exchange and we receive euro in return. That is why we do not have a lot of risk associated with bitcoin and we treat it like a faster, more convenient payment method for our customers."

While the company is only using bitcoins for simple transactions at present, Meškauskaitė believes that it has far wider applications and that customers will become increasingly interested in using bitcoin. "It is an extremely useful innovation and in the future it may eliminate current online payment methods," he notes.

Safe as houses?

The next big issue that bitcoin is yet to fully overcome is security. Instances of security breaches, or 'heists', involving bitcoin exchanges have been well-publicised. The most high profile case involved the now infamous exchange Mt. Gox, which in early 2014 announced that approximately 850,000 bitcoins were missing, presumed stolen. The value of these coins, which belonged to both the company and its customers, at the time accounted for over $450m. In more recent months, 200,000 of the coins have been found by the company on an old hard drive, yet the rest remain at large.

This incident highlights a separate issue: namely, the anonymity that cryptocurrencies offer. Although any transaction that occurs will appear in the block chain (the decentralised public general ledger) for that day, the lack of identifying information available and the lack of forensic tools to analyse the block chain can make following transactions extremely difficult, if not impossible. Hence why they are often associated with 'dark net' trades.

Corporates holding bitcoin will also need to be aware of the myriad security issues as the cryptocurrency cannot be held in a bank account, with the long established security protocols that support this kind of structure. Instead, it is held in a bitcoin wallet. The digital wallet can come in multiple guises including in the cloud, on a hard drive, or even on a device locked away in a safe. All current methods have their own issues, firstly the security of the cloud solution needs to be optimal, as security around bitcoin has been under the spotlight with a number of high profile breaches and 'heists'. So-called 'cold storage' (storing the bitcoin on a device that is not connected to the internet) may be a safer option as the wallet is disconnected from the internet and therefore away from hackers. That said, it poses its own challenges because it is neither easy to access the wallet quickly nor conveniently to make and accept payments.

Progress is being made in this space, however, including the development of multi-sig technology. "Multi-sig technology is the equivalent to a safe deposit box that requires two people to access what is inside," says O'Brien. "This means that one person with one key to the bitcoin wallet can't access it and steal what is inside – it is an extra layer of security."

Whether developments such as these will do enough to ease corporate fears over bitcoin security remains to be seen, however.

Regulation in uncharted territory

Elsewhere, regulation around bitcoin is a genuine concern. In early 2014, US Federal Reserve Chairperson Janet Yellen announced that; "It's important to understand that this (bitcoin) is a payment innovation that's happening outside the banking industry. The Federal Reserve simply does not have the authority to regulate bitcoin in any way." With this statement many in the industry breathed a huge sigh of relief that they did not have to worry about the Fed cracking down on the currency. However, bitcoin has gained the attention of other global regulators both at state and local level.

"Regulation is incredibly important, ultimately it will make or break bitcoin," says Nathalie Reinelt, analyst with US Boston based research firm Aite Group. And while many experts who commentate on the currency also share this view it remains a bone of contention in the cryptocurrency community. Cryptocurrencies, by their very nature, are decentralised and not tied to governments, yet as they become more popular, and are used more by consumers, there will need to be regulation. "It is a catch-22," says Reinelt, "as much as those in the bitcoin industry are concerned about regulation and don't want it, they ultimately need it in order to attract more mainstream users."

But who can, and should, regulate the space? "There are questions surrounding whether it should be regulated on a country-by-country basis, or if there should be the creation of a global framework," says Standard Chartered's Jain. Currently

the currency falls under the watch of a wide range of regulators at both national and local level. For example, New York State has been cracking down on those in the industry and in the summer of 2014 issued subpoenas to many bitcoin executives, in order to understand their business practices. Following this, the state launched its BitLicence, a licence that will be required by bitcoin companies operating in New York in order to do business and send the currency to residents. To be awarded the licence, companies must be in compliance with anti-money laundering and consumer protection requirements.

At the other end of the spectrum, in China, a country that bitcoin was once very popular in, the regulators have come down hard and restricted its use. Other countries such as Iceland have been even more extreme and classed bitcoin as a foreign currency that cannot be bought or sold in the country.

The Iceland example throws up another interesting question: what is bitcoin? Is it a currency, is it a commodity or something else entirely? And the lack of agreement from regulators seems to suggest that they really don't know. In the UK, it is classed as private money. In Australia it is seen as property. Inconsistencies such as this place a huge burden on companies accepting bitcoin when it comes to reporting, auditing and tax.

"Ultimately, these issues need to be resolved – otherwise, there will not be mainstream consumer or business adoption," says Reinelt. "Many bitcoin companies, especially those in the financial institution (FI) space, are in legal limbo regarding being banked and what to do with their earnings. Banks are not banking them because they just cannot stand up to their AML KYC standards." In essence, bitcoin FI firms are asking to play in the same space as traditional financial services companies but not by the same rules. "This just isn't going to happen," notes Reinelt.

Benson thinks regulatory frameworks are what is needed to overcome these hurdles, as a means to standardise its use, as FinCen in the US and BaFin in Germany have started to do. Reinelt doesn't see this as a realistic proposition, however. "I don't think it will be possible to get that many regulators to agree," she says. "I think the best outcome will be if countries watch what the big nations do; the US, UK and China for example, do and then augment those regulatory concepts to meet their own needs."

A true alternative?

With so many question marks hanging over cryptocurrencies, is bitcoin ever going to be part of day-to-day treasury business? "It's hard to say," says Jain, "like with any new technology you really can't predict what will happen. It may fizzle out, remain a niche, or it may become one of the world's key technologies moving forward. And this will only happen with wide adoption across the supply chains – and won't happen without regulation."

Benson believes that bitcoin's future rests on the development of the decentralised ledger and its ability to transform the transaction space. "At the beginning of the dotcom era, there was lots of confusion around what it would actually be. Was it going to be a new sector or something else? If we then look at how the internet has radically transformed all facets of life over the last 15-20 years – you can say a lot about that in relation to cryptocurrencies." Benson doesn't believe that banks and traditional currencies will disappear but he does expect to see some fairly significant changes. "Bitcoin is the same as the internet – it will just become another way that we do business and construct business models, it will add another dimension to commence."

Bitgo CEO, Will O'Brien, believes (somewhat unsurprisingly) that bitcoin will be more revolutionary. "I think bitcoin will become more integral to our lives than we can possibly imagine. If you look at the early days of the internet who would have thought we would have companies like Google, Facebook and Twitter and all the effects they have on our world," he says. "Bitcoin is following the same trajectory. Not everyone will know what it is or have one, but it is superior to our current financial system and it will eventually displace and replace the backbone of finance, capital markets and commerce."

For Reinelt, it is the platform, built around the concept of a decentralised public ledger (block chain) and not the currency that will be the main talking point moving forward. "We are starting to see companies emerge, like Ripple, who have shifted away from making their cryptocurrency the primary product and focused more on offering the platform as a business to business service that allows FI to move money internationally for lower fees than traditional systems. So just in the way that Napster paved the way for digital content platforms, cryptocurrencies will lay the platform for cheaper, quicker and safer international monetary exchange built around the block chain concept."

Work has also already begun on looking at how the decentralised ledger can assist corporates outside of the payments space. "At its most basic level, the block chain is used to securely transact. So this doesn't have to be a monetary value that gets exchanged, it can be exchange of any value," says Jain. "Theoretically, whenever there is any exchange that needs to be done securely, it can happen on the block chain. eBAM is one area that the block chain may fit comfortably into to; as are agreements and certificate exchanges, such as bonds and share certificates. Transferring letters of credit, and all the instruments associated with this, could also be built around the block chain moving forward."

While investigations into the full potential of block chain technology are in their infancy, it is certainly an interesting space – and one that may eventually eclipse the debate on cryptocurrencies altogether. ■

Companies that accept bitcoin:

Microsoft – US customers can now upload bitcoin to their Windows Store account and make purchases through this.

Dell – US customers can make certain purchases on Dell's website using bitcoin.

Showroomprive.com – The online fashion, cosmetics and homeware merchant is Europe's largest company that accepts bitcoin.

Expedia – The online travel agent accepts bitcoin for travel bookings.

CeX – Established the first bitcoin ATM in the UK and also accepts payments in stores across the UK.

OKCupid – Those looking for love can purchase a subscription to the dating website using the cryptocurrency.

Charles Ponzi: the irresistible criminal

Talking just months before his death in 1949, Charles Ponzi described his business as 'simple'. "The old game of robbing Peter to pay Paul," he told the Associated Press. How – and why – did Ponzi's name come to be synonymous with fraudulent investment propositions when others before him had done much the same?

The dreamer

Before his birth in 1882, Ponzi's family had been linked to the Italian aristocracy and enjoyed the wealth that came with those ties. Growing up, his mother made no secret of the fact that she believed in him to bring the family back to its former glory. This, combined with his personality, charm and entrepreneurial spirit, drove a hunger for riches – and for years Ponzi yearned to make a powerful name for himself.

Moving to the US was the first step towards realising this dream and Ponzi's story begins in earnest with his arrival at Boston Harbour in November 1903, with very little money to his name. Aged 21, Ponzi had just $2.51 in his pocket when he set foot on American soil, having reportedly lost a couple of hundred dollars gambling during his journey over from Italy!

The schemer

Despite enormous aspirations, Ponzi's initial experience in America was beset by failure. He travelled the country, taking odd jobs, but often ended up being fired (because he spent so much time dreaming up schemes to make money). Finally, in 1907, he secured a job at Banco Zarossi in Montreal, Canada and it was here that he first witnessed 'robbing Peter to pay Paul' activity by his bosses. Although not directly involved, when the bank started getting in trouble for offering exaggerated interest rates and stealing money from depositors, Ponzi was arrested for forging a cheque in an attempt to get away quickly. Shortly after completing his 20 month sentence for this crime, he was arrested again and charged with smuggling Italian immigrants into the United States in return for cash.

Regardless of his bad experiences, Ponzi still held a strong desire to be rich and remained determined and optimistic about his potential for success in the US. The idea that finally brought this 'success' for the entrepreneur (in his eyes at least) came with the arrival of a letter from Spain in late 1919. With several rent payments overdue and his office furniture about to be repossessed, a flimsy document inside the envelope gave Ponzi a monumental idea. It held an international reply coupon – similar to sending a self-addressed stamped envelope.

In the early 1920s, 63 countries had adopted this prepaid coupon system for international postage. You could buy a coupon in Rome for it to be redeemed for stamps in Boston, for example. While these coupons resembled currency, they weren't money; Ponzi, however, realised that they could be as good as.

Vital statistics

Full name: Carlo Pietro Giovanni Guglielmo Tebaldo Ponzi

Born: 3rd March 1882 in Lugo, Italy

Died: 18th January 1949 in Rio de Janeiro, Brazil

The coupons were of fixed price and did not reflect the dramatic devaluation of some currencies post-World War I. Consequently, purchasing coupons in countries with weak economies could yield profits and, according to a reconstruction of Ponzi's calculations by Mitchell Zuckoff, author of the 2005 biography 'Ponzi's Scheme: The True Story of a Financial Legend', $1 worth of Italian lira would buy enough coupons to enable the redemption of $3.30 worth of stamps in the US. Ponzi realised he could exploit discrepancies in the prices of coupons in different currencies – making money via mail.

Originally running the scheme just for himself, he soon began to look for investors. And during a time when the banks offered 5% annual return, Ponzi's grand scheme promised an opportunity that sounded too good to miss. It initially offered, by word of mouth, a 50% return for investors within 90 days – a deal later sweetened to 50% in just 45 days.

Too good to be true

Ponzi's firm, the Securities Exchange Company, (ironically sharing the same initials as the Securities and Exchange Commission later set up to police markets and protect investors from schemes such as his) wooed numerous investors with its attractive offer. By the time spring arrived in 1920, the company was bringing in $30,000 a week (approximately $319,000 today). It is rumoured that so much cash was coming into their offices, drawers were overflowing with notes and workers used waste paper bins to store the 'excess'.

However, as the saying goes: if it seems too good to be true, it probably is. Ponzi's investment strategy may not have been illegal and, in theory, the postal coupons were potentially profitable, but the scheme was fundamentally flawed. It was impossible to buy and transport coupons in sufficient quantities to earn the returns promised – with the first 17 investors alone it would have taken 53,000 coupons to pay them off. Since there were only approximately 27,000 international reply coupons in circulation, Ponzi was out of his depth. Furthermore, soon after he announced his scheme, postal authorities in Italy, France and Romania temporarily suspended the sale of postal coupons. They were suspicious that Ponzi's scheme was illegal and worried that someone could profit.

> Aged 21, Ponzi had just $2.51 in his pocket when he set foot on American soil, having reportedly lost a couple of hundred dollars gambling during his journey over from Italy!

These factors were not the only reasons for the scheme's failure – Ponzi apparently never even got round to buying that many coupons. In fact, a final audit of his company's assets revealed only $61 worth of coupons. Furthermore, Ponzi failed to work out a reliable system for converting the redeemed stamps into cash.

With little or no legitimate earnings, it wasn't long before he was forced to begin paying off his earlier investors from money invested by those joining the scheme later – what is now known as a Ponzi scheme, also often referred to as a pyramid scheme. Although he never admitted to being inspired by his experience at the bank in Montreal, it's hard to believe his prior exposure did not influence this decision.

Heading towards the summer of 1920, the rapid growth of Securities Exchange Company attracted the attention of more and more newspapers – and reporters started to dig. Nobody had any knowledge of how, precisely, Ponzi was making profits from his investments and he continuously – albeit politely – refused to divulge such details on the grounds that secrets needed to be kept for competitive reasons. The first of a series of articles published by The Boston Post suggested that public scrutiny of Ponzi was lax and the paper followed – and actually played a huge part in – his downfall throughout that summer.

A front-page story on 11th August 1920 about Ponzi's prior conviction in Montreal included his 'mug shot'. Investors in the scheme could then see that this was the same man they had trusted, so they panicked and began withdrawing their money from the company. As with any pyramid scheme, this caused the entire set-up, less than nine months after it began, to come crashing down.

Despite Ponzi never publicising the methods behind the postal scheme and his unrelenting obsession to make it succeed, his arrest in August 1920 confirmed that it was all a hoax. Although he had been paying some investors, he was an estimated $7m ($74m) short – and this was owed to some 20,000 people.

A media circus of a trial ensued and saw Ponzi act as his own defence attorney, claiming that adverse circumstances led to the company's failure. The trial ended with a guilty verdict and Ponzi was convicted on federal charges of using the mail to defraud on 1st November 1920. He served four years in federal prison and was sentenced to an additional seven to nine years in state prison.

Free on appeal before this second incarceration, in a bid for freedom, Ponzi adopted the alias Charles Borelli and took off for Florida. But Ponzi's greed prevailed and he was convicted of failing to file proper papers in his attempts to, once again, make a fortune – this time by purchasing real estate and selling the subdivided plots. After serving one year's hard labour in Florida state prison, he faked his own suicide in Jacksonville, created another new name (Andrea Luciana) and boarded a ship headed for his home country. This time Ponzi's ego prevailed, he couldn't keep his identity to himself and the authorities were soon made aware of his whereabouts. He was arrested before the ship left US waters and finished his seven year sentence in Massachusetts state prison.

Investing in a pyramid

The scheme that bears his name is based on the fraudulent idea of initial investors being paid abnormally high short-term returns by new investments, rather than any money generated by the operation itself. Such a scheme relies on a promise at the top, the continual recruitment of new investors and the movement of money upwards – each layer taking a piece of the proceeds on its journey. Ponzi schemes are able to give the impression of integrity through initial satisfied customers responsible for spreading the word. Before long, investors are not always lured in by the perpetrator, but by their trust in friends of friends who know the perpetrator.

> What is certain is that people across the US – due to greed, clever selling or some other reason – believed in Ponzi's scheme and lined up to invest in it, often acting as self-appointed salespeople themselves.

Arguably, the aura of exclusivity helps. The offer was spread by word of mouth enabling Ponzi to portray his Securities Exchange Company as holding a get-rich-quick secret that eluded others – all without any advertising. Whether Ponzi intended to exploit investors or foolishly stumbled into problems with an idea he believed was extremely lucrative remains uncertain. What is certain is that people across the US – due to greed, clever selling or some other reason – believed in Ponzi's scheme and lined up to invest in it, often acting as self-appointed salespeople themselves. Reportedly, even 75% of the Boston police force were invested in the scheme. Of the investors that did receive returns, many reinvested their money back, relieving Ponzi of actually having to make good on the promised returns. After his arrest, Ponzi admitted "I started a small snowball downhill. But it developed into an avalanche by itself."

Split opinions

Although Ponzi had arguably ruined many peoples' fortunes with his scheme, the character and charm that helped him

garner so many investors in the first place led him to go down in history as something of a loveable rogue. According to an article in the Washington Post on 23rd December 1920, for instance, Ponzi sent a message to his investors, expressing "the hope that the mishap to his creditors' investments would not mar the spirit of the Christmas season and asked them to look forward with him to the day when he would step from jail a free man to aid them in recovering their losses."

Many also believe that Ponzi never set out to intentionally defraud people. Zuckoff, for one, thinks that Ponzi's desires were genuine, that he didn't intend to break the law and "he sincerely believed he had found a way to turn lead into gold." Furthermore, it is reported that, after the realisation that the postal scheme wasn't going to deliver for his investors, Ponzi invested in other banks and businesses with desperate hopes of fulfilling their expectations. "I kept up the bluff, hoping that I might eventually hit upon some workable plan to pay all of my creditors," he wrote in his 1936 autobiography. The Washington Post observed that Ponzi "is one of the best examples of misdirected energy in the annals of American crime" and, certainly for Zuckoff, in another life Ponzi may have featured as a financial legend for all the right reasons.

However, Ponzi appeared incapable of moral clarity and could never quite admit to himself that his scheme was an impossible failure. Ultimately, he had fooled others because he had fooled himself. The result of his never-ending optimism was a lack of serious remorse for the financial damage he caused. Losses are estimated between $8m ($100,000m today) dollars and as high as $20m (over $230m today).

Lasting legacy

While Ponzi never fathered any children, his legacy lives on; the Ponzi scheme did not die with his downfall nor his death. According to the Oxford English dictionary, the term 'Ponzi scheme' gained entry to the Encyclopaedia Britannica in 1957. Exactly when the phrase was coined is unknown but, by the 1930s, it was often used in the newspapers.

Now, the term yields over 3 million hits on Google. In fact, the label is arguably overused today to refer to almost any scam. "The combination of Ponzi's huge personality and the enormous, if brief success of his scheme, combined with the tremendous publicity which surrounded it, is ultimately what attached his name to it," Zuckoff says.

Looking back, it seems easy to assume the population would be too well-read to fall for a similar pyramid scheme today, but a multitude of con artists have followed in Ponzi's footsteps. When William H. McMasters, one of Boston's top publicists recruited to work for Securities Exchange Company (subsequently writing an expose in The Boston Post confirming Ponzi as a crook who spoke gibberish about postal coupons), wrote "I do not anticipate that another Charles Ponzi will ever appear in the financial world," he couldn't have been more wrong.

> While Ponzi never fathered any children, his legacy lives on; the Ponzi scheme did not die with his downfall nor his death.

Bernie Madoff (who will be featured in this column in the April 2015 edition of Treasury Today) was probably the most famous pyramid scammer since Ponzi. In March 2009, Madoff pleaded guilty to fraud in an investment-advisory scheme – estimated to have cost nearly $65 billion in investor money – by inventing fictitious returns. Whereas a Ponzi scheme is dependent on a supply of fresh investors – and the perpetrator typically acts in a hurry to recruit – Madoff actually spread rumours that his fund was closed to new investors in order to increase the aura of exclusivity. And, somewhat inevitably, he ended up with thousands of clients.

Other, perhaps less well-known, dreamers and schemers in a similar vein to Ponzi include: Lou Pearlman, a music producer who, for over 20 years, convinced individuals and corporations to invest in two companies that only existed on paper; Pastor Gerald Payne who preyed on churchgoers to invest with him with the promise of doubling their money and the now disbarred lawyer Scott Rothstein who funded a lavish lifestyle by dealing in bogus structured settlements. But, as Ponzi's story proves, you have to be a special kind of con man to have your name go down in history. Even if it is synonymous with fraud. ■

Famous quotes

I landed in this country with $2.50 in cash and $1 million in hopes, and those hopes never left me.

Even if they never got anything for it, it was cheap at that price. Without malice aforethought I had given them the best show that was ever staged in their territory since the landing of the Pilgrims! It was easily worth fifteen million bucks to watch me put the thing over.

Those were confused, money-mad days. Everybody wanted to make a killing.

I had given them (investors) the most brazen exhibition of sheer nerve that had ever been witnessed in the world of finance!

Reach for the sky

Ricky Thirion
Group Treasurer

Ricky Thirion has been with Etihad Airways since 2007 and oversees the Group Treasury, comprising the corporate treasury, corporate and structured finance, insurance, and payment solutions functions. He holds a Master's Degree in Mechanical and Aeronautical Engineering and various financial and business management related qualifications. Along with his team at Etihad Airways, Thirion is an Adam Smith Award winner and is also an Honorary Fellow of the Association of Corporate Treasurers.

Etihad Airways, the national airline of the United Arab Emirates (UAE) has, in just ten years, developed into one of the fastest growing airlines in the history of commercial aviation. From its Abu Dhabi base Etihad Airways flies to 110 existing or announced passenger and cargo destinations in the Middle East, Africa, Europe, Asia, Australia and the Americas. The airline has a fleet of 104 Airbus and Boeing aircraft, and more than 200 aircraft on firm order. The company also holds equity investments in airberlin, Air Seychelles, Virgin Australia, Aer Lingus, Air Serbia and Jet Airways, and is in the process of formalising equity investments in Alitalia and Swiss-based Etihad Regional.

What are the qualities needed to be a great treasurer? Most people in the know would say that he or she must be strategically minded. An analytical, fact-based approach and willingness to deal with problems at a very detailed, objective level are also often thought of as must-have characteristics.

Although engineering might not be the most obvious background for a treasury leader, the field is concerned with conceptualising complex problems and finding ways to solve them, so it's a natural fit. "I certainly come from quite a different perspective from the average finance employee in a corporate environment," says Ricky Thirion, Group Treasurer at United Arab Emirates-based Etihad Airways. "I take more of a risk management and process mind-set: an engineer's view on life. And that works very well in treasury."

But how did this qualified engineer come to find his niche in the corporate treasury profession in the first place? After finishing his Master's Degree in Engineering his first job was in a major information technology firm which focused on delivering web integration for legacy business platforms. Some of the most interesting projects, he found, were for financial services firms and corporate treasuries.

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"I was building an intranet front-end for a corporate treasury system that deployed to the company's group of 150+ companies," he says. The year was 1996, and no project of this kind had ever been attempted before. After this initial baptism into the world of treasury and then a treasury role at GoldFields (one of the world's biggest gold mining companies), he ended up working for, and later becoming the Managing Director of, a corporate treasury outsourcing company, Andisa Treasury Solutions, which was then a wholly owned subsidiary of the Standard Bank Group. "At this point it became clear to me," he says. "Corporate treasury was where I would focus my career and I wanted to be the treasurer of a large company."

After a subsequent spell as Group Treasurer at South African Airways, Thirion further pursued his ambition when, in 2007, an opportunity presented itself to join Etihad Airways. At this point in time, the company had no formal treasury operations – the award-winning airline only commenced operations in 2003 – and Thirion's first priority was setting up a fully-fledged treasury capability supported by all the appropriate policies, processes, people and technology. As the treasury capabilities fell into place, thanks in no small part to his efforts, the business also really began to take off. "Since that time the company has grown roughly tenfold and currently continues to grow between 20% and 30% per annum. We have to date raised over $9 billion in fleet financing and we are now one of the largest hedgers of jet fuel exposures in the world."

Such a rapid expansion poses frequent challenges from a treasury perspective; challenges which regularly put Thirion's engineering approach to problem solving to the test. "Infrastructure needs to be put in place on the ground such as transaction banking relationships and other facilities like receipt of payments," says Thirion. At a strategic level, this support also involves funding the capital requirements as you take on more aircraft and other assets that support the fleet expansion and supporting infrastructure, he adds. The growing capital requirement has led treasury to become more creative in the financing space. Last year the team won an Adam Smith Award in the Judges' Choice category for an innovative asset-back lending solution executed on behalf of one of its partner airlines, Jet Airways, that utilised take-off and landing slots at London Heathrow as collateral.

Etihad Airways' rapid expansion has not been wholly organic. A significant share of it has also come through strategic investments and partnerships. Of these there are many. As it currently stands the airline holds equity investments in airberlin, Air Seychelles, Virgin Australia, Aer Lingus, Air Serbia, Jet Airways and Alitalia, along with investments in several other aviation businesses including travel management, handling, maintenance and loyalty.

A lot of Thirion's work today therefore revolves around supporting this partnership group of airlines. "I speak to multiple partner airlines on a daily basis," he says. "I continue to play a strategic bank relationship role, so I have a lot of engagement with their bankers wherever they may be across the globe. And that of course is connected back to our own bank relationship management because many of those counterparties are part of a bigger banking group common across Etihad Airways and our other business interests."

A turbulent spell

Close monitoring of bank counterparties was something Thirion had to ensure was in place almost as soon as he had his feet comfortably under the desk at the airline: it had been barely a year since he joined the company when Lehman Brothers filed for bankruptcy. Given that the nature of the airline industry makes it particularly vulnerable to global economic downturns (air travel is often one of the first things people cut back on), the next couple of years would prove to be very testing indeed for Etihad Airways' treasury. Volatility in key financial exposures such as energy prices, foreign exchange and interest rates mushroomed, which in turn also had an impact on counterparty risk and, in certain markets, funding sources.

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Thirion looked at what was happening in the banking sector and quickly realised that treasury would never be the same again. Asked how his approach to treasury evolved in the wake of the banking crisis he explains that the biggest change was around how he perceived the safety of counterparties, particularly in the case of the banks. "As you enter into a global crisis, you ask yourself fundamental questions about risks you are facing, especially with financial institutions where it profoundly changed people's views on credit risks. I think for many of us that will, in our lifetimes, be the biggest thing we remember about that time."

In the post-Lehman world, companies not only had to manage sources of funding and lending very carefully, but also keep a close eye on counterparty risk. Fortunately for Etihad Airways, the company had strengthened its focus on both issues since 2007, broadening its access to lenders and hedging banks, in addition to putting in place strict counterparty risk limits. This ultimately meant that the airline did not suffer any losses due to failures in financial services firms and were able to continue to hedge and fund the business.

A series of unfavourable natural events, such as the Icelandic ash cloud that grounded flights over Europe for a week in April 2010, served to compound the difficulties facing airlines further. Together with the fall-out from the banking crisis, circumstances conspired to create what is quite possibly one the most testing environments the industry has ever faced.

Thirion recounts that he too was one of the people who became stranded that week. The tale he tells is one that people might look back on and see the funny side of years later. At the time, however, the situation was pretty serious.

"I had flown out for an awards ceremony and I only had the clothes I was wearing and a tuxedo, so I ended up spending five days in London with a tuxedo and one change of clothes," he says. "Many members of our senior management were affected as well, but we all pulled together and wherever we were we tried to assist the passengers who were stranded with us."

Easing the load

From environmental headwinds to economic ones, Thirion has successfully navigated Etihad Airways' treasury through some tough times, thanks in no small part to the strength of his senior treasury team. He has six direct reports in a total team of 45 people across all functions under his responsibility who help him manage the ever expanding list of responsibilities that comes with being a treasurer at one of the world's fastest growing airlines.

The majority of Thirion's time these days is split between guiding his treasury team, bank relationship management, risk management, strategic funding and providing strategic support for the group's various partnerships airlines. These are not the things which can be easily automated and, as such, creating and filling new positions including the recent addition of a Deputy Treasurer and a Head of International Treasury – has been crucial in helping him stay on top of the growing volume and complexity of his duties.

In addition, Thirion says that the company is about to hire a dedicated compliance manager in treasury in order to relieve some of the regulatory strain on the department's middle office. In recent years, treasury has had to contend not only with changing processes around trade confirmations, under new rules such as the European Market Infrastructure Regulation (EMIR), for example, but also a growing amount of basic administration when providing information to banking partners. "Compliance activities related to banking and financial markets regulation tend to take up an ever increasing amount of time and we are adapting our structure and deploying dedicated resources to better deal with this challenge," he says.

As one might expect of a man who began his career working on web integration for business legacy platforms, Thirion has a strong appreciation of the role that technology can play in freeing up more time and resources from day-to-day manual undertakings. He says that the company is now in the process of reviewing the new TMS solutions on offer in comparison to its current system, as well as looking at a number of other automation and efficiency projects.

"Technology is fundamentally important to our operations," he notes. "We are continually looking at ways to introduce new technology, make processes more automated and efficient, and to remove manual processing so that we are able to handle our increasing volumes more effectively so that our staff can focus on value adding activities."

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That Thirion and his team have the time to focus on such activities is of fundamental importance, especially in light of the treasurer's continually evolving role within the business. Like many of his peers, Thirion sees the treasurer's future role as being of a less operational nature and more around helping the Board to take well informed, timely decisions. "Treasurers are coming into their own as strategic players in the corporate landscape and as advisors to the CEO, CFO and Board," he says.

Practise what you preach

An example of one of the more strategic projects Thirion and his team will be working on in the coming months and years concerns the group's funding diversification efforts. This endeavour began in 2007, just slightly prior to the global banking crisis, with the company preparing itself to access alternative sources of funding including the export credit and Islamic financing markets and, later on, the Japanese leasing market.

There is still much work to be done, however. Right now the company is focused on preparing for entry into the capital markets alongside a focus to continue to diversify and broaden access to other global funding sources.

Ultimately, the goal is to get the company rated and able to issue debt publicly. But this will not be realised overnight, he acknowledges. It must be precision engineered. After all, the strategy at Etihad Airways is still in the process of being bedded down and for such a young company to get the rating it feels it deserves, the strategy will need to illustrate proven delivery. Apart from preparing for capital markets we are also evolving our treasury capability, structure and infrastructure to better support our growing group, with a strategy to be able to deliver strategic advisory and support services, outsourcing, and systems hosting solutions from our centralised Group Treasury based in Abu Dhabi. ■

Spotlight on project finance

In addition to funding their own projects, companies with healthy balance sheets are set to increase their investment in projects that would previously have been funded from state coffers. In this article, we look at the evolving world of project finance.

PwC's Capital project and infrastructure spending outlook to 2025 report estimates that annual infrastructure spending will grow from $4 trillion in 2012 to more than $9 trillion by 2025, with $78 trillion spent globally between 2014 and 2025. The firm says private investors may be called upon to foot a higher proportion of costs, even for traditional public sector projects.

However, project finance is also attractive to private sector organisations because they can fund major projects off balance sheet. Project finance is the financing of long-term infrastructure and industrial projects where debt and equity used to finance the project are paid back from the cash flow generated by the project. In other words, it is a loan structure that relies primarily on the project's cash flow for repayment. A review of global project finance deals in 2014 conducted by Dealogic values total investment at $407.8 billion, the third highest full year volume on record. More than 1,100 deals were completed last year – the second highest full year activity on record – with energy-related projects accounting for one third of global volume.

In a working paper on project finance published in August 2014, the Bank for International Settlements (BIS) observes that it depends on a sensible transfer of risks and returns and that if done properly, the involvement of the private sector can improve infrastructure project efficiency.

Doug Segars, Associate Managing Director of Moody's EMEA project and infrastructure finance team, explains that bank lending has picked up through Japanese banks, some European banks returning to the market and a number of new banks that are more significant now than before the financial crisis. "Public bond issues appear sporadically, but the real story is private debt – both for new projects and as a source of refinancing for existing bank loans," he notes.

Segars refers to significant appetite for greenfield projects, with investors with defined mandates chasing well-structured projects in sectors such as renewables. "Even demand-risk projects (where there is a risk that a demand forecast may not meet the actual demand) are once again financeable as long as sponsors

are realistic. It is very much a borrower's market at the moment and – barring countries that present clear political and economic risk – we see interest from investors for projects across the world."

There is very strong appetite in the capital markets for infrastructure project exposure (both equity and debt) says Michael Wilkins, Managing Director Infrastructure Finance ratings at Standard & Poor's. "Commercial banks have been interested in debt exposure since the early days of project finance in the 1990s and this level of interest has risen in recent years. The other source of finance is institutional, including pension funds, insurers, sovereign wealth funds and asset managers who are looking for long-dated exposure with stable cash flows," he notes. Banks (commercial, multilaterals and export finance) account for 80% of total project finance, with the remainder made up mostly by project bond issues, he adds. "Banks like projects with strong sponsors, such as an oil and gas project backed by one of the oil majors."

Investor considerations

Yield pick-up relative to comparable asset classes is one of the factors investors will take into account when considering whether to back a project, concludes Wilkins. "The average yield on a sovereign bond is around 2%, whereas infrastructure projects generate 3.5-4%."

Most of the assets in the infrastructure space have behaved in a very predictable way, generating steady returns over a long time horizon. That is the view of Giles Frost, Chief Executive, Amber Infrastructure, who describes one of the benefits of project finance as being that the returns are largely (or in some cases completely) uncorrelated to wider economic factors.

According to the BIS, it is necessary to broaden the potential group of investors beyond direct equity investors and banks. When considering the appeal of infrastructure investment, Frost draws a distinction between the relatively small number of treasurers who have access to long-term cash – for example, those working in insurance companies who are looking for assets to match their long-term liabilities – and the much larger group who are focused on efficient cash management.

"For the latter, listed infrastructure funds are a good way of accessing this asset class. These funds show many of the characteristics of the underlying assets but can be easily traded in and out of."

He states that treasurers tend to favour investment in their domestic market, with those in the UK and US displaying the most international tendencies. "The profile of London as an international financial centre and the access to a variety of experts that this entails means UK treasurers tend to get offered a wider variety of investments."

Manish Gupta, Head of Infrastructure Corporate Finance at EY, suggests that anyone looking to invest for a period shorter than seven to eight years should be looking for alternatives to infrastructure investment. "There are many infrastructure debt instruments that are liquid, such as government guaranteed bonds issued by Network Rail or high credit quality bonds issued by infrastructure companies such as Heathrow Airport and regulated utilities. I am aware of many institutional investors who have invested in high credit rated bonds, in some cases as a replacement for gilts."

When it comes to investment preferences, he agrees that treasurers tend to prefer other markets where the same language is spoken, but adds that most treasurers in developed markets will have an aversion to considering treasury investment options in developing markets. "There is some nervousness around projects in less developed economies in Europe and further afield, particularly where the currency is not linked to the pound or dollar."

It is possible now for mid-market firms to raise facilities on a corporate level to finance long-term projects with maturities of ten years or beyond, which was not the case even two years ago explains Nedim Music, Assistant Director, Corporate Finance Debt Advisory at Deloitte UK. "The project finance market is very liquid at the moment. Insurance companies and pension funds are hungry for yields and looking to deploy capital, so there is a lot of appetite for infrastructure assets."

For corporates looking to invest in infrastructure projects that they are not directly involved in, Gavin Quantock, Assistant Director at Deloitte Corporate Finance, suggests that this might not be the most efficient way to invest surplus cash.

"Certain infrastructure assets can be an illiquid market for long-term investors, whereas a corporate treasurer would typically be looking to deploy surplus cash for as little as six and no more than 24 months. The requirement for extensive due diligence is a further reason why corporate treasurers could look elsewhere for short-term returns," says Quantock.

Increasing appeal

One of the factors that would increase the attraction of project finance investment is where the project is of strategic importance to the company and can be financed internally until it is operational and could be refinanced. An example might be a food company financing the construction of a biomass energy facility from its balance sheet in order to create a reliable source of energy and increase the sustainability of its production facility.

Rod Morrison, Editor of Project Finance International at Thomson Reuters describes availability of finance for private sector projects as very good. "There is a lot of long-term debt available from banks and institutional investors and swap rates and loan margins are very low, which is positive for clients."

Multilateral and export credit agencies are an important source of funding in less developed countries, but elsewhere there is a considerable volume of commercial debt available with the market having fully recovered from the effects of the global financial crisis, he continues. "Liquefied natural gas schemes and oil and gas projects in general are most favoured, although they are being impacted by falling oil prices. Renewable projects with strong tariffs or schemes with good sponsors are also attractive. Regionally, North America is doing well due to the shale gas boom, while Australia has benefited from major infrastructure projects."

On a transactional level, there is consistent and heavy oversubscription of project finance transactions in primary phase in both bond and loan markets as well as broad and constant demand for assets in the secondary market with far fewer sellers than over the last two to three years, says Jean-Francois Grandchamp des Raux, Global Head of Energy and Infrastructure Group at Crédit Agricole CIB.

"There is strong and robust appetite amongst the leading project finance banks to underwrite transactions and we are starting to see underwritings re-emerge as a favoured strategy

compared to traditional large club transactions. Furthermore, sponsors have stronger leverage and increasing diversity of funding options available to them, which provides them with a strong ability to secure more attractive terms and conditions, particularly pricing where we have has seen large reductions across the board over the last 12-24 months," he says.

According to Grandchamp des Raux, the capital markets and institutional investors are increasing their market share particularly as the project finance bond option becomes a more mature, deliverable and readily available source of financing for private sector projects. This is particularly relevant in Europe where it has partially replaced some loss of the liquidity from those banks who exited the market in the immediate aftermath of the global financial crisis and the subsequent European sovereign crisis in 2011-12. "As the liquidity pressure on the Eurozone has receded and banks restructured their asset base as well as rebuilding their capital positions, we have seen a strong return of bank liquidity into the project finance product in 2013-2014."

He describes export credit agencies and multilaterals as continuing to play an important 'anchoring' role in emerging and developing countries to bridge liquidity gaps and help facilitate private sector financiers to gain more comfort around sovereign and political risks. There is also evidence of government intervention in the form of credit enhancement mechanisms becoming less relevant for most sectors as liquidity constraints for project financing have disappeared, with the exception of specific sub-sectors of the market which remain challenging for private sector financiers, such as nuclear power.

"The strongest global demand from international commercial lenders is for assets structured in the investment grade arena with limited construction risks. These projects typically benefit from having strong/experienced sponsors and core developed geographies in key sub-sectors such as utility networks, energy and public-private partnership transactions."

Geographic focus

Grandchamp des Raux says that countries experiencing substantial growth in investment are in North America (particularly in the energy sectors) and also in Latin America, which represents a considerable opportunity for sponsors and lenders given the macroeconomic outlook/performance combined with relatively under-invested infrastructure. "Banks, in particular, have become increasingly focused on their broader client relationships and geographic focus when deploying capital to projects as they have had to manage their balance sheet constraints in the face of the tougher regulatory environment."

There is also strong interest in projects in the Middle East and Africa as well as Europe, says Quantock. "The European Commission's infrastructure plan commits to an investment of £315 billion over the next three years, which means there are a considerable number of transport projects in the pipeline. Energy infrastructure such as solar, on- and off-shore wind, carbon capture and storage and biomass is also high on the agenda."

According to Deloitte's Music, lenders are looking for projects with solid sponsors and advisory teams. "Whilst there is more capital to be deployed than there was a few years ago, lenders will want to see evidence of previous successful project delivery. It can be hard to find financing for new technologies."

The overall financial structure and visibility of earnings also impact on credit quality, adds Music. "There is greater interest in private finance initiative or PFI infrastructure assets where there is an annual government contribution – investing in a toll road where future income depends on the number of vehicles that use the road is clearly less predictable."

Elsewhere, John-Patrick Sweny, a counsel in the project finance group at Latham & Watkins says the recent focus of multilaterals and export credit agencies appears to have shifted from developing country projects to projects in developed countries. "While the amount of capital markets debt for project finance transactions is not currently experiencing the same growth as for bank loans, project bond debt continues to make up a significant share of the overall debt mix globally and is playing an increasingly important role in the financing of projects in certain regions, for example Europe."

Transport and infrastructure projects in certain jurisdictions (US, Australia, Mexico) continue to attract high levels of investment and there are signs of increased investment in African infrastructure projects, which historically have struggled to attract private sector investment, as investors are forced to seek out more attractive yields in a low interest environment, Sweny continues. "Recent large mining deals in Australia – such as the Roy Hill iron ore project – are outliers in a sector that has traditionally relied on corporate rather than project financing and continues to experience difficulties in Africa and elsewhere."

When it comes to making a project attractive to investors, he refers to the importance of robust commercial and financing contractual arrangements that clearly allocate risk between the project, its commercial counterparties and its lenders. "For example, depending on the sector, lenders may not be willing to take construction risk and instead may expect a guarantee of the project's debt by the sponsors until it is completed to the lenders' satisfaction, or that a suitable construction contractor takes delay and pricing risk during the construction phase of the project through the negotiation of a fixed price, turnkey engineering, procurement and construction contract.

"Ensuring that internationally-reputable counterparts are engaged with respect to the development, supply and operation of the project is extremely important, as is the reputation of the project's sponsors in many cases."

In addition to core structuring and economic considerations, lenders will take into account a wide range of factors, depending on the sector and location of the project. Particularly for greenfield projects in developing countries, they will be concerned about the political stability in the host country and seek assurance that the development of the project is in line with the perceived strategic interests of the country to mitigate the risk of future expropriation or other government interference.

"It should be noted that a stable regulatory framework is a concern for lenders to projects in developed and developing countries alike, with the instability of the UK regulatory regime related to renewable energy over a prolonged period of time, for example, undermining investment in that sector," notes Sweny.

"Geopolitical events can also come into play, as demonstrated by the recent sanctions imposed by the US and EU governments, which in the case of US sanctions specifically targeted the financing of gas projects in Russia, causing certain investors to suspend their involvement in, or pull out of, a number of Russian projects which have had to rely increasingly on domestic and Asian sources of financing," he concludes. ■

Banking clubs: obsolete?

As the big banks began to collaborate with smaller, local financial institutions to form partner networks, some began to question the validity of banking clubs in the post-crisis world. But rather than threatening their existence, the fallout from the global banking crisis presents an opportunity for banking clubs to extend their influence, provided they can also extend their coverage.

For a time, the global expansionist policies of the major banking groups appeared to weaken the rationale for the banking club. However, as certain banks have scaled back their international ambitions, the appeal of being able to continue to offer services in locations where they no longer have (or never had) a direct presence has become increasingly evident.

Looking at the main banking clubs, Unicash and Unico are more Europe/Americas focused, whereas Bob Lyddon, General Secretary of the International Banking Association (IBOS) explains that his membership extends beyond Europe and the US into Mexico, Brazil and Chile, covering approximately 80% of Latin American GDP. Connector and TES are also starting to cover Asia Pacific and the Middle East, but still have more work to do to achieve significant coverage and access, says Capco partner Bernd Richter. "Part of a banking club's offering (and value for its members) is to provide access to branch infrastructure in a target country for services such as cash collections, account opening/identification support or other services that require local physical presence. These services will not become obsolete, especially for banks in a competitive world where money transfer agencies are growing."

With European and North American companies doing more business than ever in emerging markets, there is increasing demand for banks to have solutions which enable them to support their clients internationally. It is therefore important that the existing banking clubs extend their coverage across Asia, Latin America and Africa says Stephen Everett, Managing Director of segment propositions at Lloyds Banking Group, which is a member of both Connector and Unicash.

He also sees the clubs evolving from largely referral-based arrangements to stronger alliances along similar lines to the Oneworld airline alliance, a virtual network where it is not just about referring a customer to a known contact but more

about what that bank can do to help the customer set up their international business and deliver products and services that are consistent with their home market.

Alliances are attractive since few banks can justify having their own network (unless they have scalable retail and mid-market businesses in the country) given the cost of running technology, connecting to the local clearing systems and meeting local capital requirements. "These factors, coupled with differences in regulation around customer identification and anti-money laundering legislation, mean the costs of maintaining this infrastructure will lead to increased demand for co-ordinated partnering via alliances, rather than through multiple bilateral agreements," says Everett.

Richter observes that bilateral agreements (correspondent banking) are still an important part of the corporate banking world for payments, cash management and trade services. However, he describes banking clubs as an attractive alternative to operating full blown bilateral agreements with the associated complex legal paperwork for covering countries with only occasional flows. "Ongoing M&A activity between banking groups will drive down the addressable space for banking clubs, but they still have room to grow and add value. From a geographic coverage perspective, they create more opportunities for banks to join rather than to manage bilateral relationships independently," he notes.

Shifting sands

To a certain extent, non-bank service providers (such as Earthport) have targeted some of the product and services spaces of banking clubs and financial technology companies may provide other parts of the solution in the near future, Richter adds. "From a banking club perspective this can be seen as a threat or as an opportunity to co-operate with these innovators to enhance the existing banking club franchise."

Ruth Wandhöfer, Global Head of Regulatory and Market Strategy, Citi, observes that bilateral arrangements have become more common in recent years. "Given some of the major changes on the regulatory and infrastructure side, more bilateral arrangements and partnering has been taking place as individual institutions have reviewed their business models and non-core activity has been outsourced. This trend is likely to continue for some time until the regulatory reform has settled." However, she also feels that the role of the banking club with a slightly broader focus on all payment service providers continues to be very relevant.

Lyddon refers to the retrenchment of banks running their own networks "to the extent that there appears to be quite a common earnings requirement that each link in the network earns $25,000 per annum, which can be difficult to reach when the network bank's service offering may be quite limited in certain locations." IBOS banks are full-service banks and so have a business model that can accommodate the subsidiaries of medium-large parent companies, whereas network banks are concentrating only on the very largest, he continues. "This can give rise to a situation where one part of a network bank is proposing its own network to its largest clients and a different division is proposing IBOS to the medium-large customers."

He accepts that the number of bilateral arrangements has risen but suggests that the substance of such arrangements varies widely, from agreements to exchange MT101 messages for an individual customer all the way to integrated IT solutions involving reference accounts. "Each step along the way differs. Reference accounts have the advantage of quicker set-up and single point of customer service, but then you have the drawbacks of a very limited local service range, no local relationship manager/customer service and no access to local credit products such as card, direct debit origination and loans.

"It can work well for certain types of very centralised customers but is not a panacea. It is also expensive to establish and is usually constructed on a one-way basis: a global bank engages a partner, who invests heavily on their side in the expectation of large volumes."

Lyddon says his organisation is sceptical as to whether the efforts of the financial institutions teams of many banks trying to set up bilateral arrangements are a response to real volumes or to a desire to have 'flags on a map'.

"IBOS works to a service template, with sets of capabilities stated as requirements to back up each of the value points. Our aim is to enable member banks to help their customers in other countries; the service has to perform on some real basics, without which you never get as far as delivering intraday and previous day reporting, MT101 services and cash pooling. Looked at from the point of view of the introducing bank, they need a system that will respond when they have a client who needs an account and services."

Rather than diluting the value of the banking club concept, he suggests that mergers, acquisitions and partnerships have enabled IBOS to expand its network through the existing members as an alternative to testing the governance model by engaging with many more individual banks to obtain the same coverage. M&A activity by KBC, Nordea, UniCredit and Santander has added 14 banks to the list of IBOS associate members.

"On the other hand, member banks may have viewed IBOS as a stopgap along the way to having their own comprehensive network whereas, thanks to retrenchment in the industry, IBOS offers coverage of areas for which member banks will not have coverage themselves within the foreseeable future. "Indeed, they may sell off an interest and then it is very convenient if the bank from which they have divested remains in IBOS, so that existing customer business can be managed via the network instead of via their own network. That in turn can mean that the business is managed from the same team with minimum disruption."

Still relevant

According to Richter, initiatives such as SEPA have not diminished the value of the banking club concept, while Lyddon observes that significant countries and even regions of Europe remain outside the Eurozone. "The line of business that has become far less important is non-resident accounts for local collections – that requirement can often be satisfied with just one euro account in the SEPA area rather than one in each country. However, there are still the non-euro countries: the UK, the Scandinavian countries and several in Central and Eastern Europe."

The shrinkage in non-resident accounts in euro within the SEPA area is offset by the continuing need to hold in-country accounts for resident entities, he continues. "Considerations around tax, business model and decentralisation still leave a market requiring international banking services and, while there is a trend towards centralisation and to emulate the shared

services models of very large companies, it is noticeable that medium- to large-sized companies remain quite decentralised." Lloyds Banking Group sees itself as having an intermediary role to play between the local partner bank and the customer, says Gavin Maclean, Head of Payment Product.

"We will facilitate the account opening process and this can save the customer a great deal of time. It will be very obvious to the customer that we are working with the partner bank and this is important because the customer is entering a legal agreement with that bank."

Banking clubs have created sophisticated but standardised process handling interfaces between remote initiating banks and the branches of a foreign bank executing locally and the same principle applies to the handling of AML rules, adds Richter. "Banking clubs are already benefiting from exchanging KYC and AML data for on-boarding purposes. They are impacted by these regulations, but can better share and help clients to keep the effort of account opening processes in the club to a minimum."

Ulster Bank made the decision to become a full member of IBOS two years ago, having been an associate member for a number of years before that explains Lisa Taggart, Relationship Director Corporate and Institutional banking. "A lot of the activity we see from IBOS is on the inbound side, particularly for US companies locating in Ireland who are banked with US financial institutions that are not network banks. For example, we regularly work with customers of Silicon Valley Bank to offer them local services and would have weekly calls with the bank to discuss implementation plans."

As part of RBS, Ulster Bank customers are part of a network that can provide local banking services in many countries outside Ireland. But when an RBS branch is not available in a particular country, Taggart can tap into IBOS and her customers benefit from a level of standardised account opening procedures and established relationships. Therefore, the experience of opening an account becomes more akin to the process that exists within the RBS group.

As the larger network banks may have differing criteria for what type of customer and level of business they are willing to take on, she says membership of a banking club ensures her customers can access full-service banking that is appropriate for their size and growth potential. "This is particularly important for companies that are just starting to trade abroad and have a business plan that might involve testing the market for 12-18 months on a modest scale. It also represents a valuable added service for us in terms of customer retention, especially for corporates who require access to the local clearing system in countries where RBS may not have a presence."

As an IBOS member, Taggart can certify documents for her customers that are accepted by other banks and likewise Ulster Bank accepts documents certified by other IBOS members. "Having a list of authorised signatories for each bank removes the need to engage notary publics or independent accountants and therefore speeds up the account opening and customer identification process. This is one example of how we do everything we can to behave like a single entity."

More to give

She is convinced that banking clubs will become more relevant. "A lot of work has been done in the last few years within the IBOS banks around streamlining the KYC process, for example. Now these processes are approved and implemented, the number of customers referred to us and the number of customers we refer to other IBOS members can increase."

This trend will be further boosted by network bank retrenchment, she concludes. "It is evident that network banks are focusing more on their core markets. While bilateral agreements will continue to be reached, our preference would be to further grow the number of banks within IBOS, given that we have tried and tested procedures in place."

Lyddon acknowledges that banking clubs have been impacted by anti-money laundering and 'know your customer' regulations, but adds that the workload has increased for all participants in the banking industry. "The need to do these checks in each location is one of the reasons behind network banks wanting to earn $25,000 per location. The IBOS approach has been to try to maintain a consistent process even if specific documentary requirements for each bank initially diverged. Our observation is that the requirements are starting to converge again thanks to FATF 2012 recommendations.

"The IBOS approach is to have designated contacts at each bank, a consistent method of initiating a referral and finding out whether it is 'go' or 'no go', full visibility of what the documentary requirements will be for a particular bank and a consistent method of working through the process, backed by escalation procedures. But we cannot have just one account opening document for the whole network."

The key question, according to Lyddon, is whether this can add value to the banks and the customers when network banks will only take very large customers into their network; many local banks have stopped doing accounts for non-residents or even residents who have foreign beneficial ownership; and many banks have been clearing out smaller customers or requiring very high monthly account opening fees.

"For a treasurer to try to set up banking remotely in a new country, the fall-back of selecting a local bank themselves in each country has declined due to the 'foreign beneficial ownership' issue. Then the option of using a network bank may not be there if that network bank has retrenched or if the customer falls below the threshold. So KYC is in a way an opportunity for IBOS as, within what is a network of trusted third parties, each bank can trust the authenticity of the documents sent by an IBOS partner."

The ability to offer clients specific liquidity and cash management structures across a set of countries and regions, combined with the ability for local cash collections and remittances, drives the value of clubs, adds Richter. This enables their members to offer these services at a competitive pricing point and compete against large global network banks.

According to Lyddon, it is a commonly held misconception that banking clubs cannot offer cash pooling. "IBOS has offered a same-day value overnight cash pooling service since 2000 (in euros) that moves the entire available balance in the 'slave' bank and transfers it to the 'master' bank," he concludes. "We have more than 200 customers using this service."

In short, banking clubs have evolved significantly in the years post-crisis, and are arguably more relevant than ever. ■

Do corporates need cloud cover?

Some commentators believe that the cloud has the power to completely transform treasury, displacing all those archaic in-house systems with something that is cheaper, more efficient and, well, more modern. Yet security remains a perennial concern. In this article, we ask industry experts to weigh up some of the pros and cons of cloud technology, and the conclusions that are reached may just surprise some readers.

Rather ironically, it was just the kind of incident that would have seemed right at home in the script of a Hollywood blockbuster. A top film studio cancels a major theatrical release starring big name actors after hackers, who had compromised the studio's systems, threaten violence in movie theatres. The Obama administration declares it to be a national security issue and blames North Korea for masterminding the attack. So what began as a cyber-breach in a famous Japanese conglomerate quickly became an international incident with the corporate caught in the middle.

Given the scale of the hack targeted against Sony Pictures and the level of negative media coverage, nobody should be too surprised that cyber security is once again back at the very top of the list of corporate concerns. After all, if cyber criminals could breach the systems of a company as technologically sophisticated as Sony – and, as it is rumoured, remain inside there for as long as a year without detection, then surely it could happen to anyone.

This realisation might just lead to a significant change in the way corporates perceive the relative safety of different technological set-ups. Everyone knows that in treasury, adoption of cloud technology has, to date, been hampered by reservations around security. That's understandable. Tell a treasurer that his or her department's computer systems, used to move money around, store financial data and manage risk, are going to be migrated to remote data centres accessible

over the web, then security concerns are likely to be raised immediately. Local systems are not exactly impenetrable, of course, but there is always a tendency, when so much is at stake, for people to conclude 'better the devil you know'.

Yet, paradoxical as it might seem, some commentators believe this same technology of which businesses have been so wary, may just be the solution that prevents other companies from suffering the same fate as Sony. This is because, when it comes down to it, cloud services providers know much more about security than the typical company. And given that their whole business model depends on customers trusting them with their data, they always take great pains to secure their services from such attacks. Maybe, then, it's time for those treasurers who have been hesitant about cloud technology to give it a second consideration.

Cutting capex

Putting the security issue aside for one moment, the question must be asked: why has there been such a large influx of cloud-based providers in the treasury services market? When this question is put to various cloud providers with a presence in the treasury space, each has their own unique perspective. They all agree on one thing, however: that the cloud offers a much more cost-effective way for a business to obtain the technology it needs to manage its finances.

"The reality [of a cloud service] is that you are subscribing to it," says Dave Jones, Cloud Solution Marketing Manager of Hyland, creator of enterprise content management platform OnBase. "You are not spending money upfront, there's no big capital expenditure. You are not making an investment in your in-house infrastructure, buying servers and hiring new staff. You are essentially outsourcing a portion of your IT." Better value is also created by allowing companies to tailor their solution to their specific needs with minimal fuss. "You've got the ability to turn users and/or functionality on and off, and you can scale the amount of storage they want up and down according to their needs very quickly," says Jones.

Richard Manson, Director and Co-founder of e-invoicing provider CloudTrade concurs. Offering a cloud-based service does, in fact, have several advantages for a company in this particular sector. Although e-invoicing – and the workflow solutions often deployed in parallel – are not, by any means, a new idea, uptake has been sluggish. Until recently. Back at the beginning of the millennium, when Manson began working in the payables space, the first solutions to arrive on the market were delivered at a cost that priced out all but the biggest multinational corporates. If you weren't a company the size of Unilever or Shell you might as well forget about it.

But thanks to the cloud, large capital expenditure is no longer necessary in this area and, as such, the pool of companies that can use e-invoicing has grown considerably. "What we haven't got now is a world where we go in and install software locally anymore," says Manson. "A company simply pays for the service they use rather than buying a big piece of kit, installing it and having to maintain it themselves."

Supplier adoption rates have benefited too. Although Manson believes providers will never fully do away with the need to pick up the telephone to on-board some suppliers, CloudTrade and many of its competitors have been able to take advantage of the cloud to bring suppliers on board in a more automated fashion, sending out programmed communications and directing suppliers to self-register if the supplier's volumes are of too low a level to justify a more supplier specific approach.

So the inexpensive nature of most cloud solutions has, at the very least, helped to level the playing field in the treasury technology space. Once there used to be a huge gap between what the biggest, most sophisticated companies could achieve with their treasury technology and, say, a £100m revenue company based in Manchester, UK. Now, thanks to the cloud, capabilities are much more equal. And there are even, as we will hear in a moment, some areas where functionalities available in the cloud surpass that of traditional, in-house solutions.

Ahead in the cloud

Traditional treasury technology is, by its very nature, bulky and complex. Making modifications in order to address specific problems or challenges can be quite a lengthy, cumbersome process therefore. Take a typical ERP system, for example. These solutions are designed to help businesses create financial statements as well as collect, store, manage and interpret data from a range of other business activities. But what if the treasury department wishes to tailor the technology to pull specific data in order to address a particular problem? If you're working with a local ERP system, you would probably need to bring in a consultant, and design a customised side-programme to solve the problem. One would be looking at six months to a year, at least, before anything near to a solution is reached.

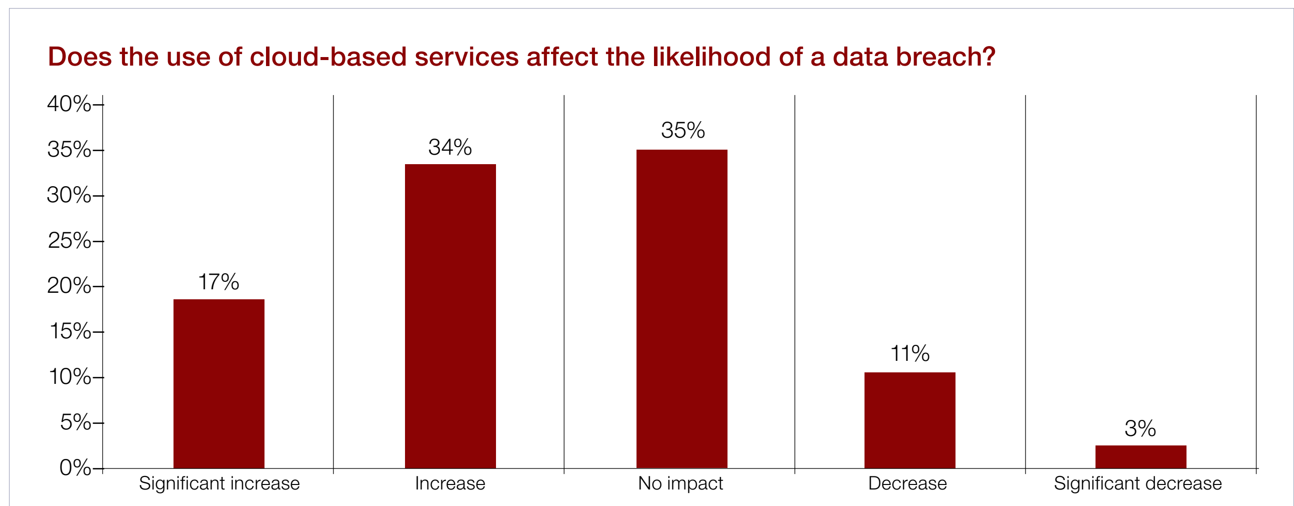
Solutions in the cloud do not suffer from this disadvantage, says Wolfgang Koester, CEO and Founder of the cloud-based FX exposure management solution, FiREapps. "The depth of actual solutions beyond treasury workstations and ERP systems is a big advantage for any treasury solution in the cloud," says Koester. In fact, Koester is adamant is that his company would not be able to offer the same quality of analytics around their FX exposures without the cloud.

All treasurers will be familiar with just how challenging it is to get visibility into their various currency exposures around the globe without the right technology in place. Of course, there are some static reports that can be pulled but these, in Koester's eyes, are rarely of the standard necessary to achieve the desired results. By leveraging the power of the cloud, on the other hand, FiREapps are able to pool data from lots of different sources and then, by applying rules-based data processing and analytics, get them to the answer they want in a much more expedient fashion with little to no internal IT support require.

Safety first

Cheaper, lighter and more flexible solutions are certainly something treasurers should be in the market for, providing that security is not compromised as a result. And although many cloud-based treasury providers say they are registering less anxiety around the concept of cloud technology from prospective customers than they did a year or two back, the fact of the matter is that, for some corporate professionals, cloud-security still sounds like an oxymoron.

A survey of 613 US-based IT and IT security practitioners conducted by the Ponemon Institute in June 2014 underscores this fact. A substantial majority of respondents (66%) said that by using cloud-based services, their organisation's ability to protect confidential or sensitive information was 'diminished'. A further 64% believed that



Source: Ponemon Institute 2014

it's more difficult to secure business-critical applications as a result of their organisation's use of cloud-based services.

Of course, the cloud industry believes that the reality about security is very different from the common perception. To Koester, for instance, it is utterly unfathomable that any cloud-based business service would be more vulnerable than an in-house platform. It is quite the opposite, he argues. "Our entire business model, and that of all true cloud-based providers, is predicated on the highest level of data security. I think that security, for genuine cloud-based providers, is actually an advantage."

A 'world without walls'

Phil Huggins, Vice President of cyber security experts' Stroz Friedberg's London office agrees that most cloud providers, at the least the ones he is familiar from doing business with, take security issues with the utmost of seriousness. After all, like Koester says, any cloud-based provider of treasury solutions that was not cognisant of security issues wouldn't be in business for very long. A certain amount of "buyer beware" is to be expected though, he explains, especially considering that there are known instances in recent years in which treasuries have been specifically targeted by "pieces of malware".

Regardless of whether or not they are warranted, Huggins believes that in the long run the shift of business systems to the cloud will not be impeded by treasurers' security concerns. Sooner or later, he boldly predicts, almost everything that corporates do – especially in their back offices, if not in their production environments too – will be using the cloud in some form or another. This seismic shift, he says, is going to demand a new way of thinking about security from corporate finance professionals.

"Traditionally, businesses have treated themselves like a castle, occasionally letting down the drawbridge for other people when they have to deal with them," he says. But in the new world Huggins describes there are no walls. "The business is actually in other peoples' system and the drawbridge is down all the time because of connectivity." This is not necessarily a bad thing, however. Cloud providers have to automate quite a lot, and manual processes are much more likely to be at the source of a security breach. "So they catch a lot of the problems, purely because they automate so many things," says Huggins. "That is one of the reasons why all the cloud providers that I've dealt with have provided a better level of security than many of the businesses I know of that have dealt with security internally."

This is not saying that treasurers can now afford to relax when it comes to IT matters. The risks have not gone away, Huggins explains, they are simply manifesting and concentrating themselves in new areas of the IT infrastructure such as the web browser. That the web browser is one of the most hacked parts of any computer is something of which treasurers should take note.

"The web browser and the browsing habits of treasury staff suddenly matter a lot," he says. "Traditionally, malware might come in through some malicious web or email route to target a treasury application installed locally. Now there is effectively one less step. In terms of security, it is about understanding, clearly, that the PCs that the treasurers use and the user accounts they have within the business are high value targets. Where they prioritise their security activities in terms of managing risk, in terms of monitoring issues, they are a high value asset that the organisation needs to spend some time thinking about."

Is the future still in the cloud?

Back in 2011, in the aftermath of the first high-profile hack to which Sony fell victim, there was much speculation about whether such incidents would cause businesses to rethink plans to move to cloud-based computer systems accessible over the web. The Wall Street Journal, no less, ran a story with the headline "Sony hack casts cloud over cloud computing". And they were far from being the only media outlet to ponder the future of the technology at the time.

Yet it is notable that in the aftermath of the latest Sony hack there has been very little of this kind of talk, despite the incident being far greater both in terms of its scale and its severity. It shows, perhaps, just how far we have come in the past few years.

Cloud computing is now no longer a radical, esoteric technology existing on the fringes of the corporate world. Of course, there is still a degree of reticence amongst some corporate professionals to the cloud, as recent surveys demonstrate. But increasingly it is entering into the mainstream and, as it does, one would expect these fears to continue being quelled through experience. ■

THE BANK INTERVIEW

Karl Trumper
Head of Trade and Working Capital, UK

Baihas Baghdadi
Head of Trade and Working Capital, International (Americas, Asia, Europe and Middle East)

With traditional trade markets providing less opportunity, companies are looking to diversify their export strategies and enter new growth markets. While there are inevitably challenges that accompany this move, banks such as Barclays have the tools, expertise, and global presence to help the opportunity become a reality. Treasury Today speaks to Karl Trumper and Baihas Baghdadi to find out more.

What opportunities do you see for the UK trade market in 2015? How do these translate into your client activities?

KT: Closing the UK trade deficit will be a key consideration in 2015, not only to rebalance the UK economy, but also to pave the way for growth – so getting companies exporting is a real opportunity for the UK and for businesses of all sizes in 2015. In fact, exporting has been proven to bring companies fresh ideas, innovation, new revenue streams, improved profile and credibility. Yet, only 20% of UK SMEs currently export.

At Barclays, we want to support companies to take the leap into new export markets, or to export for the first time. As

such, we are actively encouraging clients – via roadshows and meetings, as well as partnerships with organisations such as UKTI and UKEF – to have confidence in the strength that 'Brand Britain' provides. British products and services are still considered very high quality and remain in demand, so there's an enormous amount of potential out there for UK Plcs.

Another area where we are challenging clients' exporting perceptions is around access to finance. While this is still difficult for some, we often find that clients do not always fully explore the opportunities on offer. So, in an environment of low interest rates and high liquidity, we encourage clients to leverage the expertise and business investment of banks like Barclays who are actively looking to innovate through their products and services.

Which sectors within the UK economy are poised for overseas growth this year?

KT: The opportunities are numerous – ranging from the manufacturing, engineering, creative and service industries to food and drink. These are all examples of sectors that are well placed with strong reputations and brands that can stretch into new markets, but, regardless of sector, I would say that all companies looking for export-led growth must focus on their technology. For those entering new markets, technology, even in the form of a web presence, offers a lower risk and lower cost entry point than bricks and mortar.

What about the geographical challenges and opportunities faced by UK exporters?

KT: With the Eurozone forecast for lower growth in 2015, and broadly half of UK exports destined for the European market, we are encouraging UK companies to consider exporting to higher growth markets, such as Africa, Asia and emerging Europe. Of course, some of those markets carry different political risks – and geopolitical uncertainty is a worry for exporters at the moment.

Also of concern are currency movements. We saw a strengthening of sterling across last year, and any further appreciation will be both positive and negative: it will cheapen imports; but for those companies looking at an export-based growth strategy, it will naturally affect competitiveness. That said, these concerns are not new – they are age-old exporting challenges – and it is the role of banks like Barclays is to support clients in mitigating these risks.

That means providing our clients with protection when trading overseas, helping them to generate liquidity, and to improve cash flow or to innovate on their balance sheets. Since Barclays is well equipped to do this, we believe there is more opportunity than challenge in exporting.

Why is Barclays so 'well equipped' in the trade space? What differentiates you from the competition?

KT: From a UK perspective, we have a 325 year history that we're extremely proud of. It's a history of supporting clients' growth both domestically and internationally through the provision of trade solutions. That enables us to lean on the vast experience of working closely with clients and listening to them in order to ensure that the solutions we are providing today are the most appropriate to support their trade and working capital requirements.

Take our recent decision to join our Trade and Working Capital departments together in the bank, for instance. In order to better serve our clients, we have combined our trade finance teams with (historically separate) receivables financing specialists for trade and working capital. As a result, we have been able to extend our geographic footprint within the UK, whilst deepening our product set in a way that means we can deliver broader solutions, to more clients, more efficiently.

We've also recently brought together our business and corporate banking under one roof, so that we now have one team in the UK fulfilling client needs for businesses of all sizes. And while that might sound quite simple, it is really effective as it ensures that we can enable client growth by seamlessly providing specialist products and services aligned to clients needs' as they evolve and grow through the continuum.

By the same token, we recognise that SME clients will always need a different level of support and service to the corporate marketplace, so we have 250 Trade and Working Capital specialists partnering with our relationship directors to service all of those segments appropriately. Going forward, it is our ability to leverage the scale and breadth of the Barclays group and our willingness to innovate, not just our trade and working capital expertise, which will set us apart.

Can you talk through some of the recent innovations that you have made?

KT: We already have a great product range, so we can service any trade need, but a current example of a new market-leading product, that is not available anywhere else, is the Barclays Advanced Overdraft. This is a technology-based solution which is working capital directed. It offers higher levels of funding than a traditional overdraft but doesn't have the sometimes perceived, or actual, onerous administration that goes with an invoice discounting facility. So, clients get the best of both worlds.

Technology is a key focus for Barclays and will continue to be pivotal in proposition and service development. By the end of Q1 2015, we will have launched our new trade operating system which is designed to improve efficiency, transparency, accessibility and connectivity for clients to the Barclays global trade network. This represents a significant investment which signifies the level of ambition that Barclays has to grow our Trade business. It is designed to improve efficiency, transparency, accessibility, and connectivity for clients to the Barclays global trade network. That is an immense investment that has been developed over years, which is a huge step forward for Barclays and our clients.

How do the bank's UK and international trade propositions dovetail?

KT: The way in which we bring together our UK expertise with our international capabilities is certainly a differentiator. Barclays is very well-equipped to support clients to grow internationally, whether that is from a UK base or otherwise. We are one of the largest players in the UK market, we already have 7,000 clients within the trade and working capital solutions area and we have the scale and reach to support any client, across any segment in the UK, with a fantastic range of products. Furthermore, our track record of financing UK exports – from the smallest of transactions to some of the largest facilities ever financed – speaks volumes of our commitment across the marketplace.

Looking internationally, our support for UK clients to step into overseas markets takes the form of specialist trade teams based across all the major European markets. We're also exceptionally strong in Africa, the Middle East and Asia, not forgetting our presence in New York. We readily share our understanding of these markets with our clients – and this, combined with our in-country expertise and direct financial support, is what clients need to feel comfortable when trading overseas.

The International Trade Boutique

Barclays has been restructuring in the last year. How has this impacted the way that the International Trade team will be servicing clients going forward?

BB: In May last year, our Chief Executive, Antony Jenkins, announced Barclays' Strategy for the coming years. Within the Corporate Bank our International Trade & Working Capital products are key to the strategy. We are focusing on regions and products where we have competitive advantage. At the heart of our strategy is a focus on our people and building up the new digital bank. Overall, we will focus on providing high-value add solutions-based approach: what we call the 'boutique' model.

What exactly do you mean by 'boutique' model? And how will clients benefit?

BB: A boutique model means having a high-quality tailored product proposition with a very clear core strategic client focus. It's about being best-in-class in the types of products that we want to offer in our chosen markets, and only offering them to a selected number of clients – rather than trying to be a bank for every product in every market for any client. In summary: being relevant to our clients where they need our expertise with focus on excellent execution.

We actually piloted this model in our US business in 2014, as well as in Spain, with great success. What the pilot confirmed is that the large corporate clients, who already have plenty of banks, now want a partner. Barclays' boutique approach means that our International Trade team becomes part of the decision-making process inside the client's organisation by helping to provide a large strategic solution, rather than just offering an LC confirmation, for example.

Could you give any examples of this in practice, and how your approach differentiates Barclays' trade team from others in the market?

BB: A good example of this is our recent work with the American subsidiary of an Indian group, looking for a cross-border receivables solution. When we approached this relationship, we took the time to identify the real opportunity, rather than just trying to shoehorn in a solution adapted to our risk appetite on the transaction. As such, we set out to discover what the real client needs were – and we leveraged with the interaction between our Indian investment and corporate banking colleagues, as well as our US and UK investment banking colleagues, to achieve this.

We came up with a solution that fits the entire spectrum of the client's needs by syndicating the transaction internationally on the client's behalf. So by inviting other banks to join, Barclays was able to present the client with a very efficient end-to-end solution.

When will the new model roll out to other geographies?

BB: Although we don't expect the transformation to be fully complete this year, we are making rapid progress. Spain and the US are already complete, and we will be rolling out the rest of Europe during the course of 2015. Work is also in progress in Asia Pacific and the Middle East.

What client type is the boutique approach best suited to, in your view?

BB: Our ambition is to be recognised in the market as a leading transaction bank, offering boutique-style servicing not only for our existing clients, but for key new clients, too. At Barclays Corporate Banking, we are focussed on four key client segments: Global Corporates, Financial Institutions, UK Corporates (from SMEs up to the FTSE100) and Africa Corporates (of all sizes). From a trade perspective, Barclays has a global presence and have our strongest product capabilities in EMEA (Europe, Middle East and Africa).

Where do you see the biggest growth opportunities for your team, given this new structure?

BB: I would position the Americas business as the number one growth area for us. As I mentioned, we piloted the trade boutique last year in the US and we have had big success stories over there, where we were able not only to land interesting deals, but to also become lead arrangers for some major deals in both Q4 2014 and Q1 2015. These will soon be announced in the press.

While we are already large in Africa, it has also been one of our strongest growth areas. We recently hired a team in Lagos to ensure we had on-the-ground trade expertise in Africa's largest economy Nigeria.

We had a super year in Asia in 2014, and I hope to consolidate and build on what we achieved last year across the region.

Despite the low economic growth predictions for 2015, Continental Europe remains the third priority for my team as we still need to finish up the implementation of our boutique model in Europe. We're extremely excited about rolling this out to clients and we look forward to establishing even deeper partnerships with our existing, and new, clients over the coming months to years. ■

Upgrade or delete

At a time when the role of treasurer has taken on a new level of importance, up-to-the-minute technical knowledge is vital. But, as the rest of the business wants to hear what the treasurer has to say, it is time to evaluate the so-called 'soft skills' too.

For fans of the long-running UK sci-fi drama series, Doctor Who, the phrase "upgrading is compulsory" will summon images of the fearsome Cybermen. Their intention is to delete all human memory and emotion, turning victims into highly-focused cybernetic killing machines. The notion that humans can 'upgrade' by improving their knowledge to specialist status is nothing new and is one to which many would readily subscribe, especially in a professional context.

Indeed, as the treasurer's role diversifies, there is an increasing demand for in-depth training in specialist areas such as tax, covenant loan agreements, accounting standards and technology. But as treasurers move further into the business the need is for highly intelligent professionals who are also able to communicate clearly with colleagues from other functions. Ruthless 'cybernetic' efficiency is one thing, but the value of the so-called 'soft skills' of relationship building and people management must also now come to the fore.

Expanding horizons

The perception that treasury is a highly specialised function hidden away from the rest of the business was never a helpful view, said Jan-Martin Nufer, Director Treasury & Funding for multinational petrochemicals firm, Borealis Group, speaking at the 2014 EuroFinance conference in Budapest. He has watched the role develop with growing confidence since he started his first assignment back in 1994 when "hardly anyone knew what we did". Now, as it sits astride risk management, funding and cash management, Nufer sees treasury as "one of the central functions in the company".

It is, he argues, high time treasury practitioners started positioning themselves even closer to the business so that they can take advantage of every opportunity to expand their understanding of the wider organisation. Those that have the technical and personal skills and who can combine broad market experience, contract negotiation experience and a lot

of analytical know-how will, he believes, find themselves in a very good position to take their careers forward too.

Learn from the locals

Progress may involve tackling assignments requiring skills not covered by traditional academic and professional study. These can be loosely incorporated under the banner of 'cultural awareness'. Hennie de Klerk, CEO of South Africa-based treasury services provider, Treasury One, says treasury and finance functions entering the country for the first time will really need to get to grips with the diversity of approaches likely to be met when tackling fundamentals such as cash management, forecasting and bank operations. The norms of banking in Germany or Spain, for example, are often quite different from those of South Africa. There are, he comments, "many technicalities around the South African market which corporates from outside will not be used to".

South Africa is increasingly the stepping stone for corporates moving into other parts of Africa and the country's Big Four banks (Absa, Standard Bank, Nedbank and FirstRand) provide services across much of the continent. Despite this, for any business seeking to expand beyond South Africa, de Klerk notes that it is unwise to expect basic treasury functions to be handled in the same way as their European or US operations. Whilst more sophisticated economies such as Kenya and Tanzania may meet treasurers' needs, the level of technology and connectivity may be less well-established in other jurisdictions. "Every country is different," he states. Even South Africa is not as standardised as the European market, he notes. "But if you then work with a different bank, such as [the pan-African] Ecobank to reach further into Africa, it becomes a whole different ball game." In many cases, he warns, "as soon as you cross the border from South Africa there is a 'technology cliff'". A means of working around each situation must be found or cash and liquidity management and forecasting quickly become major issues.

In terms of everyday operations, de Klerk also warns of a steep learning curve, even for experienced corporates, when building up their understanding of processes and procedures as they move out across sub-Saharan Africa. For those that are new to the region, the curve is far steeper and seeking help on the ground is advisable, either from the Big Four banks that dominate the transaction banking space across the region or from well-versed local consultants and solution providers.

Never forget the soft skills

Despite near-constant development, the principles with which treasurers work have broadly remained the same over the years, noted David Dunkerley, former Group Treasurer of Cable & Wireless Communications in the UK, another speaker at the 2014 EuroFinance Budapest conference. Its best exponents have always possessed a mix of business skills, people skills and technical knowledge. But where in the past the emphasis was on the technical, in recent times, particularly since the financial crisis, he feels treasurers have had to be "more front of house", becoming "a little more outgoing" in their approach.

The 'soft skills' of building relationships, managing people and expectations are, it seems, in demand in the treasury space. Nufer refers to the nurturing of these relationships as being part of a "business partnering" exercise where the expansion of treasury can be explored.

Soft skills, for Nufer, are "extremely important", especially when working in a culturally diverse operation. Borealis' centralised treasury operation deals with people from many cultures and countries across the world. There needs to be "sensitivity" to those differences but the company's leadership supports the notion of inclusivity and is keen to develop its staff. It has invested a lot of time and effort in personal development and has a programme that primarily encourages leadership skills and the raising of individual profiles within the organisation. People from across the business meet to exchange ideas and get to know each other, developing the all-important softer skills. "It's one of the ways in which we can come out of our Ivory Tower," acknowledges Nufer.

"Communication is the key to success," states Karen van den Driessche, Director Treasury EMEA at Avnet Financial Services in Belgium. "A computer can crunch the numbers better than most people but as treasurers we can build relationships – with the CFO, with the business, with the team – and I don't think anything can replace human contact and communication." But, she adds, regardless of the industry or company setting, people need to feel "at home" with the process because if there is any discomfort the communication quickly breaks down into"noise" and. "Being open and transparent is vital, not just in treasury, but in any function."

Communicating in an open and honest fashion can bring together a wider view and appreciation of the finance agenda. A critical mass can be attained within a larger operation where this approach becomes the norm. It may be that treasurers feel they do not have the time to reflect on the context and position of their function within a business; the demands of consistently delivering a high quality service are surely many. But, says Dunkerley, "if we are blessed with that time, then we should step back and look at the development of our role and that of our treasury team" because doing so can yield some worthwhile results.

Live the brand

One of the career buzzwords currently doing the rounds is 'personal brand'. Many people don't know what their personal brand is or what it says about them – or even that they have one. The fact is that, in one way or another, everyone has a brand and yet few do anything to develop it (Gene Simmons, bass player with the rock group KISS – and a serial entrepreneur – once famously said: "I don't want to be in a band, I want to be in a brand").

Perhaps the concept of developing a 'personal brand', as espoused by many career gurus (and Gene Simmons), may be too much for some people. But if 'brand' is substituted with 'reputation' then a clear-cut case can be found for taking up the challenge because reputation and success are tightly bound together.

According to author and entrepreneur, Kevin Daum, there are three key steps to building a powerful personal brand. Daum urges followers of the programme to remain authentic, consistent and harmonic. Being authentic requires the individual to be true to themselves, sticking with their core values, skills and history. "Being self-aware helps a lot here," he suggests. Consistency requires the individual to decide what is truly important to their image and then to "give concerted effort to practice what you preach". Finally, an individual needs harmony. This may be achieved in a professional context by managing time, activities and the

people around you. Living in chaos may suit some, but he advises the individual to "surround yourself with people who celebrate and enhance your life". In this way it will be possible to carefully manage your time and resources "to support the reputation and lifestyle that will result in your preferred future".

If that still sounds too much like New Age nonsense, Dunkerley has a more prosaic approach. "In establishing a notable treasury reputation there is a need to deliver on the short-term goals of the treasury and the business but there is also a need to take on increased responsibility and to develop that too." Reputation-building is, he says, "about constantly chipping away at the stewardship role". This is what got him interested in treasury in the first place; that principle remains the same. "What gets most treasurers out of bed in the morning is the knowledge that the buck stops with us. We are in charge of those risks and financial assets, and their stewardship is at the forefront. In building upon your reputation, take it back to basics and work on that."

Understanding other people and processes is important, but the 'authenticity' that Daum talks about plays an important role for van den Driessche too. "Throughout my career, the companies have changed but I haven't," she says. Of course, she has learnt and developed personally but the core of who she is remains intact. "What you see is what you get; I'm open, honest, I work hard and build on trust," she asserts. This approach has seen her rise up the ranks. But it is not an approach she has cultivated per se; it is simply the firm acknowledgement of who she is. "It's too difficult to play games, trying to remember what you said to play a role." Although an individual's rough edges may be filed away over the years, van den Driessche ultimately promotes the need "to be vocal, be yourself and deliver what is expected of you".

Building a solid personal reputation (or 'brand' if you prefer) is obviously beneficial, but then Nufer argues the case for avoiding being "labelled". Rather as some actors risk being type-cast in a particular role and then forever struggle to be taken seriously in any other part, it may not be healthy in career terms for treasurers to specialise too much, at least not too early in their careers. In smaller organisations it may be possible for individuals to shape the space around them, absorbing many skills, but for many it may be more prudent to find a point somewhere between 'specialist' and 'jack of all trades, master of none', "without compromising the authentic self". Indeed, van den Driessche points out that it is advantageous to have a level of cross-functional knowledge that enables the treasurer to be able to talk knowledgably with colleagues from other departments.

For Dunkerley, "an emphasis on flexibility", where the individual is able to adapt to unforeseen changes and disruptions, is the key to progression. "As treasury professionals, we have an inherent skillset," he notes. "While some people are happy to remain in a transactional role for their entire career, others want to become specialists or adopt a more general outlook; we all know where we sit on that line," he says.

Follow your heart

Treasurers can end up being the victims of their own success. They take on a new position, build a professional treasury around them and deliver a host of efficiencies by streamlining processes and implementing systems that automate many activities. But, after a few years, some reach a point where boredom sets in and they need a new challenge and the cycle begins again. It may be possible to move to a multinational where the scope of possibilities is wider, but most people in treasury work in smaller organisations where opportunities for spreading their wings may be few and far between. But even when you have risen up through the ranks, you have attained seniority and a decent salary but it is still not enough, what happens then?

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> Karen van den Driessche, Director Treasury EMEA, Avnet Financial Service

In the case of Netherlands-based treasurer Philip Wielenga you start your own business. With more than 15 years' high level international treasury experience under his belt, Wielenga had reached a point where he had pretty much "seen it and done it". Repeating the pattern over and over by moving to yet another company did not appeal; being the master of his own destiny certainly did. Following a discussion with a career coach he realised something significant: "All my life I had been following the money, not my heart." Trying to find a position outside of treasury mostly resulted in rejection on the grounds that he was a long-haul finance specialist.

Wielenga decided to get out of that "never-ending cycle". In establishing Wieltec Treasury Services he felt he was now in a position to continue using his specialist skills but satisfy his own agenda and personal work ethic. Whilst he wishes he had made the move earlier, he acknowledges that he had to undertake many different treasury roles over the years in order to build up an understanding of 'real-world treasury' that would give his company credibility. To this end, he also undertook a range of academic and professional studies. But Wielenga has also had to work hard to build a contact list from across and beyond the industry.

"When I started, I had a phone, a Macbook and a piece of paper and started calling people in treasury 40 hours a week non-stop. Nine months later, I signed my first deal. When you call someone for the fifth time, people will start to respect your perseverance." But having developed the business he says he still takes the time to go back to basics. "We pick up the phone to find out what the key challenges are within our business relationships. This underlines one of our core values: keep a personal approach."

Many successful treasurers have a natural inclination towards the risk-averse; the kind of viewpoint that insists on return of capital not return on capital. Going it alone is a risk too far for some and Wielenga admits that in the beginning it can be difficult. "I've seen an empty refrigerator at home," he reflects. This is a scenario that would dissuade many, especially those with a family to support. Everything he read about people who started companies said the same; there will be difficult times. But, he asserts, in the end it is worth it. "I used to read about how entrepreneurs have a vision of what they do," he says. "For 15 years I didn't get it. Now I know exactly what they mean." ■

Centre of attention

Since it first arrived some 30 years ago, corporates have been able to use the concept of netting to drive efficiencies and make cost savings. Treasury Today goes 'back to basics' and looks at the processes involved in netting and what it really means for treasurers.

There are surely few international corporate treasurers, if any, who would not wish to reduce the cost of financial transactions across their organisation. Fewer still would reject greater control and oversight of their cash positions. Whether it is to better understand or mitigate FX, liquidity or interest rate risk, to optimise cash flow and working capital, or simply to reduce the complexity of inter-company payments within a widely distributed group, there is little doubt that implementing a modern netting structure is an answer to many treasurers' prayers. But if it is so good, why doesn't everyone do it?

In the early 1980s, netting was a simple but labour-intensive paper-based operation. Today, the many variants can be managed electronically using largely automated in-house or proprietary web-based technologies capable of reaching out to and effectively centralising the cash operations of even the furthest flung subsidiaries.

In its simplest form, netting allows an organisation to offset one cash amount against another, reduce the number of payments that need to be made and aggregate the remainder. This may be between two entities within the same group of companies (bilateral netting) or involve many entities (multilateral netting). For multilateral netting, transactions will be executed by a netting centre – a central function established for this purpose – and will take place via the external banking system or internally.

The effectiveness of a netting programme increases the more it is used across a group of companies, however, circumstances may preclude certain entities. In some countries central bank regulation may either restrict the use of netting, impose an onerous reporting regime on all activities or not permit it all. The reach of technology may also self-select those business units able to participate, although access to web-based systems, such as those offered by the tier one banks, will obviously improve access, as will a more standardised internal technology environment.

There are two basic netting options:

Bilateral netting

One entity may agree to net its payments with another group entity for trade over a set cycle (typically monthly). At the end of the period, the entity that on a net level is in deficit makes a single payment to the other party. This reduces the number of payments being made and received between various pairings of entities across the group. No netting centre is involved and payments still need to be made via the external banking system where fess will be charged. For a larger group of companies a more efficient (multilateral) model exists.

Multilateral netting

Multilateral netting, as the name suggests, is a many-to-many scenario where multiple parties may net off their transactions. A single netting centre is required to act as the counterparty to each participating member of the group (usually subsidiaries of the same company but in some cases third-party providers are granted access). Each participant needs to hold an account with the netting centre and payments are only made within the system to or by the netting centre.

What happens during the netting process?

Participants in the netting system must forward copies of all relevant documentation, invoices and payment requests to the netting centre, usually electronically and more often now by direct entry into a netting system. A cut-off date for submissions will be in place for each cycle.

> The effectiveness of a netting programme increases the more it is used across a group of companies, however, circumstances may preclude certain entities.

All invoices and payments requests are reconciled and when the netting process is run (normally once a month), unmatched items can be investigated. In some systems, subsidiaries may be able to query data input by other entities within the group to fix the problem without further input from other teams. All matched transactions (credits and debits) will be netted to a single amount for each subsidiary in its chosen operating currency, initiating payments either to its own bank or to the in-house bank, as appropriate. Subsidiaries with negative balances at the netting centre will have to make the payment to the centre. FX rates for all disbursements are typically set by the netting centre (and thus do not include the spreads likely to be included by banks).

Who takes part?

Within a group of companies there will need to be a decision as to which entities can or must participate in the netting centre. Most netting schemes are only open to companies with the same parent. However, in some cases, it may be possible to include non-group (third party) companies where

Chart 1: Bilateral netting

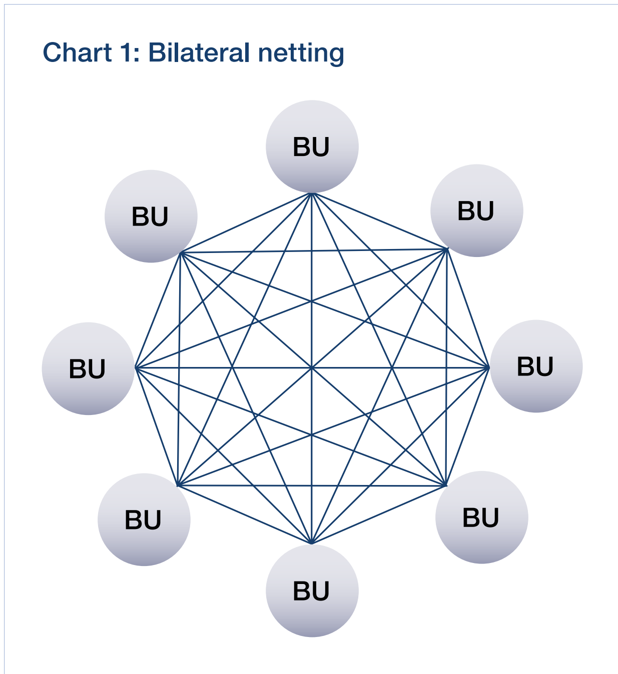
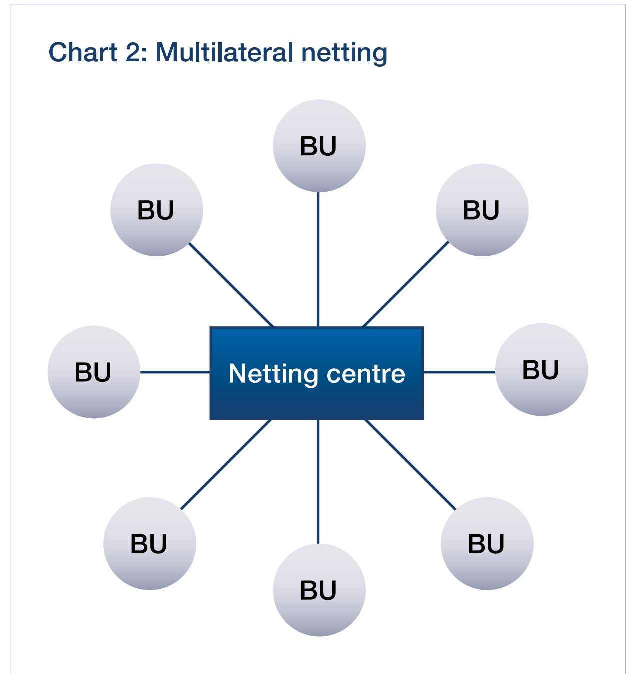


Chart 2: Multilateral netting



both sales and purchases are made. External participants will need to have sufficient cash flows to be able to benefit group participants but the external entity may be able to net payments to different internal entities within the netting system. Where a third-party supplier receives payments from a number of group entities in multiple countries it may be beneficial to include them, to aggregate payments and reduce the number of cross-border transactions made.

Some commercial sectors have benefitted from the establishment of an industry-wide netting system. Perhaps the most visible is the International Air Transport Association (IATA) Clearing House. It clears and settles accounts payable and receivable (including ticketing and airport fees) for around 500 airlines, airline-associated companies and travel companies across the world.

> Most netting schemes are only open to companies with the same parent. However, in some cases, it may be possible to include non-group (third party) companies where both sales and purchases are made.

Single versus multi-currency

For payments, the simplest structural form is a **domestic netting** system, also sometimes known as single currency netting. This would normally be open to all group entities within a specific country and cover purely domestic currency payments although it could in principle also include euro-denominated participants. Domestic currency netting systems eliminate the need for the different group entities to make numerous intra-group payments, saving on fees.

In **multi-currency netting**, all the participants in the system are required to send payment instructions and copy invoices, regardless of currency, to the netting centre. The netting centre converts any foreign currency payments into the appropriate netting currency. At the end of the netting cycle, the netting centre makes payments to or receives payments from each participant. These payments will be made through the external banking system and will usually be denominated in the operating currencies of the participants.

As with the domestic currency netting systems, multilateral netting removes the need for multiple intra-group payments. Every netting cycle requires participants to make (or receive) payments only in its operating currency. For entities that had previously made large numbers of foreign currency payments, netting can lead to significant savings in this respect.

The benefits of netting

Where a multilateral netting programme is in place, the benefits are many. These include:

- Reduced payment costs and interest payments. As all external payments are netted, there is only one external payment into or out of each subsidiary, which significantly reduces the total cost of these payments to the group as a whole. Individual business units will not need to operate overdrafts or maintain idle balances to meet their short-term payment requirements. In addition, the total amount of FX purchased and sold will be lower, reducing the amount of FX commission, and a lower number of foreign currency accounts will need to be managed.
- Reduced float. Delays between an initial payment instruction and the receipt of the final payment are reduced. With fewer external foreign exchange deals, cash can be made to work more efficiently during the netting cycle because idle balances and float should only exist at the end of each cycle.
- Known payment date. Each subsidiary in the netting centre knows when it is going to get paid for any inter-company invoices it has issued. Subsidiaries may have to pay their invoices earlier, but they know exactly which day they will receive cash on the invoices that they are

expecting. This brings stability to the timing of cash flows – and improved forecasting – within the organisation.

- Banking consolidation. The concentration of payments and receipts means treasury can choose to have one bank or at least consolidate the number of banking partners its does its FX with. Treasurers thus can reduce the number of banks that they are exposed to from a settlement perspective. Savings are also available on the FX spread because the greater the size of transactions made, the greater the potential for cost savings.
- Simplification for subsidiaries. They no longer have to decide which currencies they need to buy, instead paying and receiving in a single currency. This means local treasury functions can focus on adding value elsewhere.
- Reduced operational risk. This comes as a benefit of no longer relying on manual and de-centralised payment and settlement processes.
- Hedging efficiencies. A netting cycle mean treasurers know the specific date that they are exposed to FX risk, allowing them to hedge efficiently and effectively as it reduces timing gaps in their hedging programme.
- Payment discipline is improved. Trade terms can be shortened between partners if cash flows are predictable.
- Arbitration service. The netting centre effectively takes on the role of neutral dispute manager.
- Early warning of exceptions. Payment matching will be automated as invoices are sent to the netting centre. If an invoice is not matched, advance notice of a potential problem can be issued and the problem rectified before too much time is wasted identifying the source of error.
- Cash management information is improved. Because intra-group payments are recorded at the netting centre the information can be used to generate various reports including, for example, management information looking at the fees and spread savings achieved, and regulatory information required by certain jurisdictions.

The cost of netting: technology and models

The costs of a netting structure will vary according to what is required but in the first instance there will be a need to persuade all entities to get on board with the programme and any resistance to change must be managed sensitively to encourage rather than demand buy-in. Almost certainly training resources will be required to ensure that all relevant subsidiaries are up to speed with the processes that underpin the netting system once it is in operation.

There will be an implementation cost to consider. Existing technologies and processes across the group will need to be standardised as far as possible. This may not be easy in difficult geographies where communications are less reliable, in which case other means of data transfer may need to be found (even if it means email). Initial software purchase or an upgrade or extension of an existing system (such as a TMS, ERP or dedicated third-party netting software) must be factored in as must ongoing licensing and maintenance costs. Consideration must be given in each case to the ease of implementation and roll-out of the solution, including the ease with which the solution integrates with existing technologies. The functionality and scalability of the system and any likely costs in configuring it to fit the company's own needs should also be taken into account. It may be necessary to adopt a phased, rather than big bang-style roll-out to make the project more manageable.

There will be a cost associated with running a netting centre although some of the administrative work previously performed by group entities will be diverted here, with subsidiary staff preferably diverted to other added-value work.

The cost of any additional accounting and legal matters related to the netting centre will have to be taken into consideration. Complexity and cost will depend on location but taxation on inter-company payments and, for cross-border netting, any central bank requirements, must be met head-on. There will also be a requirement for the accounting functions of participating entities to work out how to treat the various transactions. Within the cash receipts and accounts payable books it may, for instance, be necessary to divide netted transactions into respective individual payments and receipts.

Outsourcing of a netting operation is an option offered by some banks and treasury service providers. There will be costs associated with establishing and running of a netting service and it may be more provident to outsource the running of the netting system. A cross-over of duties may be possible, where a corporate is able to take on the netting task but is comfortable handing over FX settlement, for example, to its banking partner. However, the nature of netting means full outsourcing is not possible: around 20% of the workload inevitably stays in-house in the form of confirming and sending payment requests plus of course the aforementioned essential accounting and tax treatments and documentation of flows for audit purposes.

Moving ahead

Adoption of netting amongst the corporate community is far from across the board. This may be because there are a number of variables that need to be tackled, not least being the regulatory hurdle in some jurisdictions and, closer to home, the lack of standardisation of technology internally. These issues are not insurmountable. For a process that has been developing slowly over the past 30 years or so, netting remains a simple yet effective proposition where the benefits are clear, particularly for MNCs that have a high volume of inter-company invoicing and cross-border, cross-currency transactions. ■

More detailed information on netting and other cash management processes can be found in the Treasury Today Best Practice Handbook on European Cash Management 2014.

INSIGHT AND ANALYSIS

The Eurozone crisis: five years on

Corporates, not only in Europe, but across the world were badly impacted by the events of the Eurozone crisis that began in 2009. Coming in the wake of the global financial crisis, the single currency zone's troubles saw government deficits rapidly expand and debt levels accelerate – with a number of countries requiring sovereign bail out. Five years on from the crisis, where do we stand now and what has the lasting impact been on corporates?

TECHNOLOGY

ERP vs TMS: the debate goes on

For years, a battle has been taking place in the world of corporate treasury technology. Treasury Management Solutions (TMS) and modules of Enterprise Resource Planning solutions (ERP) have been competing to be the treasurer's workstation of choice. And while both fundamentally look to achieve the same outcome, the means of arriving there differs, as do the benefits. Treasury Today looks at the ongoing debate and analyses the latest developments and innovations.

BACK TO BASICS

POBO/COBO

As shared service centres, payments factories and in-house banks have gained in popularity, Payments on Behalf of (POBO) and Collections on Behalf of (COBO) have risen up the 'to do' list of many multinational corporates. The benefits include cost and process efficiencies, but how easy is this to achieve? Treasury Today looks at the challenges and opportunities, as well as the groundwork and technology that such a set-up requires.

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

Baihas Baghdadi, Head of Trade and Working Capital, International (Americas, Asia, Europe and Middle East), Barclays; **Simonas Bartkus**, Director of Commerce, Air Lituanica; **Ian Benson**, Director, Maclay Murray & Spens; **Kevin Daum**, Author and Entrepreneur; **Hennie de Klerk**, CEO, Treasury One; **Tim Dolan**, Partner Financial Markets, King & Wood Mallesons LLP; **David Dunkerley**, former Group Treasurer, Cable & Wireless Communications UK; **Stephen Everett**, Managing Director of Segment Propositions, Lloyds Banking Group; **Giles Frost**, Chief Executive, Amber Infrastructure; **Jean-Francois Grandchamp des Raux**, Global Head of Energy and Infrastructure Group, Crédit Agricole CIB; **Manish Gupta**, Head of Infrastructure Corporate Finance, EY; **Phil Huggins**, Vice President London, Stroz Friedberg; **Gautam Jain**, Managing Director and Head of Client Access, Standard Chartered; **Dave Jones**, Cloud Solution Marketing Manager, Hyland; **Wolfgang Koester**, CEO and Founder, FiREapps; **Bob Lyddon**, General Secretary, International Banking Association; **Richard Manson**, Director and Co-founder, CloudTrade; **Gavin Mclean**, **Head of Payment Product**, Lloyds Banking Group; **Sandra Meškauskaitė**, Communication Manager, Air Lituanica; **Rod Morrison**, Editor, Project Finance International, Thomson Reuters; **Nedim Music**, Assistant Director, Corporate Finance Debt Advisory, Deloitte UK; **Simon Newstead**, Head of Market Engagement, RBS; **Jan-Martin Nufer**, Director Treasury and Funding, Borealis Group; **Will O'Brien**, CEO, Bitgo; **Gavin Quantock**, Assistant Director, Deloitte Corporate Finance; **Nathalie Reinelt**, Analyst, Aite Group; **Bernd Richter**, Partner, Capco; **Doug Segars**, Associate Managing Director, Moody's; **David Song**, European Consultant, Payments Council; **JP Sweny**, Counsel, Latham & Watkins; **Lisa Taggart**, Relationship Director, Corporate and Institutional Banking; **Ricky Thirion**, Group Treasurer, Etihad Airways; **Karl Trumper**, Head of Trade and Working Capital UK, Barclays; **Karen van den Driessche**, Director Treasury EMEA, Avnet Financial Services Belgium; **Paul Walsh**, Chief Information Officer, Dell Commerce Services; **Ruth Wandhöfer**, Global Head of Regulatory and Market Strategy, Citi; **Philip Wielenga**, Wieltec Treasury Services; **Michael Wilkins**, Managing Director Infrastructure Finance Ratings, Standard & Poor.

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