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April 2015

Bank fees: what's fair?

It is a fact of life that banks charge for their services, and rightly so. But as regulatory changes filter through, are they charging too much? And how do corporate treasurers know if they are getting a fair deal?

The Corporate View
Tim de Knegt
Treasurer
Port of Rotterdam

Risk Management
Corporates across the globe are facing heightened geopolitical risks. Is it time for a risk management rethink?

Corporate Finance
The world of private placements

Cash Management
Corporate cards: developments

Trade
Towards dematerialisation

Back to Basics
Cash segmentation

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

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Volume 17 / Issue 4
April 2015

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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.

Stand out from the crowd

Nominations close at midnight on 30th April

Being good at your job isn't the only prerequisite for getting ahead in your career. Today, it's not just what you know that matters; it's also who you know. Having a good profile at work is essential for your career. It means being trusted with the best projects and being first in line for promotion.

There are many steps that you can take within the company to raise your profile, from volunteering for assignments or representing the team at cross-functional meetings, to finding a good mentor. But nothing quite beats an independent external endorsement of your hard work and ability.

That's why Treasury Today has introduced a new 'Rising Star' category to the Adam Smith Awards 2015 – to help recognise young talent coming through the treasury ranks. Are you a junior within treasury and are people already seeing your potential? Have you excelled in a professional qualification, or in a particular treasury project? You can either nominate yourself, or submit a nomination on behalf of a colleague who you think fits this category.

If you feel uncomfortable promoting yourself for an award (which you shouldn't – if the decision makers in your organisation don't know who you are, they also won't know what you're capable of), there's always the opportunity to help raise your whole team's profile instead by submitting a nomination in one of our subject-led categories. These cover everything from cash and working capital management to bank relationships, technology, foreign exchange and corporate social responsibility.

We also have two new geographical categories for 2015: Best in Class Treasury Solution in Africa and Best in Class Treasury Solution in the Middle East. The Treasury Today Woman of the Year and Top Treasury Team awards are also open for nominations.

In addition to raising awareness of individuals and the overall treasury function within the organisation, winning an Adam Smith Award is a great way to evidence innovation and thought leadership, as well as demonstrating excellence to your peers, partners, clients and investors. **Nominations close on 30th April 2015**, so the clock is ticking.

NOMINATE NOW

Everything you need, including the nomination form, can be found at:
treasurytoday.com/adamsmith

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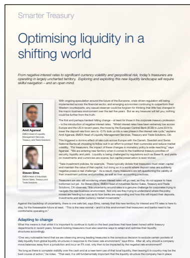
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Optimising liquidity in a shifting world

Optimising liquidity in a shifting world

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Translation risk

> *With currency volatility approaching record levels, a growing number of multinationals have seen currency translation negatively impact top line growth figures. Should corporates hedge translation risk?*

Karlien Porre, Director, Corporate Finance Treasury Advisory, Deloitte:

In considering this question one needs to understand why corporates have historically hedged (or not) translation risk and whether a change in volatility should cause a review of the underlying drivers of hedging decisions. In essence, organisations need to first establish what is important to them and what their risk appetite is, for example, whether revenue or earnings volatility is critical or protecting covenants – then they can determine the appropriate way for managing these risks.

As a first observation, global organisations often align the currency of their debt (actual debt or through swaps) to the currency of their value drivers to provide some protection of equity value against FX volatility. This is typically profits but could also be the balance sheet. However, an approach like this alone is unlikely to protect top line numbers as the impact will depend on quantum and accounting treatment.

For a typical company, FX hedging objectives often aim to protect either or both cash flows and local currency profits. As a result, transaction exposures are the main exposures that are hedged, whereas pure translation exposures are less routinely hedged for a number of reasons. A key reason being that translation of overseas profits does not generate a cash flow until they are repatriated as part of dividends or in the repayment of loans. Additionally, hedging translation risk with derivatives (such as forwards or swaps) which have a net cash impact, poses the risk of introducing a new cash flow risk.

Another key reason relates to investors' expectations and communication. Those investing in global businesses should know and understand the exposures involved – assuming there has been clear communication from the business on the manner in which the exposures are or are not hedged. Investors may welcome the currency exposures and can manage their own currency risks. There are, however, situations where hedging of translation risk may be beneficial, or even necessary. For example, when there is the need to protect reserves or tight covenants, such as maximum gearing or minimum tangible net worth. For some industries with a key focus on certain earnings KPIs, such as earnings per share (EPS), hedging translation risk may also be critical. In both cases, the accounting treatment will need to be carefully considered to ensure the desired accounting objective is achieved. Even in these cases, it would be rare for a company to hedge consolidation of its top line, eg revenue. Focus would typically be on the balance sheet, profit measure, or both.

Any major change in hedging framework in response to volatility changes is yet to be seen. Despite this, it is a trigger for many to re-consider the long- and short-term impacts on the factors that drive their current hedging strategy. Companies with a quantitative approach might find that the higher volatility or movements in FX rates have resulted in (increased) hedging triggers being reached. Other responses may also be triggered – for example, the negotiation of a more neutral definition of certain covenants to remove inconsistency between FX rates used for balance sheet and, respectively, income statement translation. Likewise, development of new dialogue with investors to reconfirm their understanding and appetite for the currency risks presented. Ultimately, unless corporates feel their original policy is no longer applicable, or was not as robust as it should have been, a change in volatility should not change the reasons to hedge translation risk.

Erik Johnson, Director, CitiFX Client Solutions and Matthieu Brunet, Director and Structurer, CitiFX Corporate Solutions:

One of the most discussed FX subjects in corporate treasury at the moment is how to understand and also mitigate specific translation risk. This might come as a surprise, as in the past firms tended to manage most categories of translation risk only passively, and whatever hedging did occur was only through necessity. This is because corporate treasuries were keen to prevent losses on the shareholder's equity (capital) account, wanted to protect its credit rating or the exit value of a specific sale of an asset, for example.

This passive approach towards translation risk for fixed asset items, eg buildings and equipment, by and large, continues to be unchanged. It makes sense thanks to factors such as hedging costs due to interest rate differentials and changes in exposure value due to FX being predominately recorded in the cumulative translation account (CTA) within shareholder's equity, in addition to the general view that, over the long run, exchange rates are mean reverting. Hence, hedging can potentially impose a negative impact on cash flows.

Although applying the theory of mean reversion as a basis for translation risk policy certainly has merit, recent emerging market (EM) volatility should flag caution to its validity, especially for those corporations who adopt a similar approach and have significant translation exposures in the emerging markets.

But then, what has been the catalyst for change? What type of translation risk is of concern? A change in the market environment, led by a strong USD cycle and higher FX volatility, has triggered a significant number of discussions among corporate treasurers relating to intercompany loans – especially

in the emerging markets (EM). Specifically, these discussions have centered upon how intercompany exposures have impacted, or can potentially impact, earnings at both the subsidiary level and in consolidation at the parent level.

Furthermore, the breach of local capitalisation rules, potential regulatory requirements stipulating the need to re-capitalise the local subsidiary due to FX losses, as well as tax consequences have also raised questions. Cause and effect vary from firm to firm, but frequently subsidiaries have experienced difficulties in raising local EM working capital. This may be due to local regulations, lack of EM liquidity or other associated costs.

Under these conditions, many subsidiaries have turned to the parent for financing, often in hard currency, as this is perceived to be the most cost-effective solution. This method of financing is by no means uncommon and has been practiced for years by global corporate treasuries. So then what is the concern?

In practice, there really should be no concerns as translation risk is hedged either by the local subsidiary or parent, or where the funding is designated as long term in nature (and as a consequence changes in value due to FX would stay in CTA). But problems have surfaced when neither of the above applies and where the hard currency loan from the parent remains either partially or entirely unhedged. Under this scenario, all changes in the value of the liability/loan due to spot FX would impact the income statement of the subsidiary and, ultimately, the parent. Unfortunately, a number of corporations are experiencing the latter case and as a result have seen large and unexpected losses in their earnings.

Consequently, many treasurers have recognised the need to re-examine their current FX policies. For many, this exercise is not limited to translation exposures but rather encompasses a broader scope of FX risk management. The goal being to assess if current risk management practices are actually aligned with company objectives. A good place to start may be with the EM.

Yann Umbricht, Head of Treasury and Partner, PwC:

There is no "one size fits all" answer. It depends on multiple factors, such as shareholders and board risk appetite, existence of covenants or ratios that may require protection. There's also the cost of hedging, the portfolio of currencies or commodities that may provide a natural offset, and cash flow variability due to realised gains or losses when derivatives are used. Most recently, it's the translation of profits that has caused the greater concern, particularly for listed groups generating large profit in Europe.

Once the decision whether to hedge or not has been made, many other questions remain to be answered. For example, what instrument should be used, should it be limited to debt instruments, long-term derivatives or shorter-term forward contracts or even options? Is it profit translation, dividends, net asset value of foreign operations or all of the above? How far forward should the hedge be and how much should be hedged? Should the book or the economic value be subject to the hedge? Does it matter if the interest differential is favourable?

When all of these questions have been answered, groups still need to monitor very carefully how those hedging policies are affected by movements in the marketplace. Many UK groups were caught by major cash outflows when forward contracts, hedging euro or USD operations matured at the apex of the last financial crisis, creating major liquidity issues and interest cost.

So, should a company hedge or not? Where a group has debts, it appears appropriate to incur the debt in sterling and foreign currencies, in proportion to the market value of the group's assets. While accounts carrying value is a limited surrogate for market value, pro-rating debt in proportion to net assets still seems more logically appealing than incurring all borrowing in sterling. Alternatively, and for groups with a greater focus on profit, it would also appear appropriate to incur the debt in proportion to the currency profile of profit. Unfortunately, both can very rarely be achieved in practice at the same time.

There is an argument that in the long run foreign exchange rates reflect purchasing power parity and the intervening fluctuations (albeit sometimes very long lived) represent nothing more than noise. As a hedging strategy inevitably involves some element of external costs, this would point towards not hedging at all. However, one needs to be willing to take a long-term view, which may be longer than the time horizons of most shareholders or finance directors and therefore not very popular.

If the foreign operations are so major that the accounting effect of translating those foreign operations into sterling is to produce undesirable accounting volatility, and are predominantly in one foreign currency, a good solution may be for the UK group and hence the parent to adopt the foreign currency, usually the dollar, as the currency of its accounts. This has indeed been done by several companies in the oil sector and also by some in the banking sector in the past. But of course, you then need to consider whether to hedge the group's sterling operations, illustrating the complexity of the situation. ■

The next question:

"With so much focus on electronic payments in the region, what do readers consider to be the key developments in the Middle East cash management space today?"

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

ecr research

Megatrends revisited: is the West backed into a corner?

As Western countries struggle to achieve growth rates that they were accustomed to before the Great Recession, ECR revisits the trends that defined the markets back in 2011 and examines why those same trends continue to cause struggles for financial markets globally.

In 2011, ECR Research identified the eight megatrends that defined the markets. Now, as these trends continue to determine both the global politico-economic and geopolitical climates – and with that, movements in the financial markets – it is important to revisit their significance. These megatrends are:

1. The emergence of new (great) powers and how the 'old guard' reacts.
2. The shortcomings of the international economic system.
3. The West's unsustainable debt burden.
4. Ageing populations, which take a heavy toll on public finances.
5. Wars as a result of competition over limited resources, food and water.
6. New media and technology.
7. General distrust of the establishment.
8. Non-state players – such as multinationals, NGOs and popular movements, on the global stage.

Four years on, these eight developments are perhaps even more relevant than ever before since the trends in question are making things increasingly difficult for Western countries. Based on Purchasing Power Parity (PPP), China has overtaken the US as the world's largest economy. The Eurozone, on the other hand, has not regained the economic strength it demonstrated before the Great Recession. At the global political table, the positions of the US and Europe are being systematically undermined.

China, however, is not excluded from the issues global financial markets face. Failures of the international economic system are yet to be addressed and debts are irresponsibly high in the public and the private sectors. As Martin Wolf, British journalist and influential writer on economics, recently explained, the aggregate debt of Chinese businesses and households has increased by 70% in the period 2007-2014. If indebtedness in the financial sector is added to this figure, the amount increases to 111%; and in combination with public debt, the grand total runs to 124%.

With the exception of Israel, debt as a percentage of GDP has increased in all high income countries. Additionally, the inequality – an inevitable result of the way the system operates – leads to more unrest and dissatisfaction for local populations. French economist, Thomas Piketty, has pushed the topic of inequality high up political agendas but it remains difficult to determine whether the response is purely superficial. In other words, will the politicians really try hard to counter inequality? For now, the answer isn't clear.

Resources: a balancing act

ECR Research predicts that the debt mountains and weaknesses of the international economy will become glaringly evident in the coming years. As more employees retire, the ratio between workers and non-workers will also become increasingly out of kilter – and the result will be increased spending on social security, healthcare, and pensions that is unsustainable for the majority of countries.

It must be noted that although the world has not seen large-scale wars over resources in recent years, in various regions throughout the developing world, tensions often mount during prolonged periods of drought and over the burden of population increases. Researchers have pointed to drought as a major factor in the violent uprising that began in Syria in 2011. Countries across the globe also have to juggle the fight against climate change which is, in some peoples' view, not addressed often enough. Currently, the shift towards sustainable energy falls short of projections.

Turning the volume up

A trend that has exceeded all expectations is that of media and communication developments. Whereas the world may have shrunk, the economic opportunities have increased. The result, however, is something of a double-edged sword because, at the same time, such developments have enabled certain regimes with authoritarian tendencies to further suppress their citizens.

In Western countries, the populations are in no mood to keep quiet. They grow increasingly suspicious of those in control and support for populist movements has been accumulating proportionally. As reported in Treasury Today last month, populist parties may be refreshing, but they can also be dangerous. According to journalist and author, Philip Stephens, "it leaves a vacuum of legitimacy, one being filled by the 'antis': the anti-elite, the anti-European, the anti-immigrant and the anti-capitalist." These 'antis' are now in power in Greece and the same could potentially happen in other EU states in the

course of the year. In fact, ECR Research predicts that the anti-establishment trend will undoubtedly continue as nationalism, populism, and a focus on sovereignty continue to be at the heart of (inter)national politics.

Additional forces

The last megatrend on ECR's list is the growing importance of non-state actors: ISIS, the rebels in Ukraine, hackers collectives, large multinationals (including banks) are a few examples which bring with them uncertainty and instability. As such, nation states are again coming to the fore as voters force politicians to steer an isolationist course – perhaps, in the idle hope that the dangerous outside world ceases to exist if you close the curtains and hide.

> ECR Research predicts that the anti-establishment trend will undoubtedly continue as nationalism, populism, and a focus on sovereignty continue to be at the heart of (inter)national politics.

It is not easy for capitalist democracies to find – and maintain – their place in a tumultuous world. Simultaneously, the aforementioned megatrends cast doubt on the superiority of the Western model of liberal democracy. Countries such as Russia and China are not inclined to impassively wait until the West gives them a more prominent place at the table – quite the opposite.

Western countries are plagued by uncertainty due to doubts about capitalism, the ageing population, and the fact that many believe the political and economic elite have failed to deliver.

Time for change?

The prevailing idea in the West is that every state is inclined towards the capitalist model but ECR suggest this may well be delusional. To quote a Financial Times article, "instead of viewing Putin's Russia as a democracy in the process of failing, we should view it as an authoritarian project in the process of succeeding." Indeed, various other countries are moving towards authoritarianism and dictatorship – although some are more successful in this respect than others.

China's Xi Jinping has become the most powerful leader since Deng and is playing all sorts of power games to safeguard his position. Elsewhere – in countries like Venezuela, Turkey, Ecuador, Thailand, Egypt, and Hungary – democracy is not that important to the leaders (to put it mildly). Occasionally, such countries may talk the democratic talk, so to speak, but only to further their authoritarian goals. Legal systems are used to eliminate or hamper opposition leaders while parliamentary elections tend to be a fig leaf to cover up the propaganda machinery. Likewise, many populist parties in the European democracies claim to champion unfortunate citizens. However, in reality they trample on democracy and accountability.

The struggle isn't over

Nothing suggests that the undemocratic trends and the advance of the 'antis' will be short-lived. The question of concern here is: how will this affect the markets? There are two sides to this story. For years, the West has been doing business and forging ties with nations such as Saudi Arabia, for instance, because of the country's apparent stability and the fact that it supplies a large amount of fuel that powers the global economy. Naturally, the markets prefer a steady authoritarian regime, which allows foreign companies to enter and embraces market thinking (up to a point) compared to unpredictable, chaotic, and half-baked democracy. In other words – as long as authoritarian leaders have their financial houses in order (and open their doors to Western businesses and capital flows) politicians seem perfectly happy to set morals aside.

Yet, it remains to be seen how long the leaders in question manage to keep their economies on the rails. And in any case, will such countries aim for profitable trade relations with the West or seek confrontation? Russia exemplifies an authoritarian state that is steering a confrontational course and tries to stir up trouble for the West in any way possible.

For the moment, it appears that the West is unable to respond adequately to the authoritarian trends and the advance of the populists. The eight megatrends we described may even strengthen the hand of the authoritarian regimes as well as the populists. The resulting tensions are fuelling expectations that the West will struggle to achieve the growth rates that were customary in the days before the Great Recession. If Western countries have been backed into a corner, as it seems, now is the time to start reversing the negative effects of the eight megatrends – more needs to be done than has been achieved in the last four years. ■

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Grabbing the bill by the horns

It is right that banks charge for their services – but are they charging too much and how do corporate treasurers know if they are getting a fair deal? Treasury Today looks at bank billing and some of the ways in which treasurers can assess their total spend.

The means by which banks generate profit has in the past few years been forensically analysed and some of the outcomes have made for rather depressing reading. But whilst some may say the raft of regulation they now face in response to their more creative practices are of their own doing, it should be acceptable for banks to generate profitable revenues from the products and services they provide to customers. "Banks should, however, clearly and transparently communicate the fees and conditions under which these will be levied," says Dinesh Krishnan, MD of Global Product Development for financial technology firm, Zafin. "Customers should also be guided towards using the most appropriate products and channels."

In preparing this article it is interesting to note that several banks declined the opportunity to comment (the help offered by Bank of America Merrill Lynch and SEB is therefore that much more appreciated). Whilst this apparent reluctance is not indicative of anything in particular, it does suggest that, for whatever reason, the topic of fees remains a sensitive subject for some banks.

Fee levels are affected by a combination of external and internal factors. External factors include significant components like the markets and countries in which banks operate, local banking models and customs, the prevailing regulatory framework, competitor activity, customer expectations, and technological advances. "Internal factors can, in part, then be considered as a reflection of how banks manage the external factors and translate these into product and pricing propositions for their clients," notes Krishnan. Banks offering differentiated fee propositions will base decisions on such factors as customer segment or type, geography, committed balances, breadth of customer relationship across products and lines of business, longevity of relationship and the volume of business.

However, according to Bruce Meuli, Global Business Solutions Executive, Global Transaction Services, EMEA, Bank of America Merrill Lynch (BofAML), "fairness is in the eye of the beholder". Whilst this is absolutely true of almost any transaction, he acknowledges that 'fairness' can also

translate as 'market value'. Sometimes though, "fairness is relationship driven".

In practice, Meuli is a firm believer that value, not price, is the major driver behind fair pricing. In this context, he notes, most people recognise that "the cheapest is not always the best". However, Olle Durelius, Head of WCM Process Management at SEB, adds that even for a commoditised product, 'value' may still be generated, allowing the corporate to make significant savings in other parts of its organisation; just consider the upstream process and cost benefits of straight through processing for simple payments, he says.

> If the bank knows it is getting a fair share of the corporate wallet, relative to other banks in the group, it will be more amenable to offering improved pricing.

The theme of adding value is something picked up by Linda Wade, Product Manager, Billing, at SEB. She believes banks should not just do what they are paid to do but must also provide a genuine benefit for customers; only then is it possible to talk about fairness. "When we are creating value for our customers then it is fair to charge for that added-value," she says.

'Value' can of course be derived in many different ways. Wade points out, for example, that an effective bank will earn its fee if it can step in and save the day when something goes wrong. The "soft factor" of quickly being able to turn a situation around to the customer's advantage makes all the difference. She argues that if that 'soft' element is removed, many banking products can be seen as the commoditised processes that they really are; often indistinguishable from bank to bank and adding no real value beyond their functional remit.

According to Durelius, the managed delivery of core products and services always ranks highly on the priorities list of SEB's clients when they are surveyed. "If the day-to-day business does not work, it quickly becomes far more important than any strategic dialogue with us," he states, adding that "SEB acts accordingly to solve the issues promptly". Indeed, it might be said that it is only when something goes wrong that the treasurer finds out the true depth and value of its banking relationships.

But fairness in such a relationship must be a two-way street. Most banks operating in the corporate space look at the 'share of wallet' they are awarded by a client across a product set from a relationship pricing and relationship revenue point of view. If the bank knows it is getting a fair share of the corporate wallet, relative to other banks in the group, it will be more amenable to offering improved pricing. "For a specific product we can look at volumes or how deeply we are engaged with the customer across the bank," explains Wade.

Most treasurers will have a method of working out the share of wallet to give to each bank, notes Meuli. Such a model will typically be led by an actively managed treasury policy. The discussion around which institutions should or should not be used is often one between the treasury HQ and its group entities, he notes. Indeed, prescription by HQ of which banks can be used may cause a "profound" discussion where, under the influence of the wallet-share programme, a long-term relationship is no longer supportable at a local level.

Getting a better deal

Local issues aside, it is important that bank and client reach a fair deal. "Just because a bank is a good customer service provider does not mean it is actually giving the client value for money," says Wade. "I think it is quite normal, if you are paying a lot of money for a service, to know what you are paying for and to make sure you are paying the correct amount."

When seeking a better deal, a certain amount of treasury tact and guile is required. "It does not make sense to haul your bank over the table; that does not work," states Hugo van Wijk, a former banker and, for the past 15 years, CEO and founder of Vallstein, a vendor of 'wallet-sizing' and bank relationship management technology. But, he adds, there is also absolutely no need to give the bank an "excessive return".

Typically, fees are set within the system and charged automatically to an account on a 'local billing' basis. In isolation they may make little impact on corporate cash, en masse the amount seems rather more consequential. The realisation of just how much it is paying in fees may lead the treasurer to try to negotiate costs. For Krishnan, key leverage items for corporates typically include the ability to commit large volumes of transactions and to maintain significant net daily or average balances.

The key to success in any quest for fee reduction, says van Wijk, is to understand that it makes no sense to try to drive down the fee for every single item (not least because there may be upwards of 1,000 different price points in a bank's international cash management offering alone). "Only pick out the most relevant," he advises. "If a company uses a lot of international wire transfers or domestic direct debits then these will be the components to negotiate on – just accept the others."

How much of a reduction to expect is a moot point. "We are often asked what 'best practice' pricing is for certain products," says van Wijk. "Our standard reply is 'zero', because sometimes a corporate can get its bank to waive fees on an individual product." However, he adds, "it is very important for a treasurer trying to get a grip on banking fees to negotiate only in the context of the overall relationship". Fairness is, after all, relationship-driven.

The problem here is that whilst the total relationship has a value – how much the client spends in a fixed period – checking and analysing every billable item is essential to be able to accurately plan the share of wallet and conduct an assessment of fair pricing. This is more complex than it first seems, particularly where non-standard pricing is applied.

Out of the hundreds of billable items a bank will offer (and potentially thousands of price points), where a client negotiates a lower price on, for example, just 20 of these, if that client has accounts with the bank in five different countries across 15 different legal entities, billing complexity soon mounts. "Historically, the structuring of banking fees has been constrained by the capabilities of the underlying core systems," says Krishnan. "Hence, when it comes to introducing new products, banks have to add yet more product variations because they cannot flexibly handle these through product parameterisation; their product real estate has become increasingly unwieldy and complex to manage."

SEB has a single billing platform (miRevenue from Zafin) and is progressively migrating business units, customers, products and billing data onto it. Such an investment, says Wade, is about gaining control over the process which is good news for bank and client because where previously there was a somewhat "scattered" approach to pricing and billing, now it is unified. "Everything now is much more transparent; customers should expect to see exactly what they are paying for." In addition to improved pricing flexibility across the bank's business, Durelius explains that it also enables customers to import and export billing data into and out of their own systems with greater ease.

Unified billing codes: TWIST, AFP and camt.086

For a corporate to know precisely what it is paying for, importing detailed electronic reporting from a bank directly into an ERP, TMS or Account Analysis package is beneficial. There are currently two models of detailed electronic statement that banks may adopt: the TWIST (Transaction Workflow Innovations Standards Team) Bank Services Billing (BSB) initiative and US EDI 822. The Association of Finance Professionals (AFP) domestic AFP Service Codes is used with the EDI 822 and its broader counterpart, the AFP Global Service Codes (the latter was designed specifically to work with the BSB format).

General Electric (GE) was the first corporate to use the BSB back in 2007, receiving billing data from Danske Bank. To date 14 major banks (BofAML, Barclays, BNP Paribas, Citi, Danske Bank, Deutsche Bank, HSBC, Intesa Sanpaolo, J.P. Morgan, RBS, SEB, Societe Generale, Standard Chartered Bank and UniCredit) and around 100 corporates use it.

With the appropriate software at the corporate end, data using AFP and BSB models can be received, reconciled and analysed right down to individual line items. Most of the major ERP and TMS vendors (and a couple of specialist IT firms) can configure their systems to process the extra data.

In explaining the benefits of a common billing code, Paul Burstein, formerly managing director of GE's Treasury Strategic Initiatives team and for many years a leading light behind the TWIST initiative, says the bottom line is that it "allows for all kinds of checking on what banks are charging". The level of insight goes beyond a treasury's bank relationships, reaching into other operating units within the company – payroll, procurement or operating units for example. This, he notes, affords a view of how those other functions are using banking services, enabling treasury to optimise all bank relationships in line with policy and share of wallet, and enhancing the company's understanding of its total level of exposure to each of its banks across the enterprise – an obvious risk management benefit.

Banks require a system to produce BSB data but corporates must have the right tools to process it too – treasurers could use an XML editor or Excel but to really get value out of BSB data Burstein says specialist software can be used to validate the billings and to analyse them.

The BSB is currently available in two versions: the original TWIST version (Version 3.1) and the ISO 20022 camt.086 version 1 message. The ISO 20022 BSB is currently undergoing a facelift, with many banks, corporates and vendors involved in an assessment of issues that have arisen in the version 1 implementation by banks and the message's use for electronic invoicing. The current BSB version (3.1) is now fixed, Burstein says any future enhancements will only be made to the ISO 20022 version.

Transparency is the key

SEB's Wade talked earlier about how shifting the billing function to a central platform could afford more transparency (and flexibility), but this is just one bank's action. A more fundamental issue arises out of the debate around the fairness of bank fees – and that is whether it is desirable for banks and corporates to agree to a simplified fee structure. "Why should there be so many billable items in cash management? This is complexity from the past," states van Wijk. The problem, he feels, could be removed altogether with a simplified approach to billing. Whilst any conversation must of course be mindful of the whole bank relationship picture, the real aim, he says, "is to eventually make the entire relationship transparent".

This point is perhaps contentious and TWIST's Burstein argues otherwise. "I think you will find that most banks would not want to limit how they bill and what they bill for – and most major corporates with a large relationship with a bank would want to be able to negotiate at a detail level." The capabilities of a bank's existing computer systems might also play a role in determining what can be billed and how. At the treasury end this is where bank relationship management software, such as Vallstein's own 'WalletSizing' solution, Kyriba's 'Bank Relationship Management', Zafin's 'miRevenue' or Chesapeake's 'SmartAnalysis', can help prepare the ground.

The 'WalletSizing' system, explains van Wijk, starts by examining where the corporate stands today in terms of bank fees, capturing total costs for the corporate and revealing the extent of its global wallet. The next stage indicates if fees agreed are indeed the fees applied – the BSB and AFP codes are clearly useful tools here too. The third stage assesses whether the best possible fee structure is in place or if certain inefficiencies exist in the way the wallet has been divided between the banks.

However it is achieved, analysis of bank billing should be ongoing, perhaps taking place every quarter or half year. "But don't try to renegotiate every time," warns van Wijk. It is also important, once a new pricing structure is agreed, that treasury monitors and controls it tightly, he adds. Far from creating tension between partners, he argues that the whole process actually creates stability in the relationship. "Once partners have this level of transparency, the corporate knows it is paying a fair price and that the agreed price is being observed, there is no need for it to shop around; for the next few years at least the bank is assured that it has a fair share of the corporate wallet."

Clearly it is not all about the price. When seeking to explain how a corporate can derive value from a banking relationship, Durelius believes that the discussion should broaden out beyond a simple question of 'how much', to reach into areas such as how a certain product or solution can deliver upstream or downstream process efficiencies. "It might still be good value for money even if the naked cost is perceived as high," he states. In this light, perhaps a refocus of priorities is required. "A company will pay a consultant hundreds of euros an hour in the blink of an eye, but an annual fee for a service from a bank may be deemed more challenging, even if it saves so much more over time." This is the crux of the issue when considering fair fees: don't just look at the price tag, consider the real value for both sides of the deal. ■

Optimising liquidity in a shifting world

From negative interest rates to significant currency volatility and geopolitical risk, today's treasurers are operating in largely uncharted territory. Exploring and exploiting this new liquidity landscape will require skilful navigation – and an open mind.

Amit Agarwal
EMEA Head of Liquidity Management Services, Treasury and Trade Solutions

Steven Elms
EMEA Head of Industrials Sector Sales, Treasury and Trade Solutions

With ongoing speculation around the future of the Eurozone, crisis-driven regulation still being implemented across the financial sector, and emerging economies continuing to outperform their Western counterparts, any casual observer could be forgiven for thinking that little has changed in the macro business environment over the last five years. But as any treasurer will tell you, nothing could be further from the truth.

The first and perhaps hardest hitting change – at least for those in the corporate treasury profession – is the introduction of negative interest rates. "Whilst interest rates have been extremely low across Europe and the US in recent years, the move by the European Central Bank (ECB) in June 2014 to lower the deposit rate from zero to -0.1% took us into a new phase in the interest rate cycle," explains Amit Agarwal, EMEA Head of Liquidity Management Services, Treasury and Trade Solutions, Citi.

This triggered a domino effect of rate cuts across Europe with the Danish, Swedish and Swiss National Banks all choosing to follow suit in an effort to protect their currencies and reduce market volatility. "For treasurers, the impact of these changes in monetary policy is wide-reaching," says Agarwal. "We are entering new territory when it comes to the traditional treasury priorities of security, liquidity and yield. Liquidity is being challenged by regulations such as Basel III, and yields on investments and currencies are scarce, but capital preservation is even trickier.

"Take investment policies, for example. These typically dictate that treasurers must retain capital and maintain the value of that capital, but doing so in a world where deposit rates are suddenly negative poses a real challenge." As a result, many treasurers are left questioning the validity of their investment policies and priorities, as well as their accounting practices.

Treasurers are also still wondering where interest rates will go next, as they do not appear to have bottomed out yet. As Steven Elms, EMEA Head of Industrials Sector Sales, Treasury and Trade Solutions, Citi observes, "this uncertainty around rates is a genuine challenge for corporates trying to navigate the new business environment. Not only are they trying to understand where the policy moves are heading but also as to how banks are responding and how this will impact their deposits, investments and wider currency market movements."

Against this backdrop of uncertainty, there is one safe bet, says Elms, namely that this new territory for interest and FX rates is here to stay, for the foreseeable future at least. "This is the new normal – and it is this environment that treasurers and banks need to be comfortable operating in."

Adapting to change

What this means is that whilst it is important to continue to build on the best practices that have been honed within treasury departments in recent years, forward-looking treasurers must also examine ways to adapt and optimise their liquidity structures accordingly.

"One very noticeable trend that we are observing among leading treasuries is the conscious decision to exclude certain pockets of daily liquidity from global liquidity structures in response to the lower rate environment," says Elms. After all, why should a company move balances away from a jurisdiction and incur an FX cost, only then to be impacted by the negative rate environment?

"As long as there is complete visibility over the cash and at a near-term use of that local liquidity, then leaving it in-country may be the best course of action," he notes. "That said, it is still fundamentally important that the liquidity structure the company has in place

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allows the treasurer to move and mobilise that cash when needed – not least because of the level of geopolitical unrest today. Trapped cash is a growing concern in politically unstable countries, as is significant FX volatility, so having a flexible and nimble liquidity structure is now more important than ever."

> Liquidity is being challenged by regulations such as Basel III, and yields on investments and currencies are scarce, but capital preservation is even trickier.
>
> Amit Agarwal, EMEA Head of Liquidity Management Services, Treasury and Trade Solutions, Citi

Offsetting the negative

When we overlay all of these challenges – the negative rate, low yield environment; the geopolitical challenges which are creating further FX swings, sovereign and counterparty risk concerns; and of course the liquidity constraints of Basel III, "this creates a perfect environment for clients to sit down around the table with their banks and discuss the optimal liquidity structure that brings together the right mix of cash management, investment and the risk management tools, whilst observing best practice," says Agarwal.

A good example of this is the work Citi has been undertaking with clients to help them meet their goal of capital preservation in this era of negative rates. "From an investment point of view, we have introduced smart investment options, such as the minimum maturity deposit, which provides enhanced returns over short tenor time deposits with a minimum notice period before funds can be withdrawn," he explains.

Elsewhere, multicurrency cash pools – as part of a global liquidity structure – are proving extremely popular among Citi's clients as a means to gain liquidity and operational efficiencies, whilst also replacing or at least reducing the need for FX swaps. "With a multicurrency pool, it is possible to offset charges in certain low-yielding currencies by changing the mix of the company's assets and increasing those currencies which have a wider spread. Furthermore, for the day-to-day operating business, rather than having to spend resources and investment dollars executing FX transactions, they can effectively use the multicurrency cash pool as an implicit way of executing their FX swap transactions. With that in mind, we are seeing double digit growth in the adoption of cash pools, in particular the multicurrency cash pool," notes Agarwal.

Recently, Flextronics, a leading end-to-end supply chain solutions company, worked with Citi to create a multi-currency pool for its EMEA operations. By automating the FX conversion and draining of pool funds to the US, 90% of the cash in Europe is now available to the US – including US dollars in Israel for the first time.

> We are seeing more and more requests to set up actions that occur without manual intervention when a particular currency – typically a negative yielding one – reaches a specified amount.
>
> Steven Elms, EMEA Head of Industrials Sector Sales, Treasury and Trade Solutions, Citi

Regulatory change is another driver behind the focus on multicurrency cash pools. According to Elms, a common request is to include the renminbi as part of a multicurrency pool structure, not only because it is an additional currency that can help to offset negative yields, but also because banks such as Citi have grown their capabilities in the currency (since it has been gradually liberalised by the Chinese authorities) to ensure that locally generated liquidity that was previously trapped in-country can now be brought up into a company's central liquidity structure, even through automated sweeping options.

"Automation is another huge theme in this new liquidity environment," Elms continues. "We are seeing more and more requests to set up actions that occur without manual intervention when a particular currency – typically a negative yielding one – reaches a specified amount." Once the level is hit, Citi can then help to push some of that liquidity into a different destination; whether that be a higher yielding account with a longer maturity, or a money market fund, for example.

Embracing the positive

"These kinds of innovations are only going to become more popular as people adjust to the new normal," predicts Elms. And over the last five years, treasurers have already demonstrated great flexibility in their mind-sets, adjusting their investment comfort zones to include instruments such as tri-party repos and secured lending, so thinking outside the box has almost become part of the job description for those at the top of the profession.

Nevertheless, if innovation is to succeed, it must be built on solid foundations – in this case best practice. "Now is not the time for treasurers to start undoing all of the hard work they have put in post-crisis, centralising, rationalising and automating their liquidity management. Rather, this is the time to examine how external market influences, such as negative interest rates, actually present opportunities for further efficiency," concludes Agarwal.

The world of private placements

If governments want to help the flow of credit to mid-market companies, they need look no further than the US private placement (PP) market for inspiration. In the US, companies have long benefited from a PP market that is both large and liquid. Can a similar market emerge in Europe, and what are the private placement options for corporates globally?

In a year where bank lending once again contracted and the ultra-low rate environment pushed investors still further out on the yield curve, it seemed inevitable that private placements would be one of the hot topics of 2014. And so it proved.

Corporates, wherever they are in the world, now need new options when it comes to financing the business. Accordingly, those companies for whom the public debt capital markets are not a feasible option, the private placement markets are becoming an increasingly popular alternative source of capital. The trend can be seen worldwide although, as we will see, there are some important differences between, and even within, regions such as Asia and Western Europe.

A turbulent decade

Asian capital market issuance is growing rapidly. Regulation has been one of the drivers. In recent years, there have been efforts in the region to improve access to public capital markets through the simplification of legal documentation and the investor base has widened substantially.

"Traditionally Asia has been a bit of a bank loan market," says Vijay Chandler, Executive Director of the Asia Securities Industry & Financial Markets Association (ASIFMA). The bond market is typically smaller relative to the loan market, at least in terms of the total outstanding. Although this continues to be the case,

there are signs that change is afoot. "What has happened in recent years is that the banks have been pulling back from the syndicated loans market, largely as a result of the Basel III guidelines and other regulatory pressures. Bond issuance has really grown, as a result."

There has been a change, also, in the type of debt being issued on Asia's capital markets. About a decade ago, private placements in Asia were – with the benefit of hindsight – moving into bubble territory. Western hedge and private-equity funds came to take advantage of the region's burgeoning growth, but soon found that there was little to purchase on Asia's underdeveloped capital markets. Some corporates in Asia, meanwhile, faced obstacles to issuing on the public capital markets. Thus each party ended up solving the other's problem, and the issuance of dollar-denominated debt boomed.

"This was before the financial crisis, remember, so everyone was gung-ho. You had the likes of Indonesian mining companies coming to the market looking for bridge finance prior to an initial public offering (IPO) or a public bond issue, and we had all these investors looking to invest in corporate bonds at a time when the public markets were pretty much full," notes Chandler.

> "What has happened in recent years is that the banks have been pulling back from the syndicated loans market, largely as a result of the Basel III guidelines and other regulatory pressures. Bond issuance has really grown, as a result."
>
> Vijay Chandler, Executive Director, Asia Securities Industry & Financial Markets Association (ASIFMA)

For a while, this proved a happy arrangement for all concerned. Investors bought up all the debt they could, providing companies with much needed financing, and secured very attractive yields in return. Then, in the autumn of 2008, the music finally stopped.

According to Chandler, around 80-90% of the deals struck during those heady pre-crisis days had to be refinanced. "A lot of them were very short-tenor private transactions," says Chandler. "That meant that if your company's deal was priced in 2005-06 – or even as late as 2007 – by 2010, you needed to refinance either through an IPO or some sort of bond offering, both markets which were, of course, closed by that time."

The subsequent freeze in capital market lending didn't last long, however. Debts were successfully restructured, and sovereign wealth funds took up some of the remaining slack and now, remarkably, the capital markets are once again growing at a rapid pace, although the bulk of what is being issued, this time, is denominated in local currencies, not USD.

Asia today

Asia is not a homogenous region, by any means. The split between public and private issuance still varies considerably across jurisdictions, therefore. Public placements now account for the lion's share of corporate bond issuance in a number of Asian countries such as China, Malaysia, the Philippines and South Korea. However, in other markets, like India, private placements have remained the primary form of bond issuance representing more than 80% of the corporate bonds issued domestically in 2012 and 2013.

The regional disparities are, of course, all a matter of pricing. "In many Asian markets, the costs of public issuance still exceed those associated with private placement by a multiple," says Hannah Levinger, Analyst, Global Risk Analysis, at Deutsche Bank. "As a result, private placements are still a common issuance regime. Companies can tap longer-term financing with a few selected investors while saving on regulatory costs and requirements and avoiding lengthy and burdensome procedures."

Such features make private placements a very attractive proposition for some businesses, particularly smaller, fast-growing companies who need capital to finance their growth plans. Recognising this, there have been initiatives in some countries, most notably China where obtaining capital is one of the biggest problems faced by SMEs, to help smaller companies execute private placements. A pilot initiative for SME bonds was launched by the Chinese regulator in 2012, which was followed up in 2013 by an announcement to extend private issuance to a wider region and companies registered at the "new third board" a nationwide share transfer platform for non-listed companies.

"The move was seen as both a measure to stimulate the development of the corporate bond market and reduce SME's reliance on bank loans," says Deutsche Bank's Levinger. "As a result, private placements have seen steady growth in Asia."

Luxury or necessity?

We have also seen a growing level of interest in private placements from companies in Europe – and similar initiatives encouraging firms to reduce their reliance on bank loans.

In autumn 2014, private placements – and specifically the question of whether a European PP market to rival the US will develop – was one of the most keenly discussed topics at the Loan Market Association's (LMA) annual Syndicated Loans Conference in London. On that question, the general sentiment was optimistic. A straw poll of the 850 delegates in attendance found that a sizeable majority (78%) believe that such a market will become established within the next decade. In addition, just under half (49%) indicated their conviction that we will see one emerge within as little as five years.

Earlier in the session, a panel of fixed-income investors were asked if a Europe-wide market for private placements is even needed. After all, companies today can choose to issue a private placement in the US market denominated in dollars, before converting back into euros. In fact, a lot of companies these days are even finding investors in the US willing to lend to them in euros, thereby saving them the bother of executing the conversion themselves. Companies might also find the credit they need in one of Europe's local markets – the German Schuldschein sector, and the nascent French and UK markets – each of which has seen growing international interest from both investors and issuers in recent years.

However, the ability to issue private placements in a pan-European market would be a big advantage for borrowers, the

panel insisted. "It would be much easier for companies to borrow locally in local currency," Calum Macphail, Head of Corporate Private Placements at M&G Investments, told delegates. Investors, he explained, tend to extend their willingness to lend right across the yield curve when dealing with familiar, local companies.

A European market would also simplify the process enormously, especially on the legal side of things, he added. "If borrowers have the ability to use documentation that is familiar and consistent and cheapens the process – that has got to be beneficial as well."

Investors would stand to benefit too, Emmanuelle Nasse Bridier, Chief Credit Officer at the AXA Group, pointed out. It's no secret that institutional investors have felt the need to be a bit more adventurous with their portfolios of late. In the current ultra-low yield market, insurance and pension funds have found it all but necessary to diversify into new asset classes to secure some return on the amount of liquidity they are now holding. Developing a pan-European PP market would certainly help them in that respect.

"For us insurance companies a European private placements market would offer new opportunities that are not available on the public market, most of which are well organised and strongly performing corporates," she noted. "We are looking for new investment opportunities with that type of company."

> "If borrowers have the ability to use documentation that is familiar and consistent and cheapens the process – that has got to be beneficial as well."
>
> Calum Macphail, Head of Corporate Private Placements, M&G Investments

The need for consistency

Having agreed unanimously that building a private placement market in Europe would be a positive step, the panel then moved on to address the barriers that need to be overcome before that can become a reality. When the question was put to delegates earlier the answer was clear. Just under half (47%) said that the main thing that Europe needed to begin competing on equal terms with the USPP market was greater standardisation, particularly with respect to the legal documentation used across various jurisdictions.

Eliminating such inconsistencies is something that the LMA has itself taken a leading role in. In January 2014, the group announced that it is working with banks and law firms on developing a standardised template for use in private placement transactions. Further encouragement for this objective came when, in February 2015, the European Commission (EC) published a Green Paper "Building a Capital Markets Union,' promising steps to facilitate the work of industry bodies in developing common market practises and documentation for private placements. This is just the beginning, however; the investors on the panel were keen to emphasise that much more progress is needed in this space if Europe is ever to rival the USPP market. "Regulation is very different around Europe when it comes to credit markets," AXA Group's Bridier said. "I think if we had a European framework around investment regulation that would solve a lot of the problem."

Come together

If the industry now joins forces to iron out the differences at local level then the liquidity should soon follow, the panel concurred. "We are seeing investors become increasingly interested in European private placements markets," asserted Richard Waddington, Head of Loan Sales at Commerzbank. "Clearly there are challenges, but we've got to work together to overcome these challenges and help develop and grow the market," he added. "There is most certainly demand from issuers, but it is about trying to match that demand with investors' requirements."

Achieving that match may take some time, but it is not beyond the industry's reach. In the end the panel arrived at the consensus that a pan-European market will emerge in time, albeit a segmented one. That is not as contradictory as it might first seem, M&G Investments' Macphail explained. If a company wants to raise a relatively small amount of funding – say €10m – then it may still be best served by its local market. But there are, of course, no shortage of companies who have larger requirements and, for them, tapping into larger pools of liquidity on a pan-European basis would be the more ideal option.

> "There is most certainly demand from issuers, but it is about trying to match that demand with investors' requirements."
>
> Richard Waddington, Head of Loan Sales, Commerzbank

"If we are talking about a market for everyone, not just the happy few, then you need to have a different response depending on the requirement," he said. "For a small bilateral loan then local is great. However, we also need to cater for the needs of those larger companies who want to borrow Europe-wide. I think the market is flexible enough to accommodate both." ■

Photo credit: Ries van Wendel de Joode

The long view

Tim de Knegt
Treasurer, Port of Rotterdam

There is far more to the port of Rotterdam than simply unloading and loading ships, even if it is one of the busiest ports in the world. The industrial area that surrounds it, the complex infrastructure needed to support it, the local community – all have needs that must be met. As Treasurer of the publicly owned company that runs this vital part of northern Europe's trade activity, Tim de Knegt has a personal philosophy that reflects the ever-evolving nature of port life.

The port of Rotterdam is the largest port in Europe. The business that runs it – the Port of Rotterdam Authority (Havenbedrijf Rotterdam in Dutch) – derives its main sources of income from harbour dues and long-term rents from businesses in its surrounding industrial area. Clients include tank storage firms, (bio) chemical and petrochemical operations, shipping companies as well as biofuels and energy producers. Since 2000, the Authority, which is jointly owned by the Municipality of Rotterdam and the Dutch State, has been investing heavily in port and IT infrastructure development, an ongoing project that includes the construction on reclaimed land of the impressive Maasvlakte 2.

For the third consecutive year, the Netherlands has been described as having the best port infrastructure in the world by the World Economic Forum's "The Global Competitiveness Report". True, its location and geography allows the lowland country to play host to the world's largest ships, and its well-managed infrastructure facilitates the transport of goods across Europe. But then its key port – the port of Rotterdam – is not the largest port in Europe by accident.

Billions of euros have been spent on road and rail expansions and the development on reclaimed land of the new port and infrastructure, Maasvlakte 2. There has been construction of numerous bridges, tunnels, quays and terminals, and the encouragement of the refinery and chemicals sector, tank storage, biofuels and energy firms to make themselves at home in this massive expanse of economic activity.

Running a modern port is a complex, hugely expensive and brave venture that requires people with vision and an unwillingness to sit still for five minutes. Tim de Knegt, Treasurer for the Port of Rotterdam, fits in perfectly with the aspirations of the port's owners and stakeholders and, of course, the World Economic Forum's continued view that it is part of a system that is consistently rated higher than serious contenders for the crown such as Singapore and United Arab Emirates.

Framework for the future

The traditional core of de Knegt's role entails payments, cash and liquidity management. But he also handles corporate finance which gives him responsibility for the Authority's long-term financial position. In port management terms, this often sees projections 20 to 30 years down the line. The €3 billion Maasvlakte 2 project, for example, is well under way but will not be fully operational until 2030.

By taking a view with his in-house developed 'Financial Framework' on how the business might evolve under different scenarios, he is able to present options to the Board and even to stakeholders, so that the most appropriate areas of focus can be agreed upon well in advance. A balance between the values created for different stakeholders, not just shareholders, is key for continued success.

Looking this far ahead can make the treasurer's job difficult, especially in such a volatile world. But because the Authority is intended to serve companies within the port area, the city of Rotterdam and the wider Dutch and European economy, it can also be relatively easy. Maasvlakte 2 is an essential investment because without it the whole Port of Rotterdam area and its customers would by now have run out of space. This would ultimately be a far bigger issue than working out the complexities and risk of financing it. Put into perspective, the new site enables many more businesses to benefit from the investment. Of total Dutch GDP (around €450 billion), about 3.5% (or approximately €21 billion) and 180,000 jobs are directly linked to the Port of Rotterdam: it must evolve and innovate to sustain a significant portion of the Dutch economy.

However it is viewed, there is a heavy duty of responsibility to get it right, but by openly discussing the relevant topics when creating strategy it will be steered in the right direction. One of the main topics of conversation right now is sustainability of operations over the long term. This covers a very broad remit in that the perspective could be environmental, ecological, financial or social (which naturally includes employment and staff concerns). It too comes with a great responsibility in that there needs to be no damage or wastage in terms of cash, skills, energy, pollution and a host of other considerations, but if the Authority is seen to be responding to this theme then hopefully so too will the other businesses that operate in the port area as a form of virtuous circle.

Bringing it together

There is no way that de Knegt and his team would be able to mould treasury's response to the big picture without the willing co-operation of other functions within the business. The reverse is true too of course, and other functions have learnt to call upon the expertise of treasury to support their own endeavours; after all, the aim of the game is the same for all players. But when he first joined the Authority in July 2012, de Knegt found a function that was not well connected to the business; few outside of it understood the role of the treasurer. This is something that he has tried to change over the years as it is key to the success of treasury and finance as a whole. Now he is involved in a number of commercial and business projects to ensure that people know what that function does, and vice versa. "The business needs to understand what value can be added by treasury and other finance functions. The time for finance to sit back and just account/report is over and a more pro-active stance is essential to support and develop the business."

The reach of these discussions unusually extends to clients, vendors and partners of the Authority. Here, involvement helps de Knegt to shape treasury policy and financing structure to fit the needs of all. A recent example found him explaining to both client and bank how to amend the funding proposal so that the deal would be beneficial for both parties and bring in additional goods and services to the port area. "It is vital for us that these companies are stimulated to grow as we can facilitate growth and instigate the growth ourselves."

Indeed, one of de Knegt's other roles is investor relations. The traditional role is about discussing with banks treasury's own position but he also talks about the complete supply chain, talking to the banks about investors considering entering the market with Authority clients. There is good reason for this too. "It is the only way that the supply chain will grow and ensure additional business will come into the Netherlands and into this area," he explains. "I have an obligation to my partners, stakeholders and supply chain to also facilitate them besides in a business and financial manner. Only then will growth be imminent."

Value proposition

Operation of an international commercial sea port is done in the face of intense global competition. There are only so many ports that can handle today's ultra-large commercial vessels; fail to make the right investments and support the clients and it is highly likely that those clients and the shipping traffic they generate will go elsewhere. The problem is that once these stakeholders have gone elsewhere, they will be investing for the next 20 or 30 years of operational benefit. "If you miss the deal, you miss it for a long time," states de Knegt.

To offset this risk, his role is very much aimed at bringing treasury in line with the business. "Treasury is rarely a business leader. This is something I have tried to change with my team; we try to add value to the company," he comments. Getting involved with internal and external clients is very much on the agenda and if there is a problem with a financial institution of any description, the treasury door is wide open.

Broad view

Mixing and matching functions is a long-standing interest for de Knegt. In his teens he dabbled with FX trading and then, having undertaken an internship as a Business Analyst at the University of Newcastle in the UK, he moved into financial consultancy. He started his career in finance, taking various jobs in financial control and management accounting before landing his first treasury role at Dutch development bank, FMO. "It taught me a lot about how the derivatives and financial markets work and how in treasury it was possible to add value to the local businesses we worked with." From here he moved to treasury roles with greater responsibilities, further rounding his skills as he joined Dutch navigation and mapping products firm, TomTom, first as junior then senior Treasury professional.

It comes as no surprise that de Knegt stresses the importance of 'reading around the subject' and accumulating different skills. "As treasurers, we are in the luxurious position of being able to see quite a broad spectrum of business operations and their impact on value creation. That means we can help other functions that might not have access to the same breadth of experience or view." With currency exposure, for example, he sees the story from the group's perspective whereas a buyer who only purchases for a specific business unit may not be aware that a better deal is available elsewhere.

Since joining the Port Authority de Knegt has undertaken a number of technology projects including implementing a new TMS (including accounting), introducing the above mentioned Financial Framework, a new Long Term Finance Model and overseeing the roll-out of the group's six-month complete SEPA project. "I'm a very keen user," he states, "but technology is never the solution; it is only ever an enabler of reaching the solution". Indeed, he argues that human intelligence remains absolutely essential in producing the proper analysis of and response to data. "If you don't understand what's happening with the figures it will be hard to do the right thing." An over-reliance on IT could lead to a loss of such a capacity, he feels. The ensuing lack of decision-making skills would be disastrous for businesses. "I always try to bring people into treasury that share the broad view that I hopefully have. I can develop further and I hope this extends to my colleagues so that the right skills stay in the business."

On bankers and regulators

Of course, technology can save a lot of time, but besides "more hours in the day", de Knegt believes less regulation would improve the life of treasurers everywhere. "Politicians often jump to the conclusion that everything can be solved by more regulation. It is often not the case." If a clean sweep of the existing rule books were possible, then bringing all remaining regulations into line with each other would be the next step for him. "EMIR and Dodd-Frank are two regulations doing the same thing but approaching it in completely different ways," he states. "It's a complete headache to work with."

It is as well perhaps then that the Port of Rotterdam Authority is a publicly regulated entity with a number of lobbyists working on its behalf in The Hague and in Brussels in respect of both financial and more general regulation. At a personal level, de Knegt's activism extends to membership of the Treasury Peer group (run by industry character, Magnus Lind). This is a vocal, Europe-wide forum for discussion on treasury matters which goes straight to the top, having made representations to the likes of the ECB, the Fed and the Bank of England, speaking with senior policy makers, "offering our insight as treasurers on all the issues".

If regulators have a tendency to unsettle the business environment then the general reaction to bankers has at times been bordering on hostile. Banks are talking a lot more about service than about products these days, notes de Knegt, but he believes there are still a few "that need to change their attitude and their offering". That said, he can see banks that are making good headway; the real performers are even looking at competition outside of their direct market, eyeing the fintech companies that de Knegt poetically describes as "springing up like flowers on a March day".

Regardless of who is in the game, the balance of power has definitely changed in recent times and if he, and probably many other treasurers, do not feel there is "mutual benefit", it would be "relatively easy to walk away". Just as it was once said that the countries that succeed are not those with the most resources but those with the capacity to change, de Knegt argues that if the banks don't run with the market "they will perish". Indeed, it is apparent that flexibility and speed are essential for the success of all types of organisation – and that includes the Port of Rotterdam Authority. "Policy should be following business, not business following policy."

In trying to stimulate adaptability, he insists that it is not necessarily a case that an action is right or wrong, but that it is done at all. "You are allowed to fail, as long as you can give good account of what you are trying to achieve," he explains.

Empowering treasury

There is a sound philosophy of empowerment and accountability that underpins this view. It is important to understand the distinction between delegating a problem and delegating the solution, says de Knegt. The latter removes any capacity or intention to outperform the task; the answer is fixed. "People are not motivated when they are given a task; they are motivated when you give them a challenge." In fact, this is part of his own work ethic that says for a business to flourish, its employees need to be professionals first but must also be able to take pleasure in their work and have fun; a sensible work/life balance is vital. With this approach in mind, de Knegt reiterates the need to add value to the role, to the department and to the organisation. "You always need to show what that value is to the other party," he states, adding that this must be a "two-way street" in which both employee value and employer value must be demonstrated equitably.

Unfortunately, in the wider community, this open approach is rarely shown when it comes to knowledge-sharing. "People tend to keep it to themselves because they feel it makes them stronger," observes de Knegt. His own view is that sharing allows people to demonstrate the value that they add to a concept to the people around them, and then they can take back what those people add to that knowledge, moving continuously forward, always increasing that knowledge base. However, he believes that many businesses are far too defensive and therefore fail to move forward as fast or as far as they might. "Standing still is far more of a risk than being open and flexible," he warns.

The direction de Knegt's role will take within the Authority over the coming months and years is predicated on where he feels he can add value. Further diversification seems likely, allowing him to continue broadening and applying his knowledge. For anyone moving into their first treasury role, his advice is never to be afraid to take opportunities. "If you think you are doing the right thing then do it; never be afraid to fail." Naturally, de Knegt is keen to encourage all-comers to broaden their scope. "Always keep your eyes open and look around you and think how you can use what's happening to your benefit."

It is, he agrees, a tiring prospect being constantly alert, but to counter this he is adamant that people find the time to do the things they like to do: "It gives you energy". In an ideal world, he would pull together all his skills, interests, knowledge, contacts and enthusiasm and dive straight in as an entrepreneur. He is already part-owner of the first 'authentic American cupcake' business in the Netherlands, although clearly he would have little difficulty in persuading people of the value on offer here. ■

Bernie Madoff: the confidence man

What do HSBC, The Jewish Federation of Greater Washington, L'Oréal founder Liliane Bettencourt, director Steven Spielberg and current Manchester United manager Louis Van Gaal have in common? They all fell victim to Bernie Madoff, the architect of one of the biggest financial crimes of all time.

Now serving the sixth year of a 150 year prison sentence, Bernie Madoff was arrested at the height of the financial crisis, in 2008, after he admitted to running a $65 billion Ponzi scheme. The revelation sent shock waves across a society already reeling from the economic turmoil and put a face to what Americans saw as being wrong with the financial industry. Broader society was shocked, and his investors were traumatised and could not believe that a man they placed not only their money with, but also their confidence in, was a fraud.

Early life

Bernard Lawrence Madoff was born into a middle class Jewish family, in April 1938, to Ralph and Sylvia Madoff, the children of eastern European immigrants. The young Bernie Madoff was not outstanding academically but after leaving high school went on to study political science at the University of Alabama and then later Hofstra University in New York. Once he had graduated, Madoff split his time for a year between studying law at the Brooklyn Law School and running a small business selling and installing sprinkler systems. He also worked part-time as a lifeguard at weekends.

It was during this time that Madoff stepped into the world of finance and established Bernard L. Madoff Investment Securities. Some say that this is actually the moment his deception began as there is debate surrounding where Madoff obtained the money to start the firm. He claims that

the company was set up with $5,000 he had saved, although others claim that the money actually came from the father of his childhood sweetheart, and wife, Ruth.

Either way, Madoff was an outsider on Wall Street, with no connections or pedigree, and according to his first US Securities and Exchange Commission (SEC) filing 'cash on hand of $200.'

A legitimate businessman?

Madoff began his career in finance dealing in over-the-counter penny stocks acting as a market maker. In an interview with the NY Mag following his arrest, Madoff recalls his early days in finance as being frustrating and a world that he wasn't truly part of. "It was always a business where you had to have an edge, and the little guy never got a break. The institutions controlled everything." Madoff felt he was on the outside looking in; "I was upset with the whole idea of not being in the club. I was this little Jewish guy from Brooklyn."

Operating on the fringes did have some advantages for Madoff, however. It was not institutionalised and there was no central exchange providing up-to-date prices on the stocks. Dealers in this market were able to issue quotes that, if completed correctly, could see them take a spread of up to a dollar a share, making a tidy profit. The practice was legal and by quickly learning how to play the game, Madoff started to become a successful businessman. According to SEC disclosures, by 1961 he had turned his initial investment into $16,140 and subsequently into $555,157 in 1969.

> There was nothing particularly special about Madoff's Ponzi – it worked as all classic schemes did, using money from new investors to pay old investors false returns. What was unique however, was its sheer size and longevity.

In the 1970s, new regulation began to allow firms such as Madoff's to trade more prestigious blue-chip stocks and he began to gain market share in this area. As the decade progressed, Madoff developed a reputation for being a forward-thinker and his firm was one of the pioneers in electronic trading. In fact, Madoff claims that it was he and his brother who laid the foundations for the NASDAQ to be created in 1971 and that he had a defining role in shaping the new exchange. These claims have been countered by others involved in electronic trading at the time who say that Madoff was not involved in creating the NASDAQ at all and actually made his mark in electronic trading later.

Despite this, Bernard L. Madoff Investment Securities was certainly one of the first companies on Wall Street to truly harness technology. The firm specialised in trading over-the-counter with retail brokers, bypassing the exchange specialists using the new trading technology. Soon, Madoff was becoming a big player on Wall Street and began working with huge institutions such as Fidelity and Charles Schwab, and by 1990 executed around 9% of all trades on the NYSE. Madoff's stock had risen so high that in the same year he was appointed as Chairman of the NASDAQ and was regarded as the voice of authority on matters surrounding electronic trading, testifying in front of Congress and playing a key role in shaping regulation. Throughout the 1990s, his firm matched his success – growing in size and earning a considerable, honest profit.

The start of the Ponzi

On the 17th floor of 53rd at Third, the office block in New York, which housed Bernard L. Madoff Investment Securities, also resided his other business. Manned by no more than 24 employees, it was from here that Madoff would orchestrate the largest Ponzi scheme in history.

It remains unclear when Madoff began to manage money for clients, due to bad record keeping, yet many speculate that it began in the 1960s. Initially, the operation was small and his investor base largely came from his family and friends throughout the local Jewish community. As time progressed, Madoff's client list expanded, assisted by his father-in-law, Saul Alpern who channelled him clients. Soon Madoff's operation had four key clients: New York investors Jeffry Picower and Stanley Chais; Norman Levy, a real estate developer; and Boston clothing manufacturer Carl Shapiro, all of whom over the years would earn a lot of money through Madoff, even more so than Madoff himself.

Just as it remains unclear when Madoff began managing client money, it also remains unclear whether it was ever a legitimate operation. Unsurprisingly, Madoff claims that it was legitimate and that the Ponzi scheme didn't begin until 1992. He also claimed that he lost a significant amount of money trading that year and rather than coming clean to his investors, he doctored the numbers, hoping that he would eventually recoup the losses.

In an interview with the Financial Times, Madoff highlighted that it was his ego that stopped him coming clean to his investors. "Put yourself in my place. Your whole career you are outside the 'club' but then suddenly you have all the big banks – Deutsche Bank, Credit Suisse – all their chairmen, knocking on your door." Other notable experts on Madoff, including New York Times reporter Diana B. Henriques believe that this story is fabricated and Madoff's Ponzi had in fact begun long before.

There was nothing particularly special about Madoff's Ponzi – it worked as all classic schemes did, using money from new investors to pay old investors false returns. What was unique however, was its sheer size and longevity. Traditionally, Ponzi schemes quickly collapse under their own weight, yet Madoff was able to continuously attract new investment and come the end he was 'managing' more money than many of the largest institutions on Wall Street.

An exclusive club

So how did Madoff turn a small money management business into the world's largest scam? The answer, as one might expect because of the size of the scheme, is complex. But the first and vital ingredient was having something to offer to the investor community, in Madoff's case: steady returns. His investment fund offered returns of around 1% a month, good at the time but not fantastic. But what appealed was that the returns were consistent no matter how volatile the market was. To achieve this, Madoff claimed he was using an investment strategy called

'split-strike conversion', a method that saw him investing in a basket of S&P 100 stocks, using a mixture of 'opportunistic timing' and a variety of options in order to reduce volatility and in turn limit losses.

In reality, Madoff wasn't doing anything with the money. He didn't make any trades and the reports that he sent back to investors were fabricated. Any 'returns' were actually paid from new investor's deposits – and there were plenty of these.

Initially, Madoff's scheme was run by word of mouth – a friend would tell a friend about their investment and the steady returns, and they would want a slice of the action. But Madoff's real masterstroke came from his rejections, of even high-wealth investors. In an interview with the New York Times, Jeffery Gural, Chairman of Newmark Knight Frank talked about how he was teased by friends after being turned away by Madoff. "They thought Bernie Madoff was a genius, and that anyone who didn't give him their money was a fool," he said. Of course, as Madoff's scheme gained more notoriety, so did his clients, who invested in Madoff through feeder funds across the world.

The scheme's appeal was only further reinforced when investors met Madoff in person. As Jerry Reisman, who socialised with Madoff, explained in an interview with the Daily Telegraph: "he moved in some of the best social circles in New York. He worked the best country clubs. He was utterly charming. He was a master at meeting people and creating this aura. People looked at him as a superhero."

Madoff built up his image even further by working with charities, either as an advisor or by allowing them to invest with him. This not only boosted his legitimacy but by also accepting charities' money, Madoff gained sticky deposits – which goes some way to explaining the longevity of Madoff's scheme.

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>
> Jerry Reisman

The final pillar supporting the 'success' of Madoff's scheme was his close relationship with regulators, most notably the SEC. "Bernie had a good reputation at the SEC with a lot of highly placed people as an innovator, as somebody who speaks his mind and knows what's going on in the industry. I think he was seen as a valuable resource to the commission in its deliberations on things like market data," said Donald C. Langevoort, a Georgetown University law professor who served with Madoff on an SEC advisory committee, in an interview with the Washington Post.

As such, despite the spotlight being shone on his operations on a few occasions, Madoff was never formally investigated. This is also in spite of one man telling the SEC, for over half a decade, that Madoff was running a Ponzi.

Getting caught out

It all began to unravel for Madoff in 2008, as the global financial crisis began to take hold and markets came crashing down. His investors quickly began to request withdrawals from Madoff's fund as their other investments disappeared. By December 2008, this figure had reached close to $7 billion. Madoff, with no means of obtaining this money, had run out of places to turn to and admitted his crimes to his two sons in their New York apartment. He was arrested the following day and so began the exposé of the biggest Ponzi scheme the world had ever seen.

> Despite the spotlight being shone on his operations on a few occasions, Madoff was never formally investigated. This is also in spite of one man telling the SEC, for over half a decade, that Madoff was running a Ponzi.

For some astute observers, this came as no surprise. Madoff had actually been foiled eight years earlier by Harry Markopolos, a portfolio manager at Rampart Investment Management, an options trading company based in Boston. Markopolos was made aware of Madoff through an acquaintance, however, he had little detail about him so sent his colleague Frank Casey to investigate how this anonymous hedge fund manager was consistently obtaining 1% a month returns.

Casey went to meet Markopolos's contact, Thierry de la Villehuchet, principle at Access International Advisors, a feeder fund to Madoff. Villehuchet explained how Madoff made his steady returns, regurgitating perfectly what Madoff had told him. Suspicious of how this strategy could work in a negative environment, Casey took the reports Villehuchet had provided back to Markopolos who instantly knew something was wrong. "It took me five minutes to know that it was a fraud," he later said in an interview with CBS. "It took me another almost four hours of mathematical modelling to prove that it was a fraud."

A fraud yes, but not necessarily a Ponzi – Markopolos initially believed that Madoff might be using insider information to make his profit – either way it was illegal. Markopolos took his case to the SEC, not once, not twice but three times over a five year period highlighting that what Madoff was doing was illegal and in the later instances a Ponzi scheme. "By 2005, I had 29 red flags that you just couldn't miss on. By 2005, the degree of certainty was approaching 100%," he told CBS. He explained that Madoff, to execute his strategy would have had to have bought more options than existed on the Chicago Board Options Exchange, yet Markopolos could not find one individual that had traded with Madoff.

Despite this, no formal investigation was ever launched by the SEC and Madoff continued his illicit activities until, like all Ponzi schemes, it collapsed under its own weight. On 12th March 2009, Bernie Madoff pleaded guilty to 11 federal crimes, claiming that it was he and only he who had defrauded his clients of $65 billion over 20 years. He was later sentenced to 150 years in prison. ■

The shipping forecast

Paper documentation has been the mainstay in the trade space for a very long time. But in recent years the conversion to a digital format of some elements has taken place. Is paper really on its way out?

Overseas trade has for many hundreds of years relied upon a full set of documentation to ensure the dispatch, shipping, offloading and receipt of goods by the paying customer. Such a requirement is unlikely to change dramatically, however, the form of that documentation certainly will. Currently the trade world is shifting from paper to electronic and in doing so is ushering in an era of vastly improved administrative efficiency, security and accessibility. The problem is that it is taking the industry a long time to let go of paper.

Why not drop the paper?

In theory, the preparation, dispatch and receipt of electronic documents facilitates cost savings and process efficiencies whilst reducing the potential for fraud. Back in 1997, Professor Paul Todd from the Law School at Southampton University wrote a paper in which he asserted that "it is much easier to dematerialise non-negotiable shipping documents, such as waybills, than it is to dematerialise the negotiable bill of lading, since it is necessary to send only information by a computerised system, rather than proof of title." Professor Todd concluded in his paper that "it is possible, on the basis of existing technology and under the existing legal framework, to replace bills of lading by electronic documents, which can in principle afford to the parties security at least as great as existing paper documents." He did however accept that changes may be required in some states to the rules on personal data protection, admissibility of computer-generated documents in court, and the transmission of encrypted data across national boundaries.

That was almost two decades ago. Today, the issues with digitisation of trade documentation are not just legal. There is also a persistent perception that electronic documents are somehow less secure than paper and that they are open to abuse by hackers and other cyber-criminals. Of course, there is an element of vulnerability with all electronic systems but those who hang onto this argument might like to consider the following. In 2014, an investigation was launched at Qingdao port in China around a private metals trading firm suspected

of duplicating paper warehouse certificates in order to use a metal cargo multiple times to fraudulently raise financing. And a statement issued in December 2014 by the International Federation of Freight Forwarders Associations (FIATA) warned its members to be on the lookout for forged 'master bills of lading'. A number of these paper documents had recently been presented to a consignee's bank for payment, the documents "indistinguishable from the paper originals." Paper has very little in the way of security.

Where are we now?

With this in mind, it is worth looking at the general state of play in the world of trade documentation. A trade conference in Singapore in August last year saw representatives of US food processing company, Cargill, and Australian mining company, BHP Billiton, take to the stage to discuss the use of electronic presentation (ePresentation) and electronic bills of lading in the export space. Back in December 2012, BHP Billiton was part of the first-ever fully electronic presentation of LC documents in mainland China, with partner the Sichuan Emei Ferroalloy steel mill and its receiving bank, China CITIC Bank (ANZ was BHP's advising bank). Today, both BHP and Cargill are fully committed to ePresentation and Singapore session moderator, Ian Kerr, CEO of multi-bank trade solutions platform, Bolero, says the joint presentation "was really a call to action of the industry for the adoption of new technologies." The general agreement on stage was "it is time the industry moved to electronic systems." A few weeks later, at a trade conference in Beijing, speakers from China Minmetals, the Agricultural Bank of China, National Australia Bank and Bank of America Merrill Lynch's global trade office for Asia Pacific gave a similarly enthusiastic pitch for the adoption of ePresentation by importers and banks. If major industrial players want it and banks want it, what is the hold up?

Kerr admits that it will require "alignment of all involved parties" before real growth is seen, not just in Asia but right across the globe. Until then, he says, the whole suite of ePresentation in trade can only be as fast as its slowest constituent. Unfortunately, it is often the demand by local customs and excise officials to see a paper document that prevents progress. Notwithstanding certain entrenched local practices, inroads into digitisation have been made in some countries, for example, there has been progress with certificates of origin used in agri-business, veterinary or export health certificates used when shipping livestock, and the Shipper's Export Declaration for export control of items over a certain value (the latter is now known as an Electronic Export Information Filing). "It's about gaining momentum," he states.

As progress is made there has been more activity in terms of thoughtful solutions offered by the key players, particularly infrastructure providers such as SWIFT, Bolero and Essdocs.

Main offerings

Essdocs dates back to 1986 in its first incarnation as the Seadocs (Seaborne Trade Documentation System) project and was the first significant attempt to use electronic documentation for goods carried by sea. It never got beyond the trial stage and in any case, according to legal expert, Professor Todd, no provision was made for the transfer of contractual rights and liabilities to holders of the bill, apart from the original shipper. This made it "fatally flawed" contractually. Fast forward several years and with the problems ironed out, Essdocs claims to be the largest electronic bill of lading network globally (it says it is being used by more than 2,100 companies across 65 countries: the latest Asian banking signatory announced late last year was Agricultural Bank of China).

Rapidly gaining credence is the relatively new MT798, SWIFT's trade envelope aimed at de-risking open account trading. It is basically a means of carrying the range of MT7xx trade messages used to initiate import letters of credit (LCs), standby LCs and guarantees, or to receive export LCs. The MT798 transfers large documents from corporates to banks via FileAct, with FIN messages allowing corporates to communicate with the banks on both sides of a trade. SWIFT reported in June last year that 11 corporates and 27 banks had adopted MT798 messaging.

As a key infrastructure provider, SWIFT is in a natural position to engage with the trade sector and also offers the Bank Payment Obligation (BPO). This "irrevocable payment undertaking" delivered by banks was first used back in 2012 by BP Chemicals' Global Credit Manager, David Vermylen and his trade partners at Oman-based PET manufacturer, Octal, and Standard Chartered. It has since gained a degree of traction in the Asian commodities trade sector. In October 2014, UniCredit Bank and its correspondent bank, Bank of Tokyo-Mitsubishi, processed the first BPO deal ever between Germany and Japan, taking the total number of banks processing BPOs to 14. The UniCredit deal covered a transaction between German industrial mixer firm, RVT, and Mitsui Plant Systems (MPS) in Japan.

It is worth noting that the BPO struggled to get any traction until its rules of engagement, held in the SWIFT domain, gained unanimous approval in April 2013 from the International Chamber of Commerce (ICC) Banking Commission. André Casterman, Head of Corporate and Supply Chain Markets at SWIFT told Treasury Today at the time that the rules underpinning BPO "should be independent from our technology and legally binding so that counterparties can resolve potential disputes, should those arise."

Another interesting provider of e-commerce solutions for the international trade finance community is eLCY. This is an independent vendor offering an auction site for the confirmation of LCs and direct corporate risk, and a multi-bank portal that enables the secure transmission of approved trade-related instructions and messages. Similarly, Global Trade Corporation (GTC) is a software firm providing multi-bank trade finance solutions for core elements such as LCs, guarantees and documentary credits and collections.

The possibility of full STP

"In a perfect ePresentation scenario, the exporter would ship the goods and apply for an electronic bill of lading to be issued by the carrier, with which the exporter would transmit the necessary documents electronically to the presenting bank," suggests Gabriel Sham, Director GTS Product Head Trade Services Asia at RBS. "The presenting bank would check the documents against the relevant LC and forward the documents electronically to the issuing bank, which would in turn check the documents to ensure compliance with the terms and conditions of the LC before making the payment. The issuing bank would then forward the documents electronically to the importer, who would use the documents for obtaining clearance of the goods." Throughout the transaction, he adds, the various parties would log into the same platform for access to the documents and for forwarding the documents to the next party.

For the buyer or importer, digitisation offers the opportunity to negotiate extended payment terms using dynamic discounting, says Sham. "This is because the buyers, usually multinational companies with better credit ratings than their suppliers, can use ePresentation or BPOs to leverage their lower cost of capital and provide financing to the suppliers." In return, they may ask for better payment terms or a reduction in the cost of goods.

For the seller or exporter, a BPO lessens the non-payment risk "because the seller or exporter takes on the risk of a bank instead of the buyer." With the BPO, the risk of discrepancy dispute and the costs associated with it are removed as data is matched automatically without manual checking of documents.

"Whether ePresentation or BPO, the immediate benefit is a reduction in turnaround time, which, depending on the payment terms, might mean that the buyer or importer is required to pay sooner," notes Sham. "However, the buyer or importer can also benefit by the timely clearance of cargo without the need for an LOI (Letter of Indemnity)." LOIs are intended to allow delivery without a bill of lading. They tend to be seen as problematic by trade insurance bodies such as the International Group of P&I Clubs, largely because there have been a number of fraudulent uses of these paper documents over the years.

Despite the obvious advantages, the reality of today's trade documentation is that paperless solutions are not deployed everywhere. Dermot Canavan, Head of EMEA Trade Products for RBS, feels that treasurers have many things to juggle right now and that the relatively low level of uptake of these solutions is more a matter of focus than a reflection of the products' fitness for purpose. "There are only so many hours in a day, and they have to look at where they are going to get the biggest bang for their buck," he suggests. But he adds that there is also "a degree of inertia" to contend with and a reluctance to invest in new systems. "Banks are looking to make ePresentation or the BPO more accessible at a low cost of investment," says Sham. "However, while we can educate customers on the benefits and when to use them, the onus remains with corporates to decide when to adopt."

With credit risk being now of paramount importance to just about every party, improving trade confidence is a persuasive argument for treasury action, especially where using the BPO, for example, can increase end-to-end security and potentially open new markets, notes Canavan.

Digital law

If the law cannot always be relied upon to secure the transfer of goods when using a digital replacement for a bill of lading, it seems provident that the document itself should offer its own means for the transfer of contractual rights and liabilities. Sham notes that the providers of the Bolero and Essdocs platforms have set up internationally recognised legal frameworks based on a common user agreement to enable such a transfer. SWIFT messages issued in line with the appropriate central bank guidance also have a legally binding effect on the sender.

"Every party on Bolero signs up to our framework but there is no point in having a trade mechanism unless there is a legal framework to support it," says Kerr. Back in 1996, when Bolero was a fledgling company, it commissioned a "significant number of leading law firms" to carry out what it says was "one of the most comprehensive studies into the use of electronic documents in global trade across multiple jurisdictions". The study covered the major legal systems in common use. This included English Common Law, US Common Law, German/Dutch Law and Napoleonic Law as well as Mixed Jurisprudence systems (as found in Japan, for example), and also those of Emerging Jurisdictions such as in China.

It used the results of its tests of legal feasibility to form the basis for the Bolero Rulebook and governance of the title registry. This legally underpins its entire technical operation and is binding on those parties who have agreed to be bound to it. The rulebook is administered by Bolero members but crucially is fully compliant with ICC's eUCP (Uniform Customs and Practice for Documentary Credits).

Gaining traction

The level of appetite among Asian corporates to adopt full ePresentation generally depends on whether the corporate is an exporter or an importer, and on the volume of transactions, notes Sham. There is a cost involved in terms of supporting software and architecture and the cost/benefit decision lies in the hands of the individual company. However, he adds, digitisation is gaining momentum in the region. "We are seeing the concept of digitisation gaining traction with large companies in the mining and commodities sectors," says Sham. "With more focus on operational and working capital efficiency, the interest in electronic trade documentation is gaining momentum and we could soon see more documentary flow of this kind between Western and Asian businesses."

Spurred on by the success of China CITIC Bank and BHP Billiton (as mentioned above), in June 2013, Bank of China (BoC) and Agricultural Bank of China (ABC) executed their first fully electronic, end-to-end LC transactions, followed soon after by Industrial and Commercial Bank of China (ICBC). Since June 2013, the Bolero platform has been used in China for a number of commodity transactions, including a major iron ore deal for the Shagang Group and a $21m deal for Yanggu Xiangguang Copper Co. Ltd, the largest ePresentation deal to date by one of China's Big Four. In January 2015, Switzerland-based ferroalloy distributor, RFA International, announced that it was moving from paper documents to ePresentation, via Bolero, to serve deals between its production units and clients at steel mills and larger foundries in 60 countries across Asia, Europe, the Americas and Africa.

ePresentation is the foundation that allows these deals to take place. As such deals increase in number, Bolero's CEO, Kerr, whilst not predicting a paperless world anytime soon, does envisage a "tipping point" which will be driven by the corporates and banks "buying into the benefits."

With some documentary forms clearly in advanced stages of digitisation and others needing to catch up, full STP in the trade space is not yet a reality. As Professor Todd stated in his work almost 20 years ago, it has been possible to partially dematerialise and to keep paper documentation for some purposes for some time. But, he added, doing half the job seems pointless once the reality is grasped that there is nothing that paper can do that computerised documentation cannot. "If you are going to dematerialise, dematerialise totally." That argument, it seems, has still not gone away. ■

Next generation global cash management

As companies continue to expand their operations overseas in search for new growth markets or cost efficiencies, treasury technology and liquidity structures are evolving too. What does next generation global cash management look like and where will the march towards international business take us next?

Globalisation is not a new phenomenon. During the Han Dynasty (206 BC – 220 AD), a network was built that would eventually become the hallmark of early global interconnectedness: The Silk Road. This historically important trade route, which saw desirable goods transported from China all the way to the heart of the Roman Empire in the Mediterranean, spanned 10,000km in total and operated until the end of the fifteenth century.

Today, with the internet granting easy access to new markets, and enormous container ships transporting goods from far-flung locations in a cost-efficient manner, corporate supply chains continue to globalise at a rapid rate. As a result of this, the international business environment, supply and operational chains, are becoming more complex. Together with diverse regulatory approaches between jurisdictions and a heightened political, sovereign and currency risk environment, this is making global cash management increasingly challenging – and at the same time increasingly important.

Achieving real-time visibility

Since the crisis, treasurers have been doing a great deal of work to improve their international cash management arrangements – rationalising bank accounts, centralising positions, automating processes, and setting up shared service centres in tactical locations as a means to bridge the gap between international time zones and cultures. Yet, according to Treasury Today's European Corporate Treasury Benchmarking Study 2014, cash management and cash pooling structures remain the top concerns for today's treasurers.

For André Rijs, Regional Head of Sales Transaction Services C&EE, USA and UK, ING, this level of prioritisation continues because "cash is still king. Credit comes at a cost and is not always easy to find. So, companies naturally want to know where they have excess cash for their own funding needs. As such, visibility and control of group-wide cash remains a very high priority."

With this in mind, many banks and vendors in the cash management space are currently ramping up their advisory services and investing in innovative solutions to help treasurers to improve global cash visibility and control, and achieve the ultimate goal of 'with the sun' liquidity – essentially a 24/7 cash management structure that enables the company to operate and make decisions in real-time, across the globe.

The technology backbone

In addition to implementing notional or hybrid pooling arrangements and interest enhancement schemes to help corporates move towards this goal, "the leading banks are leveraging technology to provide a much more harmonised cash management offering to their clients, as well making their services available for their clients 24/7," notes Rijs.

Standardisation is absolutely key in all of the technological developments that banks are pursuing. In fact, through standardisation, banks are providing a technology backbone for international cash management, he says. "The software vendors are then building treasury dashboards and bank agnostic capabilities on top of that backbone, ensuring that their platforms that go beyond the basic transactional functionality of the past." These new additions include powerful analytics capabilities, multi-currency transaction functionalities, multi-bank decision tools, risk management dashboards and automated compliance and regulatory alerts or limits, for example – all of which are helping international treasurers to deal with the complexity that globalisation brings.

Embracing new locations

Away from evolving technology and liquidity structures, another traditional stumbling block for those companies operating internationally has been the raft of different regulatory measures and cross-border currency controls, with trapped cash being a major concern in emerging markets. But as the balance of global economic power shifts from West to East and from North to South, governments in emerging market countries – notably China and the Latin American nations – are working hard to open up their economies to benefit from international trade.

Nevertheless, as these developing economies embrace international business standards, and invest more in their service sectors, their ability to compete on manufacturing costs is being challenged. According to 2014 research from the Boston Consulting Group (BCG), five locations traditionally considered low-cost for manufacturing are now under pressure, namely: China, Brazil, Russia, Poland and the Czech Republic. The erosion, says BCG, has been driven by a confluence of sharp wage increases, lagging productivity growth, unfavourable currency swings, and a dramatic rise in energy costs. China's manufacturing-cost advantage over the US has shrunk to less than 5%.

The rising stars, says BCG, include Mexico and North America, where the overall manufacturing-cost structures have significantly improved relative to nearly all other leading exporters across the globe. The key reasons for this include stable wage growth, sustained productivity gains, steady exchange rates, and energy-cost advantages. Mexico now has lower average manufacturing costs than China – by around 13%.

Closer to home

There are significant opportunities in Europe too, says Rijs. "One of the very clear trends we see is the rise of shared service centres (SSCs) in Poland. More and more big name companies setting up SSCs in the country – HP and Herbalife – are recent examples." Furthermore, a 2014 research report by the Association of Business Service Leaders (ABSL) looking at the Business Services Sector in Poland found that between the beginning of 2013 and early 2014, 66 new SSCs with foreign capital have launched operations in Poland. Employment in the sector has also more than doubled since 2012.

"Poland is attractive for a number of reasons. First and foremost, proximity to your global markets is important. Corporates coming from Asia and the Americas to Europe are looking for a location that allows them to access all of those markets from one site. Poland's skilled people are another draw – both the education level and professionalism of employees in Poland are at a very high standard. It is relatively easy to come to Poland and set up business, and economically, it is quite stable. So the country has a lot of factors working in its favour," explains Rijs.

Elsewhere, some of the Central and Eastern European markets that are in the process of adapting to international business standards, such as Turkey - and even the transcontinental Republic of Kazakhstan, are now leapfrogging their Western counterparts. "They have quickly embraced digitisation to simplify cash management, since they are not dogged by legacy systems and infrastructure," says Rijs. "Turkey is also a pioneer in the e-invoicing space, having mandated the practice for certain companies from January 2014, together with the electronic filing of their accounts. What's more, the country has embraced digital supply chain finance solutions as part of its e-invoicing initiative."

Turkey is also proving to be a keen rival to the textile manufacturers in Asia, as European firms sourcing from China are now looking for a low-cost manufacturing base closer to home. "The irony with the pace of globalisation and the advance of technology is that it has actually changed the 'acceptable' lead times on products. Buyers are no longer prepared to wait three or four months for their goods to arrive from China. In the age of instant communication and growing focus on corporate sustainability, it is far preferable to have your goods travelling a shorter distance and arriving much sooner."

Making the grade

For treasurers, the message here is that flexibility will be key when building next generation global cash management structures. With traditional manufacturing and SSC locations set to change, the ability to seamlessly incorporate new countries and currencies will be vital, but the added-value will be having real-time visibility over the company's cash – and the ability to take informed decisions on the back of that information, wherever you are in the world.

"Achieving this will only be made easier by working with a banking partner that can follow the enormous speed of changing regulations, understand the dynamic economic environment, and leverage technological innovation, whilst grasping the challenges of global business within the context of a local market," concludes Rijs.

André Rijs,

Regional Head of Sales Transaction Services C&EE, USA and UK

André Rijs has over 15 years' experience in banking having joined ING from 1997. After having worked for Nissan Europe for four years he started at ING Bank International Securities Lending and moved via Bank Mendes Gans to ING Central & Eastern Europe as a Senior Product Manager. Subsequently he joined Payments & Cash Management Product Sales in Amsterdam and is currently responsible as Regional Head of Sales of Transaction Services for the regions Central and Eastern Europe, USA and UK.

Geopolitical nightmares

Mounting political risks have given rise to substantial market volatility in the past year. Meanwhile, multinationals that once might have expanded into a new market without too much ado are now recognising political risk as an issue that deserves their utmost attention. In this article, we ask: what can companies do to improve their management of political risk, and how can the treasury department help?

What burning issue is keeping corporate treasurers awake at night? Seven years ago, the health of banking partners would probably have topped the list, while two years ago many would have cited the mounting compliance burden. But ask that question to a corporate CFO or treasurer today, and many will tell you it is the geopolitical environment that they are losing the most sleep over.

Growing business concern about geopolitical risk is quite apparent in recent surveys of senior financial executives. Take the McKinsey Global Survey 2014, for example. In this study, 80% of the executives surveyed highlighted geopolitical issues as their top threat to global growth in the year ahead. Moreover, the survey appears to indicate that people expect things to get a lot worse before they get better. Only 39% of those surveyed said they anticipated global economic conditions to improve over the course of the next six months – nearly a quarter less than the 59% who said they expected improvements when asked three months prior.

Growing dangers

Financial executives are exhibiting growing concern because the geopolitical environment is becoming ever more unstable. Over the past several decades, globalisation has been the dominant force in both economics and politics. The world, we have been told, is becoming smaller with the development of a global marketplace indifferent to national borders. According to a recent report, however, we may now be entering into a new phase.

Disillusionment with globalisation is mounting, according to the "Global Risks 2015" report published by the World Economic Forum (WEF) in late 2014; and this change is driving nation

In focus: political risks in Russia and CIS

It would be fair to say that the political events that unfolded in Eastern Europe last spring took nearly everybody by surprise – corporate treasurers being no exception.

The Russian economy has paid a very heavy price for its government's aggressive foreign policies. Since President Putin began his military incursion in Ukraine, the deteriorating business environment, exacerbated by declining energy prices, has been reflected across almost every economic indicator. Sovereign, and by extension, corporate debts were downgraded to junk while Western sanctions prevent Russian corporates from raising US and European capital. And the Russian rouble, of course, entered into a tailspin, losing nearly half of its value against the dollar over the course of 2014.

Looking ahead, the Russian economy is expected to shrink by 6% in 2015 according to AXA Investment Managers. Meanwhile, although the rouble has somewhat recovered recently as a result of stabilising oil prices, analysts do not believe implied volatility (which increased by a factor of seven in 2014) is to return to levels seen prior to the annexation of Crimea anytime soon.

Treasurers preparing hedging strategies for Russia in the year ahead would be advised to keep a close eye on political developments; these will continue to be the most crucial factors in determining the risk environment in the region moving forward. But help may be required, such is the complexity of the geopolitical environment in the region at the present time. "Businesses should seek out advice from people who can very quickly grasp an unfolding situation and see order in the chaos," says Dr Daragh McDowell, Senior Russia Analyst. This is an essential step for multinationals with an interest in the region because, whether or not the new ceasefire agreed in Minsk back in February holds (and there are serious doubts around whether it will), Dr McDowell does not foresee any let-up from Putin in the near future. "If that happens then I think Russia will retrench and look for a new target," he says. "I don't think this aggressive foreign policy is going away."

But Putin has not negotiated in good faith so far and, as such, there is no reason to believe he is now. What is perhaps more likely is that Russia will attempt to use the ceasefire to sow confusion in the western ranks insisting that Ukrainian forces keep withdrawing while separatists keep advancing. If this happens we could well see another, more severe, round of sanctions imposed on Russia. Evidently the conflict in Eastern Europe – and the region's economic woes – are still far from over.

states to pursue ever more protectionist, beggar-thy-neighbour policies (see box opposite). "Growing nationalism is evident around the world: in Russia, as seen in the Crimea crisis; in India with the rising popularity of nationalist politicians; and in Europe, with the rise of the far-right, nationalistic and Eurosceptic parties in a number of countries."

That is not all. Corporates are finding themselves more exposed than ever to developments in the geopolitical sphere. The interplay between geopolitics and financial markets is one reason. When a crisis occurs, such as the outbreak of conflict in Ukraine last year, it doesn't usually take long for financial corollaries to manifest in data rolling down the screen of the treasurer's terminal. And when the news is particularly bad, it can mean sizeable FX losses, rating downgrades, credit difficulties or disruption to the supply chain.

Today, financial markets are more interconnected than ever before. The ripples from such incidents tend to travel further, and at much greater speed, than witnessed in the past. "Since 2011, there has been a huge increase in political risk," says Dr Tazeeb Rajwani, Senior Lecturer in Strategic Management at Cranfield University School of Management. "There is this classic interconnection of financial markets. For example, if something happens in Hong Kong and China begins to intervene, it can have implications in another country like the UK. We are seeing these interdependencies more and more, and it's going to continue to increase."

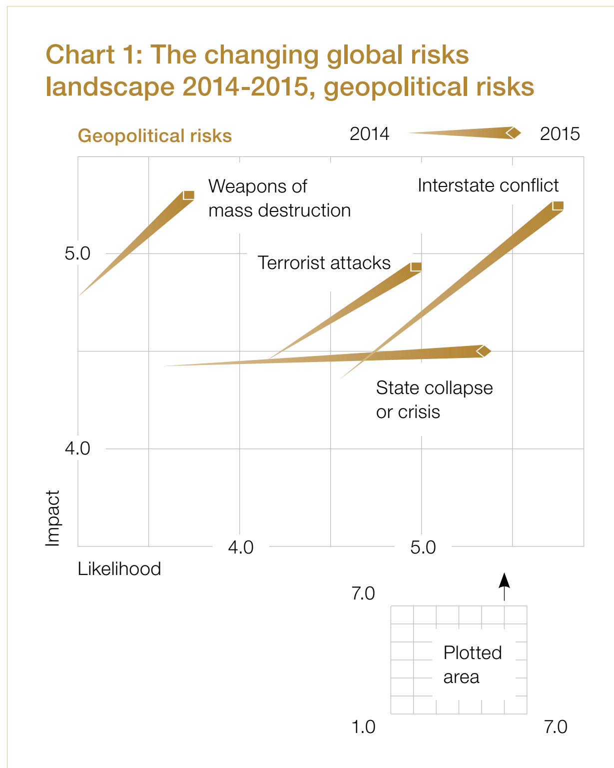
Given the region's prevailing economic troubles, for European companies in particular, global interdependencies are almost certainly set to continue strengthening even more quickly in the years ahead. Since the financial crisis and ensuing downturn we have seen export-led growth strategies become the priority for many multinationals grappling with deflationary pressures on their doorstep. But by growing the business abroad, especially in some emerging markets, companies are likely to find themselves facing heightened political threats to their operations.

This, Rajwani believes, could be a second factor explaining the growing focus on political risk. "China is obviously very attractive," Rajwani offers as an example. "But if you are a manufacturer going into China today, for example, then you are going to have to learn to deal with varying degrees of interference from the government. This is something we have seen recently with some car manufacturers and, of course, Google. Companies who go abroad obviously need to consider these tensions."

There is also a third factor that helps explain the heightened political risk environment: the past year's dramatic collapse in energy prices. From the Middle East to Russia, energy price volatility is, without a shadow of a doubt, exacerbating much of the political instability seen in the world at the present time. In fact, a 2015 report by political risk specialists Aon identified heavily oil dependent countries such as Russia, Iran, Iraq, Libya and Venezuela as those facing the greatest political risks in the year ahead. The trend means that any business operating in or thinking about moving into energy export dependent economies needs to develop a greater understanding of the different policy directions in these countries and how these might, in turn, lead to significant financial consequences for their organisation.

Beyond the four T's

The McKinsey study would suggest that the volatile geopolitical outlook highlighted by the WEF has not gone unnoticed by corporate executives. However, a growing awareness of geopolitical threats in some foreign markets does not necessarily translate into optimal risk management practices. Dr Rajwani has conducted numerous studies in recent years



Source: Global risks perception surveys 2013 and 2014, World Economic Forum

into market entry strategies and, in light of all the attention political risks are receiving from financial professionals, what was discovered was quite surprising to him. "What we found was that while companies are getting better at looking at political risk, many are still struggling in some ways to understand how to develop methodologies that utilise in-house knowledge or external knowledge to reduce those risks," he explains.

Most corporate executives are well versed in the basic tenets of political risk mitigation; that is the "Four T's" (tolerate, transfer, treat, terminate). This framework dictates that one either tolerates the risk, purchases insurance to transfer the risk and lobbies government for more favourable treatment, or avoids the risk entirely by terminating a certain activity or presence in a problematic area.

Deciding on which of these steps represents the best course of action to mitigate a particular political risk a business may face is rarely straightforward, however. Take, for instance, the concept of 'treatment' in which companies seek to influence, through one method or another, the direction of government policy on matters that impact their interests. In some circumstances this strategy might be effective. But not in every instance. Research conducted by Rajwani on multinationals in Latin America found that in some cases, counterintuitive as it may initially sound, the best strategy is often to stay under the radar.

"If you are going into Venezuela, for example, where there is a lot of political risk, it might not be a good idea to attract attention to your firm by bargaining with officials," he says. "There is often a high cost associated with networking and sometimes it can be counterproductive." That is often because attempts to proactively engage with officials, explaining how much interference is going to cost the firm, the government will see it as an opportunity to extract more from the company in tax or other charges. "It's a bit like shooting yourself in the foot," he adds. "Sometimes the safest option is non-bargaining."

Too little, too late

Another problem, say the experts, is that companies are exhibiting complacency before they have entered into a particular country and been confronted by a political threat. According to Henry Wilkinson, Director of the Risk Advisory, some companies have yet to fully appreciate the value of a preventative approach when it comes to political risk matters. These are companies that will turn to markets without undertaking any kind of formal risk assessment beforehand. Only then, once the company is committed and its operations are up and running, will executives begin to become conscious of the political environment. At this point, the risk manager will no doubt initiate a retroactive risk assessment – which is better than no assessment at all, of course – but by this time much of the damage may already be done.

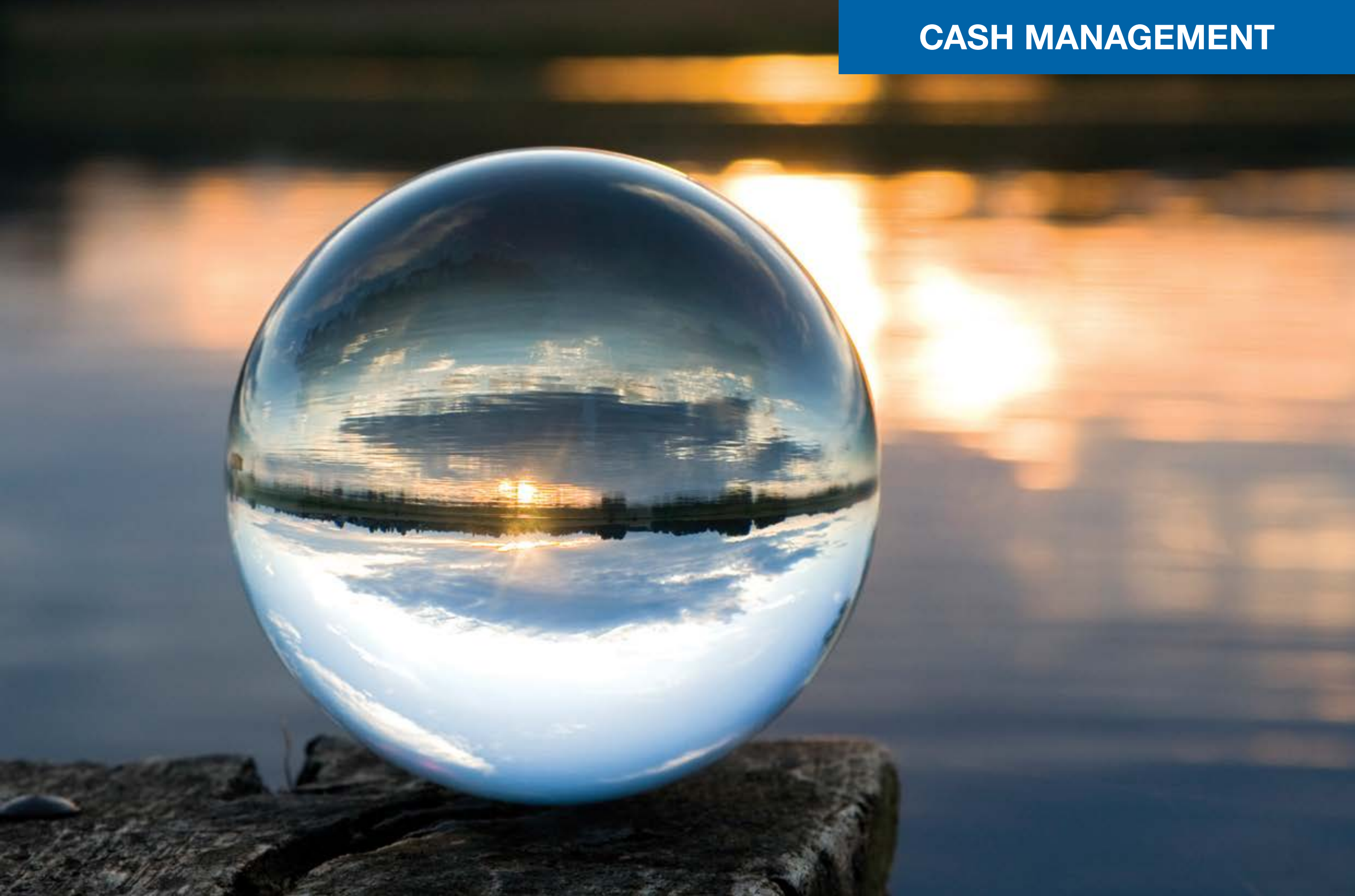
"Companies are not always taking steps to assess political risks before they begin a particular venture," Wilkinson explains. "This is not so much a problem for larger organisations who have teams of dedicated staff looking at these things. However, in smaller or mid-sized enterprises they might think that kind of expense is too much for them. Later on, they often wish they had looked at it sooner."

Sven Roeleven, Vice President of enterprise platform company Software AG, agrees that corporates need to be less reactive in their management of political risks, identifying risks before they enter new jurisdictions and on an ongoing basis thereafter. In the past this would have been a very challenging task, to say the least. But the advent of sophisticated technologies, such as big data streaming analytics software, makes this task a whole lot more manageable for the modern corporate. "Instead of taking a reactive approach to risk, [companies] must take advantage of real-time data analysis tools to identify emerging and impending risks – in time to do something proactive to mitigate or avoid these risks," says Roeleven. "Instead of acting retrospectively and executing controls at set intervals, organisations need to shift to control systems that operate continuously and that can facilitate business decisions on predictive analytics."

Justified anxieties

At the beginning of this article, we noted an apparent increase in concern amongst financial executives around geopolitical risks. These anxieties, it would be reasonable to conclude, are nothing more than an understandable reaction to everything that has been going on in the geopolitical sphere over the past several years. On the one hand, disillusionment in globalisation and rising nationalist sentiment is unsettling both emerging and developed economies. But the interconnectivity of today's markets, coupled with the need to look beyond domestic borders for growth opportunities means, for many multinationals, greater exposure to geopolitical turmoil.

That the financial executives of companies are showing signs that concerns are stirring and, as a result, actively demonstrating the wish to take some kind of action is undoubtedly a positive change. In the past, political risk analysis has sometimes been treated as something of an afterthought for companies when foreign expansion is on the agenda. Not any more. Now, corporate executives appear to be recognising that they need to fully understand the political environments of the markets that they want to do business in and have plans in place should events take a turn for the worse. That may not be enough to insulate the business fully from geopolitical shocks, but everybody concerned should sleep a little easier knowing those steps have been made. ■



What's on the cards?

Use of corporate cards is expected to grow significantly over the next few years, with more and more companies in the mid-market space embracing cards. What is driving this trend and when is the right time to get on board?

Previously seen as a necessity for travel and entertainment purposes at large organisations, corporate cards have evolved into an entirely different and powerful tool that can drive visibility and control across corporate spending. Offering the possibility of streamlined cash management processes and improved working capital efficiency, corporate cards are becoming increasingly popular among the broader treasury community – not just the big companies.

When asked about significant shifts in the profile of corporate card users over the last 12 months, Brendan Walsh, Executive Vice President, American Express Global Corporate Payments, says the mid-market sector (companies with revenues of between $3m and $300m) is growing fast and that these enterprises are using cards for both travel and entertainment and business-to-business expenses.

Geographic trends

"In slow growth economies, companies have a higher propensity to use their corporate cards for non-travel and entertainment spend. The working capital advantage from usage of corporate cards is key and not just for the cash flow benefit from spending now and paying later – in fact, companies are using their corporate payment products to facilitate payments between a company and its suppliers." In this scenario, companies still benefit from extended payment terms and suppliers get paid much more quickly than they would have by invoice.

In economies with slow growth, many large clients are also reducing their travel, notes Walsh. "But in markets where growth is buoyant or international trade is burgeoning, travel volumes among companies of all sizes are increasing once

Case study

EDF Energy

One company that has used its card provider to simplify its travel expense management system is EDF Energy, which has an annual travel spend of approximately £15m. The company's previous system, which enabled its 15,000 employees to book travel, was growing increasingly complex and fragmented because it was based on a central booking and lodge card payment system for air travel. There was no single view of travel spend across the company, which experienced inconsistent application of travel policy. There was also the potential for unauthorised spending.

In addition, the system was not designed to accommodate low-cost air carriers, which encouraged users away from the self-booking tool, leading to an inefficient and expensive reconciliation process. EDF Energy wanted to consolidate and streamline payments into one centrally settled solution. To allow greater management visibility, it also needed payment data to flow seamlessly in to a standard expense reporting system.

To achieve this, the company decided to implement a solution from American Express that makes use of virtual accounts, with each traveller having an account lodged behind their profile in the company's online booking tool. This is synchronised with the traveller's profile held on the travel management company's online booking system. "We are now able to deliver a vast amount of account numbers unique to individual employees to our online booking tool in a very painless and efficient manner," says EDF Energy's Financial Shared Services Director, Robert Gilhooly.

again, although clearly this trend differs according to proximity to trading partners."

Elsewhere, companies in developed economies are looking to capture more cross-border transactions on plastic rather than invoice, he adds, observing that corporates are making more business-to-business and international payments by card. "This is a huge growth area and business-to-business volumes are increasing every year."

ING's Global Head of Card Solutions, Erik Tak, agrees that use of corporate cards for travel and entertainment is expanding as business travel recovers from the recession. "In addition, more companies are looking to improve the management of their expense reimbursement process and deploy automated expense management systems that are most effective when used in conjunction with a corporate card programme to increase process efficiency and achieve cost reductions," he says.

Tailored to the market

Nevertheless, commercial card programmes differ greatly around the world (corporate, purchasing, fleet and payable solutions) so trends will vary by geography, observes Tad Fordyce, Senior Vice President, Head of Global Commercial Solutions at Visa.

"For developed markets, we have a wide variety of commercial solutions, while in emerging markets the most commonly found product is the traditional corporate card. In terms of trends, we have seen two main ones. The first is that we are beginning to see more middle market companies adopt these payment tools in North America. Traditionally our products were adopted by large corporations, but as this market reaches high levels of penetration, financial institutions are turning their attention towards middle market corporations.

"The second trend is the emergence of payables solutions, where virtual accounts are embedded in the accounts payable software, so invoices can be paid by card in a similar fashion to how they can currently be paid by ACH, cheque and wire."

He says increased volumes of business-to-business and international payments made by card can be identified in two ways. "We continue to see corporate cards being used for international travel. As payables solutions proliferate, companies are also using their virtual account numbers for procuring goods and services overseas and driving more cross-border transactions."

Martin Chapman, Travel & Entertainment Payment Solutions Manager at MasterCard shares the view that corporates are making more business-to-business and international payments by card. "As businesses come to realise that traditional methods of invoicing are slow and time consuming for their employees, they are shifting transactions onto purchasing cards and corporate card-based purchasing."

Safety in numbers

Security is a vital consideration when companies are considering a shift to cards. So is identity theft a major issue for corporate card users and suppliers and have anti-fraud technologies kept pace with the efforts of fraudsters? "Chip and pin on corporate cards is minimising fraud, in addition to card issuers' own security practices, which can easily detect out-of-pattern expenditure," says Walsh.

Meanwhile, Tak states that while identity theft has not been a significant issue in the corporate card space, fraud is an ever present threat and corporate card issuers have made significant investments in recent years in the protection, prevention and detection of card based fraud. "For example, we have introduced three key tools in the last 12 months that assist in containing fraud. These include the deployment of a new system that moves the authentication of ecommerce transactions from a static password that was easily forgotten to a more secure, one

time password that is sent to cardholder via SMS on their mobile phone.

"Another SMS-based service is a security alert service that contacts cardholders when our systems detect a possible fraudulent transaction. Lastly, by offering a mobile app to our cardholders, they are able to see their recent transactions in almost real-time, thereby making the detection of fraud much faster."

Chapman says EMV chips are taking the fight to the next level, while the industry works on future technologies such as biometric authentication. "Identity fraud is an issue for the card industry, but less so for corporate cards. As corporate schemes predominantly service digitally (removing paper lowers cost), use secure file storage and apply greater internal controls, the opportunities for fraudsters to access and apply for credit using an employee's identity are reduced."

Fordyce refers to anti-fraud technologies as a three-legged stool. For card present transactions, the rollout of EMV in the US market later this year will also apply to commercial card products, giving corporate users the same level of security as consumer cards. For 'card not present' transactions Visa is rolling out tokenisation, which replaces sensitive payment data with a unique identifier or token that is useless if compromised. The third leg of the stool focuses on encrypting data at rest. When the company talks to suppliers and merchants, banks and processors, it shares best practices to make sure data is encrypted, protecting it from fraudsters.

Value of integration

Besides security, proper integration is another tough challenge when it comes to cards. Louis Berard, a Senior Analyst at Aberdeen Group and author of a report on corporate cards published in October 2014 says lower mid-market organisations that leverage an expense management solution with corporate card integration achieve an 18% decrease in processing costs of expense reports, a 22% decrease in overall reimbursement timeframe and 84% fewer reimbursement errors.

His view is that companies that leverage expense management with corporate card integration benefit from greater visibility into business travel data and increased compliance with corporate travel policies. Integrating a corporate card and expense management system also presents the expense processing department with a more holistic view of the information.

There is a formal process designed for expense reports that clearly defines escalation paths and with this greater visibility, sourcing teams can capture spend and negotiate better contracts. While audits allow for the system to remain in 'balance', they also provide a greater opportunity to find new areas for cost saving or losses that may be occurring through leakage.

Berard recommends that organisations in the lower mid-market sector should strategically enhance their expense management programmes to spur performance across the scope of compliance, time (approval and reimbursements) and processing costs.

To effectively manage expenses, it is crucial for organisations in this sector to leverage the following recommended actions:

- Look to corporate card and expense management integration as a means of improving existing expense management processes.
- Conduct regular audits of expense reports.
- Enhance visibility into expense spend through automation and corporate card/expense management integration.

Remaining challenges

One challenge that still requires some work where procurement card programmes are concerned, however, is supplier enablement. "Although the landscape is changing and suppliers increasingly value the benefits of guaranteed payment and speedy payment (within a couple of days), buyers are looking for ubiquitous supplier acceptance of cards and that is still work in progress for the commercial cards community," says Tak.

For Walsh, the area that really needs more focus is implementing a true end-to-end solution to drive visibility, compliance and savings that can be achieved through best in class practice, he continues. "In most cases, by moving to best practice expense management companies can save 10% of their total processing and purchasing costs. These funds can then be reinvested to drive growth."

Chapman, however, describes the challenges in using corporate cards as part of strategic procurement programmes as being around educating corporates about the benefits of using purchasing cards, which provide greater control, acceptance and flexibility resulting in detailed reporting and more efficiency in the supply chain process. "Outlining to businesses the benefits of making an investment in automating accounts payable systems (end-to-end) and moving away from traditional procurement processes to more efficient processes is the challenge."

Further growth expected

Whatever the challenges though, Walsh says there is potential for future growth in cards across just about every market. "We see major potential for further use of corporate cards across the globe, from developing to developed markets. To put this into context, about $25 trillion is currently spent in cash and cheques which do not offer the visibility, compliance or data insights that corporates need. By comparison, $6 trillion is spent on cards."

Tak agrees that corporate cards are a growing business in all regions, even in the mature US market where epayables solutions are driving transactions from cheque to card. "Within Europe, the trend is for large corporates and multinationals to consolidate fragmented card solutions from multiple providers as a way of driving more consistency, efficiency and cost effectiveness into their businesses."

In Chapman's view, markets such as Eastern Europe (Poland, Hungary), Turkey and Asia Pacific show the greatest potential for growth, albeit from a low base. "In developed markets such as western Europe, although growth percentages are small, the opportunity to grow the volumes of cards is still significant."

Whereas Fordyce describes the emerging economies of Asia and Latin America as offering tremendous growth opportunities as they become more developed. "In general, our growth rate follows where we see the greatest economic growth," he concludes. "Wherever you see robust economic growth, the corporations driving that growth are adopting card products to help control expenses." ■

Cash segmentation and investments

A successful treasurer is one who achieves a good balance between investing excess cash and delivering the necessary cash resources to support company liquidity. In this article, we look at how categorising cash into separate portfolios enables consideration of the risk/return profile necessary to meet the company's liquidity requirements.

Getting the most out of cash investments while maintaining company liquidity is challenging at the best of times; and even more so when the markets are volatile. There is no easy way to achieve the right balancing act, but it is prudent to adopt an organised approach to it by 'tranching' the cash according to its type. Tranching describes the process of investing cash in line with its characteristics (especially its time horizon) and the risk/return profile the company is seeking.

Defining corporate cash buckets

To achieve this, a corporate must first decide on and define the categories that its cash will be divided into. For many corporates the most beneficial, and logical, way to categorise cash is by time periods. It is therefore common for the buckets to be defined by the short, medium and long-term cash requirements of the business. However, all companies have their own individual needs, so extra layers of complexity can be added. For example, sub categories based around currency and location of cash, can be developed to better reflect the needs of the company.

Despite this, corporates will tend to keep things simple and segment their cash into:

- Operating cash/working capital (short-term).
- Reserve cash (medium-term).
- Strategic cash (long-term).

Let's take a closer look at what defines each of these categories.

Operating cash (short-term)

Operating cash is the lifeblood of a company, allowing it to meet its day-to-day obligations such as working capital, salary and interest payments. In most cases corporates will plan for this cash out to three months, although some companies may extend this out to a year depending on their circumstances. How this cash is used may be subject to unexpected fluctuations, as the demands of the economic environment put pressure on the daily ebb and flow of the business. As such, treasurers will want this cash to be easily accessible and secure.

Reserve cash (medium-term)

Reserve cash, otherwise known as core cash, is used to meet the medium-term business needs of a company, typically from a time period of three months out to one year. It is often used for but not limited to: dividend payments, tax obligations and can also be used for planned business expansion such as mergers and acquisitions (M&As). Reserve cash will not need to be as liquid as operating cash, however it would be useful for the treasury to be able to access this in a timely fashion, should market conditions necessitate.

Strategic cash (long-term)

The final core bucket of cash is strategic cash. Unlike operating and reserve cash, this segment has no immediate use for the business within the next year and further out – the exact timeframe needs to be defined by the company. This cash may be used to fund future, as yet unplanned M&A activity, spent on internal development projects, or eventually be returned to shareholders. Strategic cash could also be used in a precautionary capacity, should market conditions take a turn for the worse.

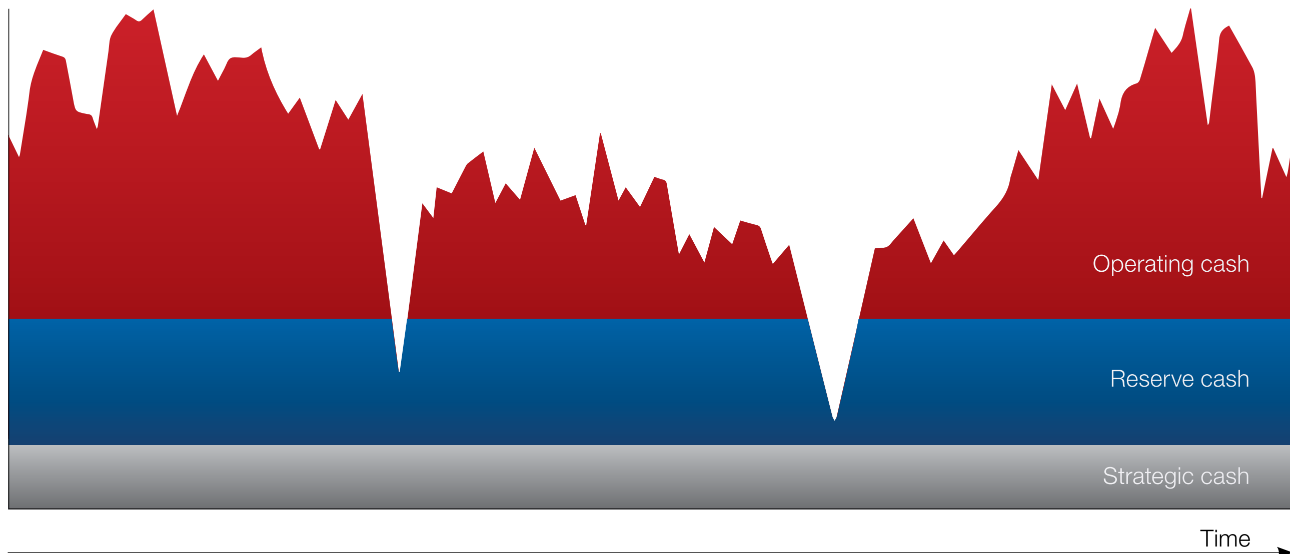
> Although forecasts still tend to be less accurate than most treasurers would like them to be, they do (or should) provide a realistic view of future cash resources and therefore provide an early opportunity for identifying potential surplus cash.

Ups and downs

The graph opposite illustrates the peaks and troughs in a company's cash position and illustrates two occasions where it needed to dip into its reserve cash in order to meet its day-to-day obligations. Of course, the aim is for this never to happen, however, at times when business performance takes an unexpected downturn or market conditions change this may be needed. Yet a tool is at hand to ensure that the treasury can best plan what cash is needed and when – the cash flow forecast.

Looking into the crystal ball

Cash flow forecasts show a company's expected net cash positions from its operating, investment and financing



activities during a specific period, based on known commitments and receipts, with appropriate adjustments being made (using historical data, trends and/or statistical techniques) to allow for future variables.

These forecasts are the ultimate source of information for determining the amount of cash available, where it is and when it will be required. Although forecasts still tend to be less accurate than most treasurers would like them to be, they do (or should) provide a realistic view of future cash resources and therefore provide an early opportunity for identifying potential surplus cash (as well as deficits) and other essential information such as:

- Currency denomination.
- Present location.
- Total amount (value) available.
- Planned future location (and currency).
- Time horizons (ie the length of time cash will be available for investment before it is needed by the business).

In addition, the forecasts will help treasury to define how 'important' the cash is to the business's daily operational activities and what the impact would be on the company if the cash to be invested was not readily available to meet day-to-day obligations, eg would trading be severely affected?

To assist with cash segmentation strategies, cash flow forecasts are also complied in different time horizons. Typically these will be short-term, medium-term and long-term time horizons, matching the corporate cash buckets:

- **Short-term**. Short-term forecasts provide the cash detail needed to help manage working capital and to protect day-to-day company liquidity, covering the immediate cash inflows and outflows that affect overnight balances. Daily and even intra-day forecasts ensure that treasury keeps abreast of last minute changes to cash flows. Weekly and monthly forecasts (for up to about three months) provide advance warning of the expected cash positions.
- **Medium-term**. Rolling monthly forecasts for up to 12 months ahead help to predict cash needs and surpluses further into the future. They help to show where the high and low points of cash availability are likely to occur through the course of the year as well as identify when existing investments and debts may be maturing.
- **Long-term**. Long-term forecasts may cover up to a three or even five-year period. They provide a longer view of potential surplus resources and financing needs to help ensure that a company's business plans and strategies can be properly funded. They also help to identify future cash that has not yet been 'earmarked' for use and is therefore available to invest for a longer time period.

So, cash flow forecasts provide a good understanding of the peaks and troughs in cash availability across the group. They help to identify the type of cash available to invest, the criticality of that cash and accordingly, the amount of cash that can be allocated to each cash category. By frequently monitoring these forecasts, the cash allocations within each cash category can be suitably adjusted to ensure that their levels remain pertinent for meeting business needs. As each cash category will have different characteristics, they will also have different investment objectives and therefore be invested in different types of instruments. This means that they will be tranched differently.

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Investment decisions

Investment decisions for each cash category should be guided by the degree of priority given to the three main investment objectives. These objectives are:

- Security
  - Minimising the potential risk to the original sum invested (the principal).
- Liquidity
  - Ensuring timely realisation of the cash.
- Yield
  - Achieving the best possible return on the cash.

The type of investment instrument used will depend on the risk it exposes to the cash versus the potential return it offers (its risk/return profile). Therefore, for each cash category, the mix of instruments permitted, their limits and any restrictions will need to be balanced with the priorities given to the investment objectives. The aim is to identify and invest in the instrument types which offer the best and most appropriate investment opportunity for the cash.

An instrument offering more security and greater liquidity will usually deliver less return. So, for example, whilst such an instrument may be appropriate for investing operating cash, a treasurer may be prepared to assume more risk for better yield on money available for a longer period. Information relating to investment objectives and instruments should be detailed for each cash category within the investment policy and guidelines. It is important to be clear about how each of the categories must be treated.

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Investment by category

Now we will look more closely at the three example cash categories we mentioned earlier and consider how they may be treated from an investment perspective. Individual companies will, of course, have different requirements and will identify and adapt the use of instruments to meet their own business challenges. It is imperative that all investment decisions are fully supported by judicious research and understanding of the counterparties, markets and investment instruments to be used.

Operating cash (short-term)

Liquidity and security is the key for any investment instrument involving operating cash, yield is a nice to have but not a must. As such, treasurers will tend to look to invest in overnight accounts, money market funds (MMFs) or other instruments that offer access to cash after a short-time period determined by when the cash is needed. These products typically offer a low, but steady yield. Investments in fixed income instruments are generally avoided when investing operating cash unless there is a highly liquid secondary market or extremely short maturity date.

As treasurers are acutely aware after the financial crisis, in order to limit the counterparty risk, diversification of funds is of great importance.

Reserve cash (medium-term)

When looking to invest its reserve, or core cash, treasurers can begin to look at some more exciting investment options, including reverse repos and short-term bond funds, as well as high quality corporate debt. All of the investments instruments listed under operating cash can also be used but treasurers can also look to seek more yield whist affording proper protection of the original sum invested in order to meet expected obligations. Since the financial crisis, security has been the primary requirement for this cash, with yield being second. Due to the medium-term nature of this cash, high liquidity is not of paramount importance. It is worth noting however, that this order may change depending on the risk appetite of the business and the market conditions it is operating in.

Strategic cash (long-term)

Finally, the strategic cash bucket is where treasurers have historically become more creative in their investments in the search for improved yield – but, accordingly, this will expose the cash to greater risk. The investment will have to ride greater volatility in the markets with a higher possibility of the cash principal being eroded. It is therefore important to ensure that investments can be maintained for the long term in order to overcome possible short-term turbulence in the markets. As with other cash categories, cash should be diversified across different instruments.

The treasury may invest in similar instruments that its reserve cash is invested in, but that return slightly higher yield. It may use instruments such as floating rate notes, or invest directly in equities – but the gain from these is generally achieved through investing for the very long term.

A tough environment

Whilst the above outlines how segmented cash might be invested in a perfect world, as treasurers are all too aware the current environment is far from ideal. It comes as little surprise to learn then, that, according to data from Bloomberg, European corporations were sitting on cash balances just short of €2 trillion in April 2014. This phenomenon is not restricted to Europe, however. Asian companies too have often been criticised for hoarding their cash and recent data has shown that Japanese corporates for example have around $3 trillion on their balance sheet. Thomson Reuters data also shows that China's 500 biggest companies have $405 billion stockpiled.

For most companies, a large portion of this cash is being used as a liquidity buffer against external shocks, but many corporates are also struggling with the concept of low or even negative returns, as well as the impact regulatory change in the MMF sector. As such, the treasurer's job is becoming increasingly difficult. And as market conditions continue to change, so will the parameters of corporate cash management – and the different requirements and priorities for investments. Regular reviews of cash and investment positions, exposures and policies are therefore recommended. ■

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