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January/February 2016

2016 – What's in store

What will be the big issues on your agenda this year? Treasury Today looks at why negotiating an evolving regulatory and market environment, as well as leveraging new technologies are set to be high on the corporate treasurer's list of priorities in 2016.

The Corporate View

Marek Chruściel

Treasury Director

Play

Talking Treasury Forum

This is a must-read for any corporate operating in Asia Pacific. The most senior transaction bankers in the region give their visions of the future and talk about the guidance they are providing to their customers.

Technology

Choosing risk management technology

What if…

Coping with a scandal

Risk Management

Currency volatility

Back to Basics

Cash flow forecasting

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A time to reflect…

As we start a new year, the global financial crisis seems like a distant memory – or does it? At the beginning of January 2008, The World Bank predicted global economic growth would slow as the credit crunch hit the richest nations. By mid-January, global stock markets had suffered their biggest falls since the 9/11 attack on the World Trade Centre and the US Fed had slashed rates by three quarters of a percentage point to 3.5% – its biggest cut in 25 years. At the end of the month, major bond insurer, MBIA, announced losses of $2.3bn, blaming its exposure to the US subprime mortgage crisis.

February 2008 also delivered some big-name casualties as news from the US suggested worldwide losses stemming from the collapse of the US subprime mortgage market could reach $400bn. Northern Rock was about to be nationalised and Wall Street's fifth-largest bank, Bear Stearns, was acquired by its larger rival, J.P. Morgan Chase. As we approached the end of Q1, the IMF warned that potential losses from the credit crunch could reach $1trn, possibly even higher.

RBS soon announced plans to raise money from its shareholders with a £12bn rights issue – the biggest in UK corporate history. This trend was repeated in the following month with Swiss bank UBS, one of the worst affected by the credit crunch, launching a $15.5bn rights issue to cover some of the $37bn it lost on assets linked to US mortgage debt. Barclays announced plans to raise £4.5bn in a share issue and The Qatar Investment Authority, the state-owned investment arm of the Gulf state, announced it was investing £1.7bn in the UK clearer.

In September 2008, Lloyds TSB announced it was taking over HBOS, Washington Mutual closed down and sold to J.P. Morgan Chase, and Fortis was partially nationalised to ensure it survived. As we moved into Q3, Germany announced a €50bn rescue plan to save one of the country's biggest banks and RBS, Lloyds TSB and HBOS had an injection from the UK government totalling £37bn. But perhaps that's enough about 2008.

Whilst 2015 hasn't seen the financial sector change to that extent, the year has certainly been eventful – even without dwelling on the FX fixing and LIBOR rigging scandals. The slowdown in the Chinese economy has been a major headwind. Rolls-Royce, Jaguar Land Rover and luxury brand Burberry are just three companies having to review their contracts with the country as a result.

Volkswagen is the subject of a scandal involving more than 11m vehicles found to be using software which deliberately misreported nitrous oxide emissions. One report has suggested the scandal could cost VW $86bn. TalkTalk and Vtech were victims of cyber-attacks and, as this is written, Paris has just been in the news for very different reasons. The terrorist attacks there, and elsewhere around the globe in 2015, shocked us all and highlighted the continued threat on our lives and businesses.

And as attendees at the UN Climate Change Conference, also in Paris, grapple with the issue and consequences of a two degree rise in temperature, it is only natural to approach the coming year with a slightly sombre outlook. The issues you face every day in your finance and treasury departments are certainly put into perspective.

International relationships around the globe are extremely fragile to say the least and the future is so unpredictable; never before have the stakes been so high on all fronts.

Treasury Today wishes all our readers a happier, more prosperous and safer 2016.

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Corporate treasurers are likely to see some big emerging opportunities in the year ahead, but will need to be on guard in case the economic weather begins to turn. Some leading experts from the industry have provided Treasury Today with some broad themes for the coming year – regulatory pressures will again feature prominently, mounting market volatility will continue to test risk managers and new developments in infrastructure and technology will open the door to ever greater efficiencies.

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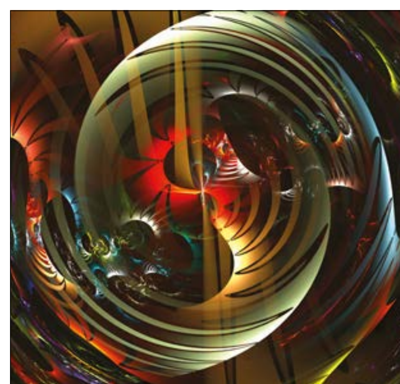
This is a new series we will be running throughout 2016. In this first issue, we ask what if your company is embroiled in a scandal?



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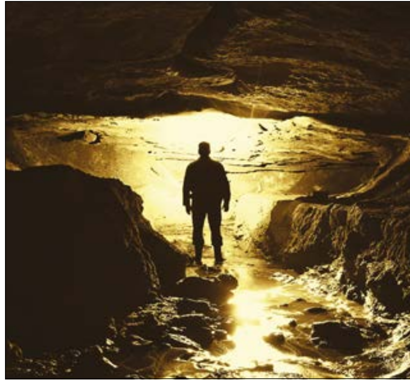
Read the views of five senior transaction bankers based in the region from a round table Treasury Today Group recently hosted in Singapore. They provide some candid advice and guidance on the big issues facing corporates in the future in the Asia Pacific region. The forum covered a broad range of issues from technology, cyber-security, block chain and distributed ledger to new national payment infrastructure, regulations, trends in trade and China.



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Treasury Director

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Adam Smith Awards 2016

in association with

Each year, the Adam Smith Awards winners go the extra mile in pioneering new ideas and pushing boundaries. I have no doubt that the 2016 submissions will again raise the bar and demonstrate what can be achieved with exceptional determination, teamwork, leadership, hard work and perhaps a little spirit of adventure.

Through our continued sponsorship of the awards, Bank of America Merrill Lynch is delighted to be associated with these innovative organisations and recognise their achievements.

Jennifer Boussuge
Head of Global Transaction Services, EMEA

treasurytoday
Adam Smith Awards
in association with Bank of America Merrill Lynch

Prepare to excel in the Adam Smith Awards 2016

Treasury Today is delighted to announce that, for the fourth year running, the Adam Smith Awards are sponsored by Bank of America Merrill Lynch. The Adam Smith Awards are universally recognised as the ultimate industry benchmark in treasury excellence. This globally recognised industry awards programme shines the spotlight on corporates that have excelled, that demonstrate cutting-edge thinking and are driving our industry forward. Now entering their ninth year, the Adam Smith Awards have gained increasing momentum and present the perfect opportunity for you to showcase your achievements in your respective corporate treasury departments.

Enter from 1st February 2016

Over the past eight years, competition to win the accolade of an Adam Smith Award has grown, with increasingly innovative nominations being submitted. Open to all corporates, the Adam Smith Awards recognise and reward the very best of corporate achievement, regardless of company size or industry sector.

Nominations will open on 1st February and close on 29th April 2016. The short nomination form will be on the Adam Smith Awards pages of the Treasury Today website and should take no more than 15 minutes to complete. There is no limit to the number of entries that can be submitted and a single project can be entered under more than one category. Nominations can be made by any corporate. Banks and service providers can assist their clients in completing the nomination form and may submit nominations on behalf of their corporate clients, with their approval, of course.

Winners will be announced in May 2016 and will be invited to attend a celebratory Gala Presentation Lunch which takes place in June at Plaisterers' Hall, a highly prestigious venue in the City of London. As well as being presented with a stunning crystal award, the Gala Presentation Lunch provides a superb opportunity for networking, and enables winners to significantly raise their profile and that of their team, whilst showcasing their achievements to their colleagues, clients, investors, partners and peers.

The Adam Smith Awards recognise excellence in treasury so if you believe you have delivered, or are in the process of delivering, an outstanding solution, we encourage you to enter. We look forward to receiving your nominations.

Award categories for 2016

- Treasury Today's Top Treasury Team 2016
- Best Cash Management Solution
- Best Liquidity Management/Short-Term Investing Solution
- Best Working Capital Management/Financial Supply Chain/AP/AR Solution
- First Class Relationship Management
- Best Trade Solution
- Best Card Solution
- Best Financing Solution
- Best Foreign Exchange Solution
- Best Risk Management Solution
- Best in Class Benchmarking
- Best SWIFT Solution
- Harnessing the Power of Technology
- One to Watch
- Best in Class Treasury Solution in the Middle East
- Best in Class Treasury Solution in Africa
- A Rising Star
- Treasury Today Woman of the Year

These pages contain edited versions of a few of the Treasury Insight pieces written in the last month. The full versions are posted on treasurytoday.com as they are ready. The Treasury Insights weekly email summarises the new pieces from that week plus other news relevant to treasury. You can register for this free service at treasurytoday.com

African payments project hangs on 'golden thread'

When African industrial, Allied Electronics Corporation Limited (Altron) decided it was time to streamline its payments operations, it perhaps set the bar just that bit higher for other corporates in the region and even beyond. The group, through the principal subsidiaries of Altron TMT and Altron Power, is a key mover in the telecoms, multi-media, IT and power electronics industries. A vital part of its financial function is its centralised Johannesburg-based treasury. This operates as an in-house bank to the whole business, maintaining multiple banking relationships and assuming responsibility for the execution of all foreign and domestic payments across more than 385 bank accounts.

The sheer complexity of the group recently saw treasury outline a number of important drivers as part of a major plan to reinvigorate its supporting infrastructure. Amongst these were cash visibility improvements to assist with accurate cash forecasting, automation of certain operations to remove manual processes, and the standardisation of payment formats across the group. At the same time it sought to rationalise its ERP systems and create a scalable treasury model to support the whole organisation's future development.

From bureau to bank

When it came to messaging, the clear choice was the adoption of ISO 20022 XML-based standards. The first real step for the team therefore was to evaluate the vendors offering connectivity options. Instead of establishing and maintaining its own messaging connectivity with its banks, Altron chose to work with a SWIFT service bureau (SSB), Germany-based Broadridge. The SSB route, it was felt, would better facilitate technical integration of Altron's TMS and connection of its ERP systems (15 iterations in total) to the SWIFT gateway.

The next phase required treasury to build a closer working relationship with its primary banking partner, Standard Bank. As part of that closer tie, Standard Bank created for Altron a 'hub and spoke' model, where the hub is the single interaction point for treasury's multiple spokes. Now, when payments are received from Altron using the standardised SWIFT message formats, the bank's system can identify exactly where the message needs to go, how to process the message and what to do with the responses.

Keep talking

As the project has progressed, a central point of contact between Altron and Standard Bank, referred to internally as 'The Golden Thread', has ensured that information sharing has been consistent with the parameters of the project. "The Golden Thread relates to the partnership that builds between the bank and the business," explains Genny Walsh, Group Treasurer of Altron. "Volumes of communication, information sharing and trust has to be built between all the parties involved in the project; these are the key ingredients for success." Indeed, for Altron, this was ultimately a business-led project, and communication with all stakeholders has helped to manage expectation levels and safeguard its success.

Banks joining forces to advance the 'ultimate disrupter'

Distributed ledger technologies like blockchain, the computer network on which bitcoin is based, are threatening to shake up the transaction banking business. But far from dreading the disruptive forces blockchain may unleash, banks seem to be going out of their way to embrace the technology. "It is the ultimate disrupter," Erik Zingmark, Head of Nordea Transaction Products and member of the Distributed Ledger Group (DLG) steering committee, exclaims when asked whether the technology can live up to all the considerable hype that surrounds it. "I now believe that blockchain will happen," he says, "the question is just in what shape or form."

Banks are pooling resources in the hope of finding the answer to that question. Last year, Nordea announced it had become the latest bank to join the DLG, the R3-led consortium exploring ways in which distributed ledger technologies can be applied to global financial markets. DLG, which started out as a group of nine banks, now boasts 25 major financial institutions, including some of the biggest names on Wall Street.

By signing the initiative, the participating banks agree to make internal resources available for designing and developing a financial grade ledger system that incorporates various open source technologies and standards. The hope is that by working together – as they similarly did with the CGI ISO 20022 XML initiative – the banks can establish consistent standards, and lay the ground for much wider future adoption.

This is why the largest bank in the Nordics was keen to take its seat at the DLG table. "What we are trying to do now is to reach out to other banks and sit down and discuss more practically how this could make sense," says Zingmark. "We need to ensure

we don't create a lot of dialects and languages in this new technology, that would be a problem for corporate customers and it also could be a big problem for the banks." A focus on standardisation is especially critical now given the speed at which new use-cases are proliferating.

The financial innovation start-up R3 saw the potential of blockchain technologies early on and why fragmentation posed a threat to its application in financial services. "It has become obvious that distributed ledger technologies have the ability to transform the financial services space," says Charley Cooper, a founding member of R3, who has also worked for State Street and Deutsche Bank. "We began to realise that part of the initial hesitancy from the banks around distributed ledgers was driven by the fact that the space is so large it would be difficult to seize the opportunities in a meaningful way if everyone were to approach it one by one. A fractured approach to something this important could prove difficult to manage and we could end up in a situation where these new technologies are used but everything is just as siloed as the current systems on which they are operating." The key idea R3 had, then, was to encourage a large and diverse group of banks to coalesce in order to determine together what solutions they would like to see developed.

Why size matters for MMF sponsors

Treasurers who park cash in money market funds may have noticed that their investment options have become somewhat narrower over recent years. But the trend towards greater industry consolidation may not be entirely set in stone. Blackrock's striking acquisition in November 2015 of Bank of America Corp's money market fund (MMF) business was one of the biggest industry deals ever recorded. The world's largest cash manager snapped up assets worth $87bn from Bank of America for an undisclosed sum. But while the deal once again underlines the importance for asset managers of acquiring scale to mitigate growing pressures on profits, regulatory changes being imposed on the banks mean opportunities do remain both for existing players as well as potential new entrants.

"The money fund business really favours large players, because they can leverage the liquidity business as part of their broader strategy," says Marina Cremonese, Assistant Vice President, Analyst at Moody's Investor Services. "It is a business that can be profitable but it needs size for that. But in the current environment with low interest rates, many fund sponsors have been waiving their fees and that means their profits have been reduced."

Those pressures have in turn led to a reduction in the number of funds, both in the US and Europe. Part of this decline can be attributed to large asset managers consolidating existing offerings, but a significant chunk has also come through acquisitions. In the past few years we have seen Federated Investors agree to acquire $1.1bn in assets from Huntington Asset Advisors, Aberdeen Asset Management purchase Scottish Widows Investment Partnership (SWIP) from Lloyds and RBS selling its MMF business to Goldman Sachs. Now in the US, the number of providers offering stable net asset value (CNAV) funds has fallen to 70 from 133 in 2008; in Europe, meanwhile, 38 fund complexes offering CNAV products have been reduced to 25 over the same period.

"[Industry consolidation] is particularly acute in the US," says Vanessa Robert, Vice President, Senior Credit Officer at Moody's Investor Service. With new rules drafted by the Securities and Exchange Commission (SEC) coming into force [this] year more money fund-managers could yet decide to exit the business rather than make the expensive adjustments required to their offerings. "Regulation is a key factor," Robert says. "It is weighing heavily on the already challenging landscape for money funds and it might accelerate this trend. The ability for mid-tier sponsors to thrive has been materially reduced."

The Basel factor

The competitive landscape is not immutable though. This is because the money fund industry's main competitors for corporate liquidity, the banks, have their own regulatory pressures to contend with right now, not least the implementation of the Liquidity Coverage Ratio (LCR) which came into effect in January 2015. The LCR is indeed already changing the view banks take on corporate deposits, with some banks beginning to charge fees to discourage the non-operational deposits deemed risky by the regulators. A survey late last year by J.P. Morgan Asset Management of 408 CIOs, treasurers and other senior corporate decision-makers across the globe suggests this could be a big opportunity for the MMF industry. Almost half of the survey respondents said that their banks had encouraged them to move non-operational deposits off the banks' balance sheet, while a significant number (20%) indicated that they plan to increase their allocations to MMFs in 2016.

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

BEPS: need to know

With OECD having presented its final BEPS Action Plan in October 2015, in what ways will its implementation impact the treasury departments of multinational companies and what should treasurers be doing now to prepare?

Jessica Silbering-Meyer
Managing Editor, International Tax
Thomson Reuters

The Base Erosion and Profit Shifting (BEPS) project is an OECD Action Plan addressing concerns that the profits of multinationals are being allocated to locations different from those where the actual business takes place in order to reduce their overall tax liability. The main impetus behind the BEPS initiative is to align the profits of multinational companies with value producing activities and to encourage companies to increase their economic substance in jurisdictions that have typically been considered low-tax or preferential regimes.

While the BEPS initiative will have a significant effect on the tax departments of multinational companies, it will no doubt also encourage treasurers to determine what changes are required from a business standpoint and to create a plan of action to address these changes. As an example, one of the BEPS Action Items, Action 13, will require businesses to re-examine their transfer pricing documentation, causing treasurers to balance conformity with these rules against their compliance costs, which could potentially be significant depending on the amount and accuracy of information readily available. Under Action 13, large multinationals are required to annually file a country-by-country report for each tax jurisdiction in which they do business, and will need to provide the amount of revenue, profit before income tax and income tax paid and accrued and other indicators of economic activities.

In addition to increased compliance costs, treasurers will need to be involved in the day-to-day decision making as to how to increase economic substance (eg people, processes) in specific jurisdictions. Action 10 focuses on transfer pricing with respect to "other high-risk areas", which addresses situations in which profits are diverted from the most economically important activities of the multinational group, and the use of certain types of payments between members of the group (such as management fees and head office expenses) to erode the tax base. The revised guidelines on transfer pricing address the situation where a capital-rich member of a group provides assets such as funding for use by an operating company but performs only limited activities. As such, tax departments will call on treasury to determine whether the amount of economic substance in these jurisdictions is adequate and whether it can be allocated to value-producing activities. If substance does not align with the risks and value produced by the entity in question, then treasury must determine how to functionally realign substance with value creation and work with tax to implement this into the business.

Finally, Action 4 (limit base erosion via interest deductions and other financial payments) will require treasury's input and analysis with regard to specific cash flows, currency exposure, and existing related party and third party financial debt.
The treasury and tax departments of multinationals will need to work closely together to evaluate existing financial transactions in order to determine their conformity with BEPS. Going forward, the BEPS Actions will require increased coordination within the business where each department must collaborate in order to create a workable solution that will better align the company's profits with its economic substance.

*Melissa Cameron
Principal, Global Treasury Advisory Services
Deloitte & Touche, LLP

BEPS is a global tax reset, and that means the biggest change to international tax principles in more than a generation. Business model operations, treasury operations, intercompany leverage structures and risk management structures will all be impacted. The OECD's 15-point action plan will promote greater transparency with increased information exchange between tax authorities and enable an environment that taxes profits in the country where the value is added.

To prepare, corporate treasurers will need to review the new BEPS action plan and related articles and engage with their tax team about what the actions mean for their businesses, including departments such as finance and intercompany leverage.
BEPS is a key business risk for the global C-suite and investors are increasingly interested in tax strategy. Treasurers should begin working closely with their corporate executives to assess current state and identify the actions that will impact the people, property, and functions of the organisation. Ask these questions: how do we sell to customers? How will this impact our supply chain? Do new systems need to be implemented or can existing systems be leveraged?

When that portion of the analysis is done, treasury teams can begin redesigning their own department. A treasury team will

need to determine just how this impacts liquidity, where the foreign currency exposures are, and what this will do to business. The OECD has estimated that effective corporate tax rates may rise between four and 10%. Should this occur, it would impact liquidity, leverage, and possibly even the credit ratings of some companies. Evaluating the readiness to satisfy the proposed data and reporting requirements can help establish how the current state of the treasury compares to the desired future state and analysing gaps and prioritising action items are the first steps in preparing for implementation.

Multinational companies without personnel in the various jurisdictions of their financing entities and in-house banks need to also consider whether they should shift professionals into those jurisdictions. Decentralisation draws questions around the governance structures and processes and controls. This also creates the need for better technology and reporting to manage these risks. However, treasury should see this as a great opportunity to get closer to the business and become more of a value-adding partner to the organisation.

Documentation of all intercompany loans is going to be very important to prove the loans' existence to tax authorities. Treasurers have to think about how good their documentation is and whether intercompany loan portfolios need adjusting. Foreign currency gain or loss on the repayment of an intercompany loan may create a tax liability. An organisation's response and approach to managing the OECD's prescription for better tax health could ultimately impact the company's competitiveness, brand value and reputation.

**This contains general information only and Deloitte is not, by means of this article, rendering financial or other professional advice or services.*

Natasha Kaye
Partner
Cooley (UK) LLP

The final BEPS Action Plan was delivered on time and is remarkably comprehensive. Although further work is planned during 2016 and its success will in a large part rely on domestic implementation by the participating jurisdictions, it has already had a significant impact on the international tax environment and no doubt will continue to do so.

The BEPS Action Plan has three main themes: coherence in domestic rules that affect cross-border activities, substance and improving transparency. Of the 15 action points, those likely to be of most relevance to treasury operations are the proposals on hybrid mismatch arrangements (Action 2), interest deductibility and other financial payments (Action 4), tax treaty abuse (Action 6), transfer pricing methodologies (Actions 8-10) and those on transfer pricing documentation (Action 13).

Intercompany transactions, in particular financing transactions, have been the focus of a number of the proposed actions, which is highly relevant to treasury departments who may find current structures are vulnerable. For example, cash management may include use of hybrid structures or instruments that give rise to either a tax deduction for financing costs without a corresponding taxable receipt or a tax deduction in more than one jurisdiction. Such deductions may now be denied or unexpected tax payments may arise. Structures may also rely on access to treaty benefits (such as to enable exemption from withholding tax) which will be lost if new tests are not satisfied, giving rise to increased tax costs in the group. The proposals which limit excessive interest deductions may reduce the tax benefit of existing arrangements. In light of the proposals, it may be appropriate to unwind existing arrangements and to consolidate certain group operations.

New transfer pricing documentation, including country-by-country reporting (CBCR), is aimed at enhancing transparency for tax administrations. The treasury department will need an understanding of the reporting requirements, in particular in relation to intra-group transactions which may face greater scrutiny. There are concerns as to how tax authorities will use the information provided via CBCR; for instance, it might lead to more withholding taxes being levied as previously ignored transactions are brought into tax.

Changes to the OECD transfer pricing guidelines aim to ensure that transfer pricing outcomes better align with value creation of the multinational enterprise group; returns will not accrue to an entity solely because it has contractually assumed risks or has provided capital. This is likely to impact on available deductions and the location of taxable profits. Groups that have a centralised treasury function may need to review whether their transfer pricing policies remain good for purpose post BEPS and how any required changes might impact on costs.

Treasury and tax functions of multinational groups need to work together to assess risks and issues in respect of current treasury operations, consider what changes might be made now and to put in place processes and strategies to monitor and plan for future developments and changes. This will need to be done both by reference to the BEPS agenda generally and by reviewing the changes being introduced by respective jurisdictions in which the business operates, noting that there is some disparity as to how certain actions might be addressed in a domestic context. Finally, it will also be necessary to educate the wider business about the impact of BEPS and seek to develop best practices that can be met by the business in its day-to-day activities.

The next question:

"What are circular supply chains and how does the model impact the financial supply chain? Is it more than just a Corporate Social Responsibility (CSR) issue?"

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

ecr research

2016: major change in monetary policy and more volatility

Nearly a decade after the financial crisis, it is pertinent to reflect on how far global markets have come. In doing so, however, one thing is clear: although economies across the world, developed and emerging, all heavily influence one another, they are increasingly out of step.

After the credit crisis, central banks needed to 'go all out' across the world in order to stave off depression and return the economy to a normal growth path. Short-term interest rates were cut to almost zero whilst more and more central banks started to create liquidity in one way or another. Often they launched large-scale bond-buying programmes and paid for this with money seemingly plucked out of thin air. Liquidity supply expanded and bond yields fell.

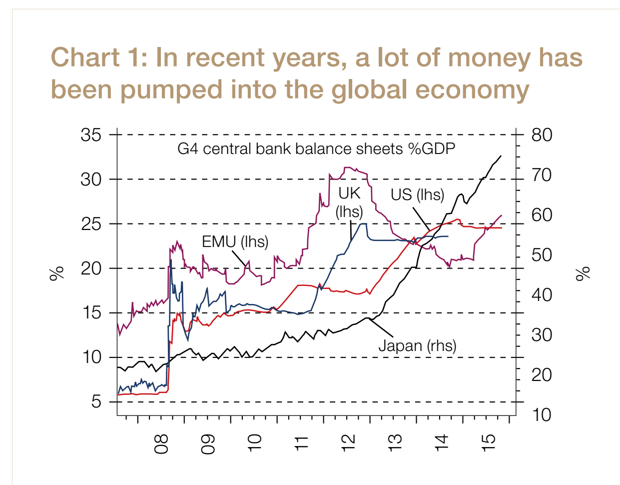

Chart 1: In recent years, a lot of money has been pumped into the global economy

Source: Thomson Reuters Datastream/ECR Research

The credit crisis erupted due to high indebtedness (in the public and private sectors) in many places around the world. A lot of state, business, and household debts were offset by assets such as property and equities. Once the crisis exploded, such assets depreciated in value as the entire credit system threatened to collapse like a house of cards. Central banks tried to increase the value of the assets that served as collateral in order to improve balance sheets. Jobless rates soared in the aftermath of the crisis and wages barely rose or they continued to drop. Consumers did not have sufficient purchasing power to boost economic growth. Therefore, more borrowing appeared to be the only solution. It became necessary to inflate the prices of assets such as real estate, equities, bonds, and so on. The consequences for the financial markets were as follows:

- Lower interest rates. As a result, investors started to look for returns exceeding government bond yields, which led them to buy risky bonds and similar investments. Credit spreads narrowed and this supported credit growth.
- Extremely low interest rates, in combination with massive money creation, continued to push up stock prices.
- Many countries were in exactly the same boat so monetary policies did not diverge much; currency fluctuations were few and far between.

Time for change in the US

But the situation has gradually started to change. The US employment rate has fallen on the back of the aforementioned policies and there is mounting upward pressure on pay. This is a historic moment as once wage increases are rising, consumers will have more buying power. On the basis of past experience, we can expect consumer confidence to pick up as well as borrowing. Spending is bound to improve to the extent that jobless rates fall further as wages continue to rise and purchasing power improves. In combination with the humongous money creation of the past years, this carries inflation risks.

The Fed has now made its first move towards fighting inflation risks. For the first time since the credit crisis, the US raised interest rates to 0.5%. A defining aspect of the situation is that the Fed's rate hikes are supposed to slow economic growth to the rate of potential (= the sum total of the increase in productivity and workforce growth). In the US, this is just 1.5%-2% whereas up until the credit crisis, growth rates near 3.5% were considered normal. The US is heading for a period when tighter monetary policy – ie less money creation – will combine with rising interest rates and decelerating growth. The bond and equity environment will differ dramatically from what investors have grown accustomed to in the past seven years.

Impacts far and wide

At a time when huge amounts of dollars were being created, many parties in the emerging markets took out loans that were denominated in the US currency. Most of this money

Chart 2: Moderate increase in productivity and declining labour force rate mean lower potential growth than in the past

Source: Thomson Reuters Datastream/ECR Research

was used to build new production units. Upward pressure on US interest rates makes those dollar loans more expensive, and the dollar itself has strengthened. As a result, the dollar debt burden has substantially increased (expressed in the local currencies), while slowing economic growth around the world has resulted in overcapacity.

It is clear that the situation in the developing world is deteriorating. As many of these countries used to be major commodity consumers, the same applies to the commodity producing nations and western industries which are confronted with falling sales as well as lower prices.

The question is how the change will affect the US and other western countries. It shall certainly have a negative impact on manufacturing and especially on trade with the emerging markets. Yet, import prices are falling (lower oil prices are particularly important), which is boosting consumer spending power and thereby the services sector. Such developments could outshine the factors that act as a drag on the economy in the slightly longer term.

Europe faces a different set of circumstances. Although the central bank has applied large-scale monetary stimulus, lending conditions have tightened. The European banks were far more leveraged before the credit crisis than those in the US. Therefore the latter were quick to sell off or write down bad debts. Particularly compared to banks in Europe, which are still focused on improving their balance sheets so are less able to supply credit. Europe has little room to apply fiscal stimulus and jobless rates have risen so much that wage increases are low. Therefore, domestic economic growth is sluggish (specifically, relative to the US) while deflation fears have not disappeared. The ECB has eased its policy from the start of the year – when it expanded its bond-buying programme and imposed negative interest rates – to counter these effects.

What's more, Europe is increasingly out of step with the US in terms of monetary policy. Such policy divergence has an impact on the exchange rates. This suits Europe well. A cheaper euro is one of very few ways to provide new impulses to the European economy (through improving foreign trade and higher employment).

Global intertwinement

It is impossible to provide a detailed forecast for the monetary situation in each individual country; what happens in one area tends to influence developments elsewhere. We have already seen that the Fed's tightening bias has serious consequences for the emerging markets. In turn, this will have repercussions for the US economy, which is sensitive to share price movement. Sharp stock market pullbacks will hit the economy hard. Monetary policy divergence between different countries leads to currency fluctuations. This does not matter greatly in good economic times but now that growth is subdued, currency weakness may be a bonus in many places whereas a strong currency can do a lot of damage.

This defines the global economic outlook. US consumers are borrowing and spending more, which has prompted the aforementioned positive economic spiral. The Fed is gearing up for further rate hikes. To paraphrase Ms Yellen, the most fascinating question is the timing of the subsequent rate rises. Yet, tighter Fed policy will set up counterforces that will act as a drag on US economic growth.

Normally, this would provide the central bank with plenty of reason not to raise its key interest rate for the foreseeable future – or at least to limit the rate hikes. Even more so as the listed developments are bound to contain inflation. The irony is that a low rate of inflation will provide consumers with more purchasing power and prevent a growth slowdown. The central bank will have to tread cautiously in any case when tightening its policy. For currency and interest rates markets, this all means 2016 will see more volatility than we saw in the last quarters of 2015.

Unique approach for time pressed decision makers

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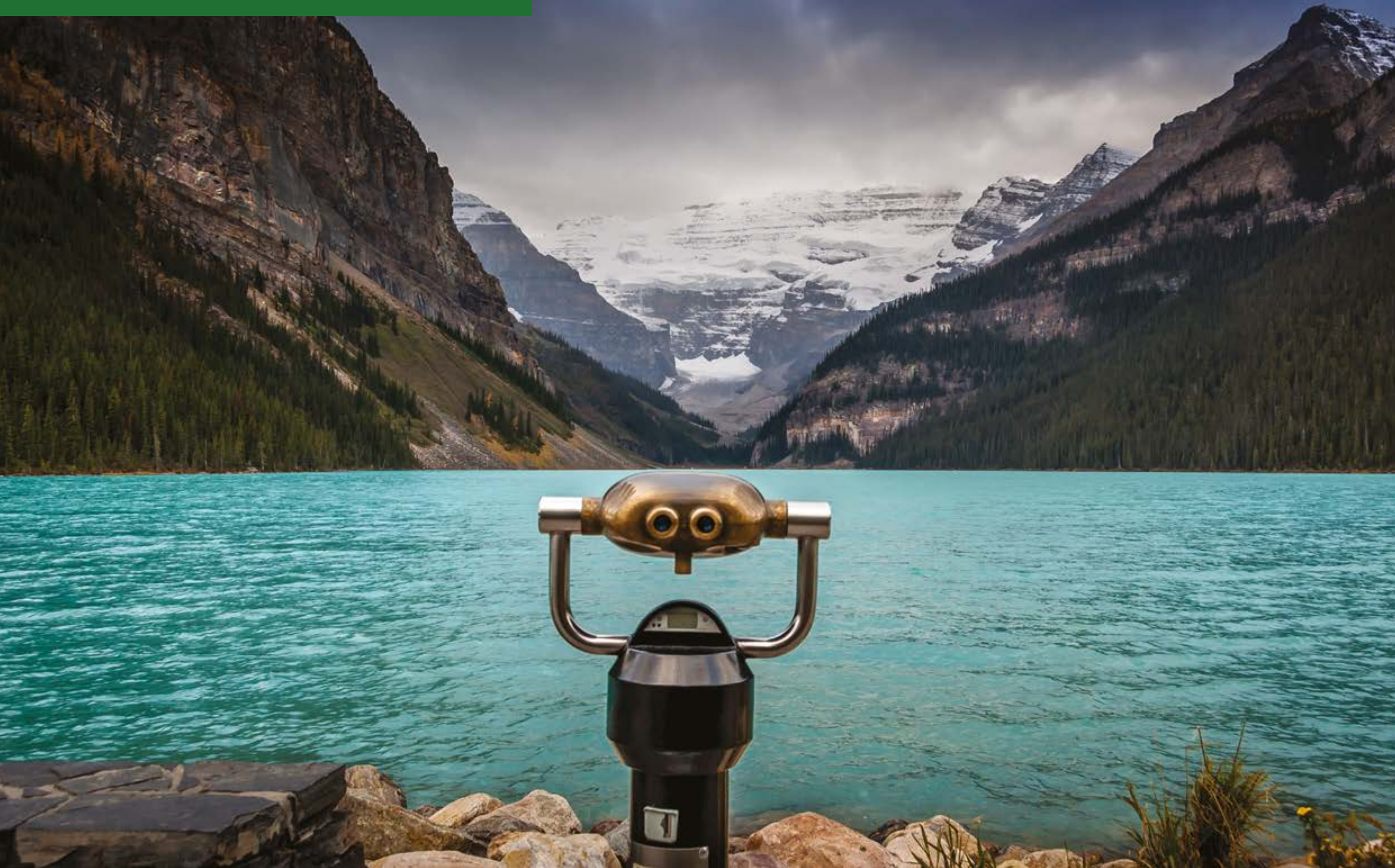


Treasury tomorrow

What will be the dominant issues on the treasury agenda in the year ahead? Will it be another big year for treasury transformation projects or will some treasurers have their hands too full managing market volatility and regulatory change? We ask a selection of industry experts to run through what they believe will be the big talking points of 2016 as we head into the new year.

The corporate treasury community are likely to see some big emerging opportunities in the year ahead, but treasurers will need to be on guard in case the economic weather begins to turn.

Treasury experts drawing up their predictions for 2016 largely agree on some broad themes – regulatory pressures will again loom large, mounting market volatility will test risk managers and new developments in infrastructure and treasury software will open the door to ever greater efficiencies.

These are not specifically new developments, but some commentators believe the driving forces behind them are now intensifying. Jacques Levet, Head of Transaction Banking for EMEA at BNP Paribas succinctly sums up the sentiment of his peers: "There is increasing pressure on the treasurers around the performance of their organisation; we are talking operational excellence, risk mitigation, and cost reduction."

How well positioned are corporate treasurers to realise these goals? Precisely what impact will the increasingly gloomy global economic outlook have on developments? Answering these follow up questions in depth becomes, as we will see, a lot trickier.

A bumpy ride ahead

In the past year, foreign exchange (FX) markets have been affected by three issues above all else: the European Central Bank's turn to accommodative monetary policies, China's determination to allow market forces to play a greater role in setting the value of the renminbi, and expectations of an imminent interest rate rise in the US.

Experts believe these issues are likely to remain the principle FX drivers in 2016; but, we should not rule out more unexpected occurrences, the likes of which we have seen

wreak havoc on markets in the past year. The shock of the Swiss franc being depegged and, to a lesser extent, the collapse of the Russian ruble, are but two examples of recent currency events that have jolted markets and put profitability pressures on some companies. For treasurers, the sensible thing to do is to work on the assumption that there will be more of the same this year, and adjust their risk mitigation strategies accordingly.

"What we have learned in the past year is that it is becoming ever more difficult to anticipate what will happen in the market," says Philippe Gelis, CEO of Kantox, the London-based P2P foreign exchange providers for businesses. Decisions around what to hedge and how aggressively will ultimately come down to the particulars – profit margins and exposures – of each particular company. But in such volatile conditions some treasurers will undoubtedly see the need to become more active in their hedging. "What this means is that it is more important than ever to forecast your cash flows across all your foreign currencies and start hedging as soon as possible. The situation is becoming so complicated now that nobody can say what will happen next."

> "What we have learned in the past year is that it is becoming ever more difficult to anticipate what will happen in the market."
>
> Philippe Gelis, CEO, Kantox

Despite all the uncertainty, Gelis identifies two specific trends for corporate treasurers to watch closely. Regarding EUR/USD, which is set to be impacted by long-awaited monetary policy divergence, he says, "some people are already speaking about parity – I don't know if that will happen, given that these are the two most traded currencies globally, so that pair is a big concern for our clients."

His other main area of concern relates to the currencies of the five major emerging market countries that have colloquially become known as the BRICS. "Brazil will pose a big challenge as the economy now is in a really bad shape," he says. "The Brazilian real is a currency traded increasingly by corporates and it has become very volatile. And we are seeing the same happening in South Africa and Russia."

When Basel bites

Treasurers are already feeling the impact of Basel III on their banking relationships. Pressures stemming from the measures have created a squeeze on bank financing (which is particularly acute for SMEs) and to some banks reconsidering their cash management business in certain geographies. But it is the growing conflict over cash Basel has precipitated that is perhaps the biggest, most universally felt impact in the treasury community. In 2016, this is likely to continue to weigh heavily on the corporate sector's relationships with banking partners.

Many corporates have amassed large stockpiles of cash over recent years, at the same time as banks have become more selective around the types of deposits they accept. "In the past, if a client gave you a large deposit, you would be very happy," says Ruth Wandhöfer, Global Head of Regulatory and Market Policy at Citi Treasury and Trade Services. The bank would then lend more and the balance sheet would grow. "But now we are in a situation where balance sheets are capped."

Elaborating on the point, Wandhöfer explains that the introduction of the Basel Committee's Liquidity Coverage Ratio (LCR) at the beginning of 2015 means that, to please the regulators, banks have to find more assets to balance the liabilities on their balance sheet without "overshooting the generic target." Ultimately, this means the banks must optimise the liabilities they have by encouraging clients to pay in more of the operational deposits deemed 'sticky' by the regulators, as opposed to surpluses that are not required for daily activities.

The efforts banks are making to ward off the regulatory threat posed to them by the latter type of deposits are already becoming evident. In the past year, several Wall Street banks are said to have been focusing on cutting unwanted deposits partly through changes to fees. Conscientious treasurers will accordingly need to spend more time in touch with their banks in the year ahead if they are to be sure of finding a home for their company's cash. "There is a need now for tighter communication and collaboration between corporates and banks," Wandhöfer says. "Corporates will need to be more transparent going forward regarding their moves and how they expect to deploy liquidity, and we may even see something like a penalty charge being imposed should a client unexpectedly deposit a significantly large non-structural liquidity deposit."

Rates and regulation

The banks' main competitors for corporate liquidity, the money market fund (MMF) industry, is facing their own regulatory pressures, the final form of which remain, in Europe at least, uncertain. Indeed the industry spent much of 2015 waiting for action from the European regulatory authorities. Although a proposal was put forward by the European Commission (EC) at the beginning of the year, which was finally approved by the European Parliament (EP) in April 2015, the final stage of the legislative process – the Trilogue negotiation between the EC, EP and Council of Ministers – is still to commence.

Treasurers will therefore be keeping a close watch on developments in Brussels in the coming months, particularly to see whether the coming regulatory shake-up occasions the prohibition of Constant Net Asset Value (CNAV) MMFs, the accounting treatment around which many investors favour, and the emergence of new types of product such as the Low Volatility Net Asset Value (LVNAV) MMFs that were mooted in the EC's final proposal.

The other tectonic force affecting the MMF industry at the moment is the rate environment. Accommodative monetary policies pursued by the European Central Bank (ECB) have pushed down yields on the short-term debt instruments that MMFs purchase, making it increasingly difficult for fund managers to generate positive returns for their investors. With no directional change in policy at the ECB appearing to be on the cards in the near future, credit ratings agency Fitch says, in its 2016 MMF Outlook, that it expects yields on euro-denominated MMFs to remain in negative territory in 2016 (in contrast to its outlook for sterling and dollar MMFs, which it says may see "their yields picking up timidly" in the coming months).

The risk of large redemptions by corporate treasurers unwilling to stomach 'paying' a fund to hold their assets would appear to be minimal though. Indicative perhaps of the dearth of good short-term investment alternatives out there at the moment, outflows to MMFs not only stopped in 3Q2015, they actually began to reverse despite the average euro MMF gross yield remaining at a negative 0.06%.

"I think that shows that corporate treasurers are, however reluctantly, now accepting negative yields on euro MMFs," says Alastair Sewell, Senior Director at Fitch Ratings' Fund and Asset Manager Rating Group. "We think that is a very material development."

There are two implications stemming from this trend. Firstly, some investment policies may have to change (readers will find an in-depth analysis of this issue on page 33). "We would expect to see treasurers adjusting guidelines in a prudent way," says Sewell, explaining that certain policy constraints could mean treasurers are missing out on a potentially useful segment of the market. "Historically, you see legacy practices baked into investment guidelines which can limit the choice or flexibility that corporate treasurers have. So as a first step we expect and we understand corporate treasurers are reviewing some of those legacy points in their guidelines."

Secondly, corporate treasurers are already becoming more active in their forecasting and segmenting their cash. As a consequence of this, Fitch expects to see the European market for short-term investment products for treasurers grow significantly. "We are certainly aware of various fund providers having approached us with ideas for new funds targeting yield hungry corporate treasurers, who wish to generate a little bit of incremental return but at the expense of selectively taking more risk."

New year, new treasury

Should the predictions of our industry experts come to pass, there will be no shortage of challenges for treasurers to get their teeth stuck into over the course of the next 12 months. The more forward-looking, precocious members of the profession will, however, no doubt already be thinking about how these same challenges can be reconceived and turned into opportunities.

This is the mind-set that separates those that simply survive and those that truly thrive. Take the recent bout of FX volatility. Reactive treasurers might stop at making some minor alterations to their hedging strategies, perhaps taking out less forward contracts and switching to options for certain currencies. Meanwhile, treasurers with a more proactive mentality might decide to return to the fundamentals of cash forecasting, and explore ways to improve the visibility of cash positions across various geographical structural dimensions. A similar approach could be applied to short-term investments. If regulation and the yield environment is making it a struggle to use bank deposits and MMFs, perhaps it is time to explore what other instruments – tri-party repos or segregated mandates, for instance – might be used instead.

Once such exercises have been concluded, the treasurer may well find that in addition to solving the immediate problem, the changes made lead to a more effectual, resilient treasury over the long term. New tools might be needed to help treasurers to do that though. While it would be wrong, indeed dangerous, to suggest that technology alone is the answer to all the challenges the treasurer faces, new innovations are now in development that have the potential power to radically transform treasury. We cannot say, with any certainty, whether this will happen over the next year, but it is clear that the industry buzz around certain experimental technologies is right now on the rise.

> "Historically, you see legacy practices baked into investment guidelines which can limit the choice or flexibility that corporate treasurers have. So as a first step we expect and we understand corporate treasurers are reviewing some of those legacy points in their guidelines."
>
> Alastair Sewell, Senior Director, Fitch Ratings

"In order to tackle these challenges, treasurers need help," says BNP Paribas' Levet. "They also need to find new ways of working – and the new technologies we see emerging will help them do just that." Levet cites three categories of new technologies that he thinks banks and vendors need to look at to create what he calls "game changing solutions" for treasurers: big data, blockchain and artificial intelligence. He says: "I am convinced that, in all three of those families, breakthrough solutions are imminent. But at the same time, when discussing these new technologies we should not only highlight their truly disruptive potential, but also consider how they can, today, help banks significantly improve their existing processes and hence deliver dramatically enhanced services to their clients."

On blockchain especially we have seen evidence this year that these are not just hollow words. Under the R3-led initiative, the Distributed Ledger Group (DLG), banks are pooling money and resources to explore how distributed ledger technologies like blockchain might be applied to a variety of purposes including the overhaul of the existing payments infrastructure, the settlement of securities and even some less obvious use-cases such as in the execution of certain compliance processes such as Anti-Money Laundering (AML) and Know Your Customer (KYC).

Right now R3 says its priorities are determining what component of distributed ledger solutions should be open source, the launching of a 'lab environment' in which to test solutions, and the building of an architectural framework as development of the codebase begins. One thing is for certain: whatever solutions emerges from this project in 2016 and the coming years, a world of new exciting opportunities is now opening up for treasurers. And that should mean that irrespective of the stiff challenges they are facing, the coming year need not be anticipated with a sense of dread.

"They should be looking forward to it," adds Levet. "The role of the treasurer has considerably evolved and it is now that of a strategic partner in the organisation. Treasurers will as well have the opportunity to co-develop solutions with banks and vendors around innovative technologies to improve the way they operate. The opportunities brought forward by this collaborative approach and those new technologies far outweigh their respective risks."

Cash management in Asia – a 20/20 vision

This is a must-read for any corporate operating in Asia Pacific (APAC). We invited the most senior transaction bankers in the region for a roundtable discussion. We asked them for their visions of the future and asked what guidance they are providing to corporates operating in the region. Read on for some enlightening and practical advice.

Participants

Ivo Distelbrink
Asia Pacific Head of Global Transaction Services
Bank of America Merrill Lynch

Amol Gupte
Region Head, Treasury and Trade Solutions, Asia Pacific
citi

Di Challenor
Managing Director and Head of Treasury Services, Asia Pacific
J.P.Morgan

Carole Berndt
Head, Global Transaction Banking
ANZ

John Laurens
Head of Global Transaction Services
DBS

Moderator

Richard Parkinson
Managing Director, Treasury Today Group

Carole Berndt

"My advice to corporates would be: work out who your real bank friends are. The current environment, for both corporates and the banks, means that relationships are going to become increasingly important, because everything else is commoditised. It is these relationships that are going to help better align the treasurer to the business and make the department more relevant."

What are the big issues facing corporates operating in Asia right now?

Carole Berndt, Head, Global Transaction Banking, ANZ: From my perspective, the topic that I see corporates discussing a lot at the present time, and this has been particularly evident at recent conferences, is how they should be reacting when banks change their strategy.

Whilst this is certainly not a new discussion given the focus on Basel III, the cost of capital, evolving regulatory environments and banks evaluating their geographical focus, the reality has really hit home over the past 12 months as a number of banks have pulled out of particular markets and scaled down their product suites.

The challenge therefore for the corporate treasurer in my opinion is how do they create a nimble treasury environment that delivers the economies of scale, drives efficiency through the standardisation of processes all whilst working with fewer banks and mitigating the risk of being dependent on one key supplier.

Amol Gupte, Region Head, Treasury and Trade Solutions, Asia Pacific, Citi: In addition to what Carole rightly just said I would add that, if you take an external perspective, the world has changed significantly in the last 12 to 18 months. I think corporates are clearly concerned by and are grappling with the evolving macroeconomic environment and this is something that is not going to go away in the short term.

A lot of this is driven by what is currently happening in China. The country has achieved 30 years of really massive, double-digit growth and consumed a lot of commodities. The structural shift that we see occurring however means that growth is slowing and that it will no longer consume commodities at the rate it once was, this has significant implications on downstream corporates.

When what is happening in China is combined with commodity prices sinking to dramatic lows, exports failing to pick up, other domestic economies in APAC struggling and the threat of rates rising in the US, there is a lot that corporates need to consider and factor into their cost structure and risk.

John Laurens, Head of Global Transaction Services, DBS: I would echo what Amol is saying. China's slowdown, Indonesia's slowdown, volatility in equity markets, currency fluctuations and the decline in commodity prices are all clearly having a direct impact on corporates and their supply chains. Moreover, I think companies are still grappling with what the internationalisation of the renminbi (RMB) means for their businesses and the path it will take going forward.

Treasurers are also contending with new technology and making the right calls in this regard. Clients are requiring technology more than ever to help navigate through quite difficult waters, particularly in APAC.

Di Challenor, Managing Director and Head of Treasury Services, Asia Pacific, J.P. Morgan: In the face of volatile

macroeconomic conditions, corporates are increasingly looking to their banks for support and advice. Our clients expect us to have an intimate level of detail about the regulatory landscape and how best to navigate it.

Clients regularly ask us very specific questions about the impact of regulatory changes in certain countries, such as how they can better manage their cash flows across the region as a result of the changes, and ultimately what all these changes mean for them. Very often, the debate around regulation is focused on banks, but as the requirements of regulators continue to evolve, they are increasingly influencing the strategic thinking and decisions of corporates.

Ivo Distelbrink, Asia Pacific Head of Global Transaction Services, Bank of America Merrill Lynch: The conversations that we are having with our clients centre around how we can help them think through and facilitate some of the fundamental changes in their commercial business models. Today you have e-commerce, mobile payments, mobile wallets, the cloud, big data: all redefining how our clients do business across industries.

These changes are having and will continue to have a profound impact to how treasury is done. So for us, right now, it is key to be reviewing with our clients established processes and established relationships; to optimise platforms and introduce digital technology; to make sure that treasury can facilitate and successfully enable new emerging business models.

Technology is a major driver in every industry. In the banking industry, there is a lot of talk about blockchain and distributed ledger which is proving a challenge. How does this affect corporates?

John Laurens, DBS: For as long as I have been in banking, technology has been a key driver of change. In reality, banks could not exist or function in the way that they do today if they hadn't been at the forefront of innovating and pushing the development of new technology. So whilst we talk about FinTech and the impact startups may bring – which could be significant in the transaction banking world – we have to remember that banks themselves at their very core are FinTech companies.

When we look at new technologies such as distributed ledger technology, there is a plethora of solutions looking for problems. That said, we are experimenting with the application of such technologies across the payments and trade businesses, which I believe will ultimately give corporates more choices, as well as the potential to lower the cost of operations and enable near real-time transactions across borders.

It is a really interesting and rapidly changing landscape. There are a lot of assumptions being made too early around how the distributed ledger technologies may pan out, but, overall this is a really exciting time to be in this industry because of the extent of change that's likely to take place.

Carole Berndt, ANZ: You look at the commentary around FinTech and it often suggests that traditional banks are doomed. But if you look back over the history of banking, and

"China's slowdown, Indonesia's slowdown, volatility in equity markets, currency fluctuations and the decline in commodity prices are all clearly having a direct impact on corporates and their supply chains. Moreover, I think companies are still grappling with what the internationalisation of the RMB means for their businesses and the path it will take going forward."

> “Data and cyber-security are very important, especially when treasurers are looking to drive efficiency and mitigate financial risks. It can be easy to forget about the information security piece. When corporates are looking to drive down costs, they need to be aware of how the changes may impact their data security.”

specifically transaction banking, it is not that long ago we were all talking about the internet and how that was going to change banking, and that banks could not adapt.

If you look at the industry today, I agree with John, we are a FinTech orientated industry, banks are technology. What is happening now is just the next phase of this evolution. The challenge is how to merge the opportunity that technology provides with the regulatory constraints, this is the real challenge.

Di Challenor, J.P. Morgan: When it comes to technology, trust is critical. While everyone agrees that it improves connectivity, removes barriers and when done correctly improves the efficiency of a business, I believe there must be a high level of trust between the client and the bank. Someone recently commented that they were not concerned if their customers paid by cash, a cheque, or by wire transfer, so long as they were able to collect. And as a bank, it's our job to provide this service efficiently and clients must trust us to deliver this.

Amol Gupte, Citi: I don't see FinTech as something on the outside that is going to eat into traditional banks. Technology is an enabler for banks, and it is only a matter of time before banks come together and embrace the new wave of FinTech to see what else they can do to elevate the quality of services and value that they provide to their clients. I am not suggesting that we replace what banks have built, in terms of SWIFT, over decades. But there is potential to try something in parallel on the back of this technology.

For now, banks continuously invest in the next generation of technology infrastructure. Citi has been looking at distributed ledger technology for the last few years with a skilled team. We have up and running three separate systems that deploy blockchain distributed ledger technologies. They are all within our innovation labs so there is no real money passing through these systems. We also have an equivalent to bitcoin, again within the labs, so we can mine what we call a "Citicoin". By exploring disruptive new technologies, we can help clients to understand the potential of digital money and how we are, and should be, digitising them, where their experiential value promises to take us and what security, technology, regulatory and financial considerations they pose along the way.

Ivo Distelbrink, BofAML: I do think distributed ledgers are a huge opportunity to do things better, cheaper, faster, both for us as banks ourselves, as well as for our clients. Yet, it requires, over time, agreed protocols and open source code, so that all participants run in the same direction when it comes to developing distributed ledger applications.

As long as we do that, I believe the potential and the opportunity to be immense and, in that case, I don't think it is the banks who are nervous about the challenge. I think the established infrastructure players should be and are nervous right now.

Carole Berndt, ANZ: Technology reduces barriers to entry. There used to be a period when if you wanted to become a transaction bank it was a big task to build a mainframe,

develop bespoke host-to-host connectivity and clearing system connectivity.

This isn't the case today. ANZ for instance has only been in the market for eight years but technology has enabled us to be very nimble, and in a very short period of time, reach peer capability with banks who have been here a lot longer. Whilst on the one hand that is great, we all need to be conscious of it, because reducing barriers to entry in the current market environment means there will be more competition, and we need to think about how our strategies play out in this environment.

So what is the advice to corporates right now? There are new technologies as well as lots of new national payment infrastructures in APAC. Should corporates be quizzing you on your blockchain technology, or should they just wait and see what develops?

Carole Berndt, ANZ: My advice to corporates would be: work out who your real bank friends are. The current environment, for both corporates and the banks, means that relationships are going to become increasingly important, because everything else is commoditised. It is these relationships that are going to help better align the treasurer to the business and make the department more relevant.

Di Challenor, J.P. Morgan: Corporates are increasingly looking towards technology to provide them with the necessary business solutions and I am regularly asked how much J.P. Morgan is investing into our technology in the region. It's essential that corporates sit down with their banks to discuss the banks' own technology strategies. Corporates should also work with their banks to ensure that optimum technology is being employed to further enhance their own supply chains.

John Laurens, DBS: This point is really important, because corporates also need to know where that money is being invested. In recent years, as an industry globally, perhaps particularly amongst the global banks, a significant amount has been invested in risk resolution and compliance, so the question corporates should ask is how are banks channelling investment into the future as well as into the development of new technologies?

Corporates, as always, need to ensure that their banks are investing in the future, and that their transaction banks will be there for them in terms of driving technological and market infrastructure change.

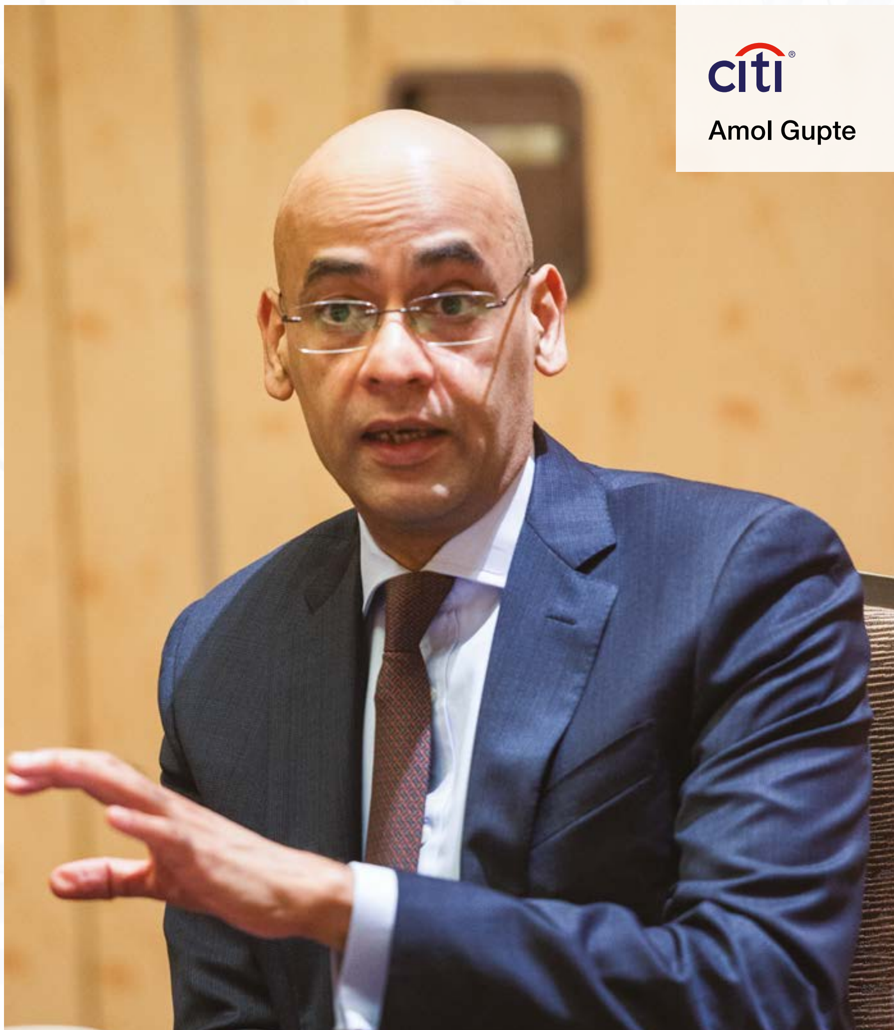
What about the new payment infrastructures that technology is enabling?

Ivo Distelbrink, BofAML: Our clients clearly welcome the speed of faster payments but what they value even more is the 24x7 window. In addition to this, clients also value the richer information and data that is enabled by these new clearing systems. With this data, treasurers can improve end-to-end reconciliation and optimise flows.

So there is more to these new systems than speed and in fact, at some point, the industry and our clients will have to ask

Ivo Distelbrink

> "The commercial business models of corporates are changing; these changes are clearly changing the priorities and responsibilities of corporate treasury. A treasurer's focus on working capital is business as usual and will always be there. But, the strategic treasurer is now working with CEOs and heads of strategy to understand how to facilitate new business models."



Amol Gupte

> “I don’t see FinTech as something on the outside that is going to eat into traditional banks. Technology is an enabler for banks, and it is only a matter of time before banks come together and embrace the new wave of FinTech to see what else they can do to elevate the quality of services and value that they provide to their clients.”

‘when is fast, too fast?’ Do corporates really want instant irrevocable credits? The reality is that many probably do not often want this and for very good reasons.

John Laurens, DBS: In my view, what is going to be important for us as an industry is that new payment systems will drive convergence of high and low value payments. New real-time payments infrastructure will also start to blur some of the distinctions between cross-border and domestic payments.

As an industry, we have some work to do to make sure that we don’t have a broad array of domestic standards emerging. The challenge is how does one achieve standardisation across newly developed national payments infrastructures, all of which have been driven by governments or regulators to deliver 24 by 7 convenience at low cost to the consumers.

Amol Gupte, Citi: In terms of what I would say to corporates, I would break it up into three big buckets. Firstly, given the external environment a lot of corporates are focused on profitability. The first reaction when this happens is for corporates to cut expenses, but I think it is a great time to look at capital structuring and take a long-term view to decide what to do when times are tough. We therefore see a lot of clients doubling down on their efforts on bringing far more efficiency into their working capital cycle.

The second area I suggest keeping an eye on is regulations. Whilst these can be challenges they also provide an opportunity, especially regarding what is happening in China. For example, the benefits of unlocking all of that trapped cash that has been building up in China are also felt offshore. With ongoing deregulation, companies are increasingly able to have those revenues sitting inside their global cash pool.

Finally, the last big area is around cyber-security. There have been some very high-profile incidents in recent months and it is easy to think that these will always happen to somebody else. But, it is something that every corporate should have close to the top of their agenda.

Di Challenor, J.P. Morgan: I agree. Data and cyber-security are very important, especially when treasurers are looking to drive efficiency and mitigate financial risks. It can be easy to forget about the information security piece. When corporates are looking to drive down costs, they need to be aware of how the changes may impact their data security.

Carole Berndt, ANZ: There are also other factors. I had an interesting discussion with a corporate the other week. We have been talking working capital as long as I have been in the industry. That’s a good couple of decades. And we always talk about optimising it and this treasurer was saying: “Look, I really appreciate everything you are doing and the focus on working capital, and I had this great project and I have really improved it. But, the other day, it was completely blown out of the water.” And I said “how did this happen?” to which he replied “you know, someone in our procurement department decided to change the way that we ship our goods. Instead of airfreighting them, to save money they now ship them by sea. That has added 60 days into my working capital cycle.” So it is

interesting, we always think about it in the context of the banking arrangements, but there is a far broader discussion including something as simple as transportation.

How much are treasurers getting involved in the business as a whole in APAC? Is treasury getting out there and working with the other parts of the company on taking advantage of changes?

Amol Gupte, Citi: They are front and centre. For instance, we work with a consumer company in India. They now have data on 100m individual shoppers, and their buying behaviour. This is the type of information technology and data that can then be utilised by treasury and the wider business. Treasurers are now thinking about what this means to their cash management collections and how they can get more data and pass this onto the front office for them to take marketing decisions.

Ivo Distelbrink, BofAML: The commercial business models of corporates are changing; these changes are clearly changing the priorities and responsibilities of corporate treasury. A treasurer's focus on working capital is business as usual and will always be there. But, the strategic treasurer is now working with CEOs and heads of strategy to understand how to facilitate new business models.

In this light, questions now being asked are: can corporate treasury manage positions 24/7, across currencies and time zones? Can corporate treasury monetise mobile wallets, gift cards, loyalty points and so on and so forth, beyond simply managing cash? Can corporate treasury use big data to make better funding decisions? With such questions treasury has well and truly moved beyond managing day-to-day working capital into the C-suite, actively driving the redefinition of commercial business models.

John Laurens, DBS: The corporate treasury has always strived to be more than its central function as a utility to the company, and to become a strategic advisor to commercial business lines. This is an evolution that has taken place over recent years. But, given the extent of change today, be it regulatory or technological, there's never been a better time for treasurers to play the strategic role they have always sought to play in their organisations.

Carole Berndt, ANZ: I have recently come from Europe which has a strong consumer protection environment, and increasingly so. I actually think there is a tsunami of regulatory change headed our way, focused on protecting the consumer that will impact banking and will impact the corporates who work in the consumer space.

For instance, the actions by European governments regarding bank behaviour, how they charge, and the speed of payments. I think Ivo made a very good point, is immediate real time payment a good thing? The regulators certainly think that for the consumer, it is. These trends lead me to believe that we are going to face some challenges as governments focus on increasing consumer protection in the financial world. I think it is the second wave of the impact of the GFC (Global Financial Crisis).

Regulation has come up several times. How does a corporate client stay current when they are operating across the region, with multiple jurisdictions and the possibility of a second wave of regulation coming through? Should corporates be looking to their banks to keep them up to speed?

Carole Berndt, ANZ: Keeping our clients up-to-date with regulatory change is an important part of our role. We are constantly seeking to build deeper relationships with our corporate clients and offer our expertise and knowledge to

Amol Gupte, Citi: I echo what Di and Carole said, banks absolutely play a big role, but corporates also need an independent view. The discussion is also broader than regulation, it covers tax as well. Corporates need to form their own view on what they can and cannot do because their entities' structures, their location, the way they fund themselves, the way they borrow between entities, all have profound tax and cost implications.

John Laurens, DBS: I'd echo these sentiments, the key word is advisory. In the transaction banking space, if you are not engaging your clients in an advisory capacity today, then you are not going to be delivering value to your customers or competing very effectively in the market. It is what customers are looking for.

Di Challenor, J.P. Morgan: There's a lot of conversations about transaction banking becoming commoditised but I don't believe it is. Being a trusted advisor means treasurers should be able to look us in the eye and know that we will treat their business like it's our own and always deliver what they need to the highest possible standards. I don't believe you can commoditise this.

them through multiple channels. Nevertheless, treasurers also need to have an independent perspective.

Di Challenor, J.P. Morgan: A bank's compliance department can add a tremendous amount of value in these conversations as they help us to navigate through the regulations. However, we have to be careful because while we can advise our clients, we don't have the fiduciary responsibility to make decisions for clients.

It is a difficult line to walk, isn't it?

Di Challenor, J.P. Morgan: It is a difficult line. The securities business has done this effectively for a number of years as they have had people who are able to advise their clients around what is happening in various settlement systems and what's happening on securities.

I think the cash management industry needs to step up in this area and offer further advisory services. We have the access to regulators that clients don't necessarily have, so they increasingly look to us for advice. This is especially true in markets like China where banks are key to any proposition – regardless of cross-border sweeps, two-way structures, or a cross-border loan – the regulator would want to see the corporate and their bank. It can be a fine line.

We touched on cyber-security which is an important element in trust and that is something we should discuss.

Di Challenor, J.P. Morgan: Cyber-security can be broken into two components: cyber-attacks and wire fraud. Wire fraud has become much more prevalent. We used to be more concerned about manual payments but now we spend a significant amount of time ensuring that our straight-through payments are safe.

We are starting to see banks come together in the US to discuss this, which is a very positive development. I would like to see greater collaboration in Asia where we can hold these conversations and share best practice as to how to mitigate cyber threats. It is also vital that we work to educate corporates and each other as an industry. Protecting the industry is critical.

Carole Berndt, ANZ: One must also consider that often when a corporate has suffered cyber-attacks there is a large element of human error. So, yes, we must make sure that systems are safe and secure. But, there does need to be an increase in ownership and awareness around the manual processes and the people management that makes the technology to protect corporates from cyber-crime. This whole debate is as much about human behaviours as it is about systems and technologies and these very sophisticated scams.

John Laurens, DBS: Education is vital. The majority of wire fraud that is identified is caught typically because something has been spotted as being unusual or out of the ordinary. The more that banks can do to heighten awareness in this regard is vital. It is not just a technological-driven solution set. There is also a human aspect to it.

Carole Berndt, ANZ: To be a contrarian, we talk about mobile technology. Is a treasurer really going to sit on the tube on a Monday morning and be on their mobile phone to rush through authorising payments? Because that is going to increase the potential for them to miss these nuances and patterns. It is an interesting debate, technology is going to make treasurers more mobile but, if not implemented correctly, it is also going to expose a lot more, I believe.

Ivo Distelbrink, BofAML: We have a responsibility right now to educate our clients around cyber-fraud and cyber-security. Many clients just still do not have the understanding and the awareness over where and how cyber-fraud can enter into their systems. Moreover, some of the younger generation just don't care; they are digitising their entire lives and they have no issue with digitising money as much as they digitise their social life and everything else around them. I believe we have a responsibility to educate those who do not know or do not care. There is a responsibility to educate those who aren't yet fully aware. It's an ongoing effort. It's important.

Amol Gupte, Citi: While banks have taken significant steps to bolster cyber-security efforts, they will continue to be challenged by the speed of technological change and the increasingly sophisticated nature of threats. Acting quickly against cyber-crime is essential. One way Citi does this is through the use of the "cyber-kill chain" methodology. The methodology enables us to tag information as it is collected so that we can identify an attack in the earliest stages – when an attacker is trying to discover a vulnerable spot in a particular system. By identifying and countering an attack early, we are able to mitigate the threat before it fully develops, and also use the information gained to spot future threats.

There's a lot of advisory work going on here as part of the client relationship.

Di Challenor, J.P. Morgan: It's certainly one of the best parts of the job.

Carole Berndt, ANZ: And as our industry evolves, you have got a commodity product. You try and add value. You try and move up the value chain. And that is what we are all doing.

Amol Gupte, Citi: But it is not a commodity product. I mean I always tell everyone, commodity industries you work at 2% and 3% margins. This industry is not working at 3% margins.

John Laurens, DBS: Proprietors and treasurers of SMEs are just as interested. There is a lot being done in terms of providing advisory through a number of different channels, such as through social networking to share information and best practices. Advisory at a large corporate level requires bespoke one-to-one engagement with the treasurer, but there's no less importance and demand from SMEs for mass market packaged advisory. This could range from online working capital advisory services through to networking events.

Di Challenor, J.P. Morgan: I would love to hear from the three of you about how important the advisory piece is down at MME/SME level. Is there that real desire for information around fraud?

Amol Gupte, Citi: Huge.

John Laurens, DBS: Absolutely.

Di Challenor, J.P. Morgan: Are you seeing it more in that space versus your large corporates?

Amol Gupte, Citi: I wouldn't say it is different but, I just think that the relationship value for advisory in that segment is significantly high.

John Laurens, DBS: And they are smaller, so they have fewer avenues, such as associations, available for them to access information. The role of a banking partner, therefore, is arguably more important.

Carole Berndt, ANZ: You can't just be advisory in this relationship. There are some basic capabilities you have to bring to the table and, when I think about our value proposition to clients, it really is to deliver mobility, security and value for their cash. And that's part transaction and it is part advisory.

We talked earlier about the need to stay abreast of developments in terms of of regulations. Something that is particularly important in China. What would your advice be to companies operating in China?

Carole Berndt, ANZ: I recently visited China for the first time in a business context for eight years. And what surprised me the most was how normal it has become. It doesn't look or feel as different any more. Also in some of the key areas we have discussed – such as the mobility of cash and security of cash – it has become very similar to experiences found in other countries.

In Europe, you hear a lot of noise about the slowdown of China. But, we are talking about a slowdown to 6% in one of the world's largest economies. Europe's been living in stagnant growth for a long time. So despite this I don't think China is any less relevant than it was before. I think it is very important for corporates whose business requires them to be there and to be relevant there. I think the banking environment has changed a lot. But it is becoming, to a degree, mainstream and I think the story now turns to some of the emerging Asian countries and regions like the Greater Mekong.

John Laurens, DBS: Although given the extent of change and change that's to come, I do not think we can yet refer to doing business in China as normal.

Carole Berndt, ANZ: Near normal. In the sense that it is clearly heading on that path in terms of its structural changes and as it moves from a centrally controlled economy to a market-based economy and in the way in which it allocates capital in that market.

As we have seen in recent months this has created hiccups along the way, and it will continue to do so. In terms of working with customers in China, corporates need to be particularly aware of who their commercial counterparties are and be very rigorous in terms of selection.

Amol Gupte, Citi: I think China is at a very early stage of its journey. If you consider what is happening with the RMB and its evolution, it can be viewed in three stages. One is just making the RMB a trade currency. That box is checked and it has happened. A quarter of Chinese imports and exports are already denominated in RMB. The second stage is capital convertibility. That is still at an infant stage. The third phase is the currency becoming a reserve currency, and with the inclusion of the RMB into the SDR currency basket, this stage is also beginning to evolve.

More broadly, if you consider what is happening domestically, interest rates have been relaxed, and will slowly be liberalised in practice. Interest rate liberalisation will curb the shadow banking industry, which arose because companies couldn't get any yield on their deposits with banks.

All of this is going to change, and to John's point, China is going to become a far more market-oriented economy and as all of that happens it has massive implications for our corporate clients. So I think it is incredibly important to stay very close and up-to-date on what you can do and what you cannot do in that market.

Di Challenor, J.P. Morgan: Yes, I agree, it is early stages. When you go through capital account convertibility with clients and begin to execute against that, the outcome can be very different to what you expected initially because the interpretation by various government circles around the country or the various agencies you deal with, can change. It is very complex.

Amol Gupte, Citi: It is a massive market, right? For many multinationals, it is larger than their home market.

Di Challenor, J.P. Morgan: They have got more cash there than they have elsewhere.

Carole Berndt, ANZ: Trapped cash.

Di Challenor, J.P. Morgan: But, in China, technology is not being applied as readily as in other markets such as India where we are seeing huge steps being taken around the clearing system.

John Laurens, DBS: The whole e-commerce environment in China is just exploding and the extent of payment flows and opportunities coming on the back of this is huge. So, in my view, we have seen a considerable amount of technology adopted in China and this will continue. I see China playing a leading role in that respect globally.

Overall, what is happening in China is remarkable. China is doing exactly what the world is asking of it, from progressing its export-led manufacturing industries to developing its services economy or building out its middle classes to further drive domestic wealth creation. Clearly, such progression drives structural changes and market volatility along the way, but the opportunity for corporates is very significant going forward. You have to take a longer-term view.

Also, on the other hand, something we must not lose sight of, is Chinese multinationals expanding out across the world. The 'One Belt, One Road' is a new phase of development for the transaction banking industry globally, as Chinese corporates head outside of China taking the so called "redback" with them as they invest in and develop their businesses globally. It's a hugely exciting time to be working with Chinese MNCs.

Ivo Distelbrink, BofAML: I absolutely agree with that. There is still a lot of misinformation and misunderstanding around China. Chinese business, Chinese culture and the Chinese view are still poorly understood. But, the Chinese are very pragmatic and absolutely committed to the financial and institutional reforms required to continue to make this transition and the transition under way, as John mentioned, is massive.

For one, the way the Chinese are embracing technology and their digital economy is market-leading in many ways. Many of our traditional GDP growth measures are failing to capture the transformation that China is going through. I think China is doing all the right things and I believe that China will remain a very exciting growth market for very many years to come for our clients.

What about the trends in trade? Is there anything new to say?

John Laurens, DBS: For me, it would be the acceleration from traditional trade to open account trade and supply chain finance, which is gathering pace. The really interesting thing

that may happen in the trade space, if you like, the Holy Grail for trade, is its long awaited dematerialisation. Distributed ledger technology could open the way to finally grasp the Holy Grail of widespread digitised trade, something that has been talked about for decades with little substantive progress. But that's a subject in its own right.

Amol Gupte, Citi: I would say we need to look at a longer period of history, around the last ten years. You have had intra-Asian trade go from 40% to 60%. It is a big shift. So 40% of all Asian trade went into Asia, that 40% has gone to 60% which means a lot of Asian companies have gone global and in this process it is just natural to go to your neighbouring proximity markets first, rather than going far away. And that has driven this whole phenomenon of intra-Asian trade. On the back of intra-Asian trade, you have a lot of local and regional banks who have followed those clients.

And if you think about the transaction banking business, I think about it at two levels. One is the cash business with extremely high entry values, and you think about that plain vanilla trade business it has got incredibly low entry barriers. You can just walk in with a lot of cheap capital on the table, which is what a lot of banks have done in the last ten years, and built a lot of really poor returning trade books. My view is we will now see a transition in terms of where these banks get far more focused on returns. And I think to John's point, banks will focus more on the high value-added, the more intellectual property side of the business which is the whole understanding client ecosystems, doing more supply chain. We are entering a period of change in my view in the way trade is done in the region.

Carole Berndt, ANZ: We are a very large trade bank and very focused on the corridors that support our clients' activity. But if I was to say one thing about trade, I think Amol's point around returns is very important. I think we are seeing a fundamental shift from trade being used as a funding vehicle to increasingly being used as a risk management vehicle, and particularly as it relates to supply chains and business continuity.

As a corporate plans for the years ahead in APAC, what should they be doing and thinking? In a few words, what is your advice?

Ivo Distelbrink, BofAML: Think big. The world is old, indebted and unequal. APAC is diverse, dynamic, innovative and competitive.

John Laurens, DBS: We remain at the very beginning of the Asian century and, despite recent slowdowns and market volatility, Asia will remain the centre of global economic growth. This is driven by the size of population in the region, the demographics of that population, continued massive urbanisation, investment in infrastructure and the creation of wealth and the middle classes.

If you have a global growth strategy, you need to be in Asia. My view would be to pay close attention to these macro trends and invest in them. Asia is where the growth will continue to be. Corporates should choose their transaction banker carefully, and ensure it is one that is deeply committed and knows the region.

Di Challenor, J.P. Morgan: For me, the key is around embracing technology. The average age in India is under 30, so it's essential that you examine whether you have the right strategy in place to capture that wallet. You need to be conducting business in these countries if you are to have a long-term future in the region. I have been in Hong Kong almost 12 years and in this time, it is amazing how much it has changed and what our clients are now thinking about doing in the region.

Banks, however, do need to come together to deal with various threats in our industry around cyber-security and corporates should be challenging banks to work together on these matters. Corporate treasurers should also be challenging their banks to adopt new technology and drive SWIFT in a way that enables inter-operability, not just between banks but across countries. That is where I truly believe we have to go.

It is often asked if Asia will ever become like EMEA and I always answer 'no'. But, why have we not used technology to drive the same advantages that corporates have received in EMEA? I would say that corporates need to be pushing their banks to do more.

Carole Berndt, ANZ: All the points around Asia continuing to be very relevant and important to most corporates are absolutely valid. But, Asia is not just one homogenous group of countries; it is really three distinct regions. Greater China is one that we have talked a lot about. We have also talked a bit about India. I would also advise corporates to keep an eye on some of the emerging ASEAN countries. What was once made in China is now made in Cambodia, made in Laos, or other emerging economies. So it is vital to keep an eye on these.

The point about technology is also extremely important and it is vital to be nimble in that context, because it is the best tool corporates have to protect them against the headwinds. Treasurers need to work out who their best friends are and to build strong relationships with banks that are investing in the geographies that are important to their business. If corporates do that, I think they will put themselves in a safe place in terms of business continuity, and ensuring the mobility and security of their cash.

Amol Gupte, Citi: A lot of valid points have already been made but I would like to highlight that Asia follows a secular trend and it is well on the way in this respect. For example, in the 1980s Asia's contribution to world GDP was 15%. It is now 25%. In another 35 years, it will be half of the world's GDP; this is a vast development. So when I think of what is happening right now and the turbulence in the region, it is not a big air pocket and it will pass.

Overall, when I think about the change currently occurring – whether it is on technology, whether it is what is happening in terms of digital money, regulatory changes, currencies, buying behaviours, business models, e-commerce – I truly believe that it is a fantastic time for corporates to actually double down and invest for what looks to be a very bright future in the region.

Many thanks to you all for participating.

ANZ Bank of America Merrill Lynch citi DBS J.P.Morgan

Cash flow forecasting is crucial to managing the financial health of a company and as such, it has remained at the top of the corporate agenda for some time now. But it can be one of the most frustrating tasks, partly because of inaccurate and untimely reporting from different business units. Is a simple or sophisticated approach best? Can technology make the job easier? Treasury Today goes back to basics to answer these questions and more.

A large part of the treasurers' remit involves ensuring liquidity is managed well, in addition to cash being used dynamically as an asset of a business. At the point of consumption, cash should be where it is needed and available in the currency required; if there is surplus cash, it should be used to either meet shortfalls elsewhere in the company or be invested to earn a good rate of return. "These requirements are best supported through a combination of defined processes which support policy, people with the required skills to implement these and products (technology solutions) which facilitate accurate and timely projections of cash flows within a company," says Kevin Grant, Member of the Executive Board at Hanse Orga.

But cash flow forecasting is notoriously problematic: variability in the amounts, currencies and timing of cash flows, as well as the impact of those changes which are unpredictable (market prices for commodities and FX rates and interest rates, for instance). The intrinsic issues related to the business – its infrastructure, business model and geographical spread – are also of consideration.

It's not difficult to see why the task throws up many problems but, given its importance, cash flow forecasting must be become a finely-tuned practice for the corporate treasury department. "If you don't forecast, then you're not in a position to really understand with any level of confidence what decisions the business needs to be making," clarifies Bob Stark, VP Strategy at Kyriba, a leader in cloud-based TMSs. Corporates understand the importance of the process, however. "Cash flow forecasting is one of the highest initiatives on the corporate agenda and this has been the case for many years."

Cash forecasting: a checklist

In addition to making use of the technology on offer, the best way to improve cash forecasting, according to Treasury Alliance Group, is to evaluate the current process against four other best practices of cash forecasting.

Simplicity. A cash forecast requires two pieces of accurate information: the amount of cash on hand and the amount to be received net of expenses. Add the dimensions of time and currency; when will the cash be received, and in what currency and you have a reasonable and very effective cash forecast.

Cooperation. Good quality forecasting input is the primary determinant of a good quality forecast. And the quality of the input is in the hands of your business partners. Building trust is therefore an important step in this process.

Communication. Forecasting in a global company adds the challenge of multiple currencies, language and culture. It is critical that all business units adopt common definitions in the cash forecasting process.

Structure. Cash forecasting problems arise when business units lose faith in central treasury's ability to respond to their urgent funding needs in a timely manner. They respond with excessive caution in forecasting receipts and even hold onto their own cash reserves, diluting the accuracy and value of the forecast. The solution is to have an efficient account structure serviced by a reliable network of banks.

The process

Treasurers are required, above all else, to know where their company's funds are, and why they are there. After all, the assurance is needed that if some unfortunate – and unexpected – incident occurs, the cash supplies will not fall short. What's more, forecasting is increasingly important in determining the investment strategy of a company.
These factors entail active oversight. Cash flow forecasting, therefore, requires a myriad of different technology systems and applications, including accounting, treasury management systems (TMS), enterprise resource planning (ERP), spreadsheets and emails to (somehow) present a consistent and integrated view. Only then can the questions such as 'how much cash does the company have?' or 'what is the cash flow over the past six months in a certain subsidiary or currency?' be answered with any degree of certainty. But the data sources – including details of thousands of customers and potentially hundreds of bank accounts – are held in multiple places and systems. Consequently, the first step towards accurate forecasting is to establish a single source of the truth.

A complete picture

Gaining visibility of cash positions for all subsidiaries within a group was frequently mentioned as a challenge by respondents to a recent Treasury Today European Corporate Treasury Benchmarking Study. Some corporates noted improvements made through introducing short-term cash flow forecasting for pool participants, moving away from manual payments and replacing local online banking solutions with centralised collection of bank statements, for instance. And although technology plays a critical role in forecasting, some respondents to Treasury Today's Benchmarking Study said that they were 'trying to obtain the most value out of the data and technology that [they] already have'. Grant adds: "If a corporate is moving away from spreadsheets to use systems in an integrated way to pull cash information together from numerous sources – that, historically, has been quite complicated to achieve."

The products

What solutions are available to corporates, to ease the strain, then? At Hanse Orga, for instance, a SAP-integrated cash flow forecasting solution is offered which takes into consideration a considerable amount of "master data" to generate relevant forecasts. "There may be underlying data in other modules of SAP which we bring together to give clients a consolidated picture of the company's short to medium term cash requirements," explains Grant. Hans-Gerd Riediger, Solutions Architect at Hanse Orga uses the example of accounting data: "We incorporate accounts receivables, accounts payable, payment data and payment behaviour – information that is typically used for accounting purposes – in the forecast." Data from some sources external to SAP can also be imported.

According to Kyriba's Stark, asides from systems allowing you to build a forecast, technology also affords you the benefit of "measuring the effectiveness or accuracy of that forecast". Although Microsoft's Excel application boasts simplicity and low costs, the software's dependency on the human aspect of the data collection and input required leaves it open to error. The case against the use of spreadsheets in cash forecasting is bigger than that, though. "What treasurers find out pretty quickly with spreadsheets is that – never mind being a lot of work and having the potential for error – the mechanics of what they need to do are beyond Excel's ability," says Stark. Treasurers want to be able to monitor the accuracy of forecasts by comparing historic flows anticipated against the actual flows the business is experiencing. For this part, there is a reliability gained by using products that reconcile how accurate forecasting mechanisms are, compared to spreadsheets that don't allow automated process monitoring to take place. Systems are most often connected via the internet allowing subsidiaries to enter data required for forecasting into one database which can be analysed centrally.

All of the leading treasury vendors offer cash flow forecasting within their treasury systems. SunGard, for instance, offers integrated cash flow forecasting with its CashPredictor integrated within its AvantGard product to provide real-time visibility on cash positions globally in a user-friendly manner accessible to all treasury staff. Likewise, Wall Street Systems incorporate a cash flow forecasting system into their Wall Street Suite which enables functionality between business entities, and allows subsidiaries to submit the forecast directly to the treasury on a timely basis.

Kyriba have web-based applications such as KyribaTi that are available through partnered financial institutions, and offer cash

flow forecasting and other treasury management solutions over the internet too. "As opposed to Excel, you can use flexible data sources – from overseas for remote offices, from regional controllers or historical information, for instance – to ensure you are not constrained by your model," says Stark. Treasurers can then understand how accurate their company's forecasting processes are – and adapt accordingly. "A system offers all of these things: the automation as opposed to manually creating formulas and the ability for data analytics to measure the effectiveness of the forecast."

What's more, "technology vendors will hold discussions based on a company's individual needs – including what the business life cycle is and what IT infrastructure is currently in place – in order to find the best solution" says Riediger. The resounding advice: to embrace technology and make it work for you. This means it must be calibrated for your organisation as there could be a lot of technological power that isn't being used to its full potential. Other tips include:

- **Integrate systems.** The more operational systems you can integrate as sources, the better the forecast will be. This means the systems in place need to be able to 'speak' to each other.
- **Automate (as much as possible).** The procurement of cash balances on a daily basis for all accounts, for instance, should be automated.
- **Define the terminology.** The difference between short-, medium- and long-term forecasts, their parameters and usage should be understood by all subsidiaries involved.
- **Ensure processes are standardised.** Employees must be able – and willing – to follow corporate policy. In order to capture the data needed for analysis, all subsidiaries must be following the same practices.
- **Maximise internal relationships.** Efficient cash flow forecasting means working closely with planning and budgeting to ensure both profit and loss cash perspectives are generated. Maintaining good relationships within the business will help guarantee updated forecasts are reported.
- **Request feedback.** Going back to the subsidiaries to give, and receive, feedback will help fine-tune the process. This will give you an idea of how well subsidiaries have done – think about attaching a KPI measure to cash flow forecasting to incentivise improvement to information.
- **Make people accountable.** It is sometimes advised that, in order to avoid the task becoming a cut and paste job with inevitable errors, people should be held accountable for forecasting errors.

Operating in a cost effective manner

For those who need to make the key business decisions, having a solution that enables access to a complete picture of cash is one of foremost benefits. But the value of a forecast is beyond just saving the time and effort of going to multiple data points. "It's about doing the forecast properly which yields the ability to make better decisions," says Stark. For example, if a company has excess cash, being able to put that to better use and earn returns or, if in a borrowing situation, being able to borrow more effectively – getting better rates or looking at different sources of capital, perhaps.

Hedging programmes can also be that bit more effective as treasurers are in a better place to protect and predict what the cash flows are going to be. As Stark says: "If you don't have good opportunity to project what those cash flows in foreign currencies are going to be, then you're subject to the roller-coaster of volatility."

In addition to benefits felt across investing, borrowing and FX management, there is a case for a fourth benefit in terms of cash mobility, according to Stark. When companies have different pools of cash globally, treasurers will want to optimise the use of these pools. Improved cash flow forecasting and visibility makes sure cash can be mobilised and deployed in the areas of the organisation where it is needed, hence preventing pockets of cash remaining unleveraged.

> The resounding advice: to embrace technology and make it work for you. This means it must be calibrated for your organisation as there could be a lot of technological power that isn't being used to its full potential.

Further spinoffs of cash forecasting projects include understanding the (often complex) bank account structure within a company and the possibility of embracing supply chain finance solutions, comments Hanse Orga's Grant. "eBam applications can offer significant improvements around the administration and bank fee analysis of the companies in-country bank accounts; any cash forecasting system must begin with bank account visibility. With improved cash forecasting you can start to consider the return you receive on surplus cash held at the account level, compared to improved returns available by actively using this cash. An example would be to consider shortening your DPO in return for a discount on the accounts payable invoice value which could be quite a compelling proposition in the world of ultra-low interest levels we see today." As briefly explained above, if cash needs are not going to be met by the cash flow into the organisation, advance notice can also ensure treasurers borrow cash at a lower cost than may be required if they just look at short-term funding instruments.

Overcoming issues

The case for specialised software has certainly increased over recent years but regardless of the technology implemented, there are still some issues that need to be addressed when it comes to liquidity forecasts. One of the major factors that affects the accuracy of forecasts is the communication of inaccurate figures from departments and subsidiaries.

Without a doubt, however, the benefits of getting the process right are recognised by corporates. "Ten years ago, CFOs and treasurers would come to us and ask what we could do for them in terms of cash flow forecasting. Now, they know the answer and what they want to accomplish. They just want to make sure they have the best tools in front of them," explains Stark. It isn't a matter of education, but rather how to fine-tune the process which is so vital for cost effective business.

Coping with a scandal

In the first of our new series asking corporates to consider various situations, Treasury Today takes a closer look at how companies can prepare for the worst. When news of a scandal hits, much of the focus gathers around the main offenders, but what about those left holding the reins? Managing the short-term reputation is just the start, as the treasurer is relied upon to keep on top of the reverberations in a rapidly changing environment.

As the recent plight of German automobile maker Volkswagen reminds us, the potential financial consequences that can be wrought when a scandal erupts are very severe. When the company admitted, in the autumn of 2015, that it had falsified US emission tests the headlines looked bad and the numbers even worse. In just a matter of days, the company's share price had plunged by almost 20%, the company's credit rating outlook was cut by Moody's to negative leading to higher borrowing costs, and anticipating weaker cash flow and higher leverage metrics.

What began as a scandal emanating from Volkswagen's research and development (R&D) function, therefore, soon became a matter the company's CFO, treasurer and other financial executives had to address. As Shannon Wilkinson, CEO of Reputation Communications, a leading online reputation management firm comments: "Reputation impacts every area of a company's value from profits to opportunities."

But while, in such circumstances, corporate finance teams may feel as though they are at the mercy of events, history tells us that how they and the rest of the corporate leadership respond will play a big role in determining the company's fate. When scandals hit, the outlook in the near-term is inevitably gloomy. Companies can – and do – bounce back though. In this article, we will look at a few of the things that can make the difference.

Who is at fault?

Often transgressions come to light in business which are confined to the actions of a few, culpable individuals. Clearly, the onus then falls to the rest of the company to show that this behaviour is not widespread and will not be tolerated. This means cooperating with authorities to ensure the efficient prosecution of those involved. As Ed deHaan, Assistant Professor at Stanford Graduate Business School, tells Treasury Today, in scandals where

senior executives find themselves implicated, "getting new leadership at the helm is critical in setting a new tone for the company." It does not always work. American Apparel has just gone bankrupt in the US over a year after ousting Dov Charney as the CEO.

Naturally, the corporate workforce often find their working world turned upside down when those at the top are stripped of all authority amongst claims of malevolence. Re-establishing lines of trusted communication, uniting departments and maintaining brand value, each present challenges. "Scandals create internal turmoil which can in turn prevent action. The longer an organisation takes to address this, the more likely it is that they will see a hornet's nest forming," says Reputation Communications' Wilkinson.

The aim is for the whole company to avoid being defined by the mistakes and offences of a few 'bad apples'. All eyes will be on the top executives' first public appearance; Michael Horn, Volkswagen's Chief Executive in the US, took the opportunity to admit that the company "totally screwed up" by cheating on vehicle emissions tests, for example. Expressing genuine contrition and setting out, unambiguously what measures will be taken to redress the situation goes a long way to restore public confidence – something which holds true even in scandals that don't originate from within the company itself.

Restoring trust

There have been countless examples down the years of companies whose reputations have been undermined by events beyond their influence. Back in 1982, for instance, the leading pain-killer (Tylenol) Johnson & Johnson (J&J) were selling in the US at the time had been tampered with; an unknown suspect or suspects having added 65 milligrams of cyanide into the capsules. Seven people in Chicago died, allegedly as a result of taking extra-strength Tylenol capsules. Once the connection between these deaths and Tylenol was made, J&J were left to solve the crisis, in a way they hoped would minimise any financial or reputational damage.

Following prior-established guidelines, the company assumed responsibility for the product, ensuring the safety of consumers and medical professionals using its products as well as the employees and stockholders by conducting an immediate product recall. This amounted to around 31m bottles and a loss of over $100m for the company. That may have been a heavy financial burden to bear, but the measures were key to the restoration of public confidence in the brand.

Indeed, the influence trust levels between companies and consumers have on commercial success should not be underestimated. "There is asymmetry of information where the general public doesn't know what type of people the managers are, what their intentions are and whether the company intends on following through with the things they've committed to – whether it be delivering high quality products or financial statements. We have to trust companies on these sorts of things," says deHaan. If that company is highly reputable and the public believes it will ensure the delivery of its commitments – whether this involves third parties or not – then they get a premium in the market, he explains.

The weak link

J&J managed to re-introduce the Tylenol product by having triple-seal tamper resistant packaging, offering promotions and conducting presentations to restore confidence within the medical community. The tale does highlight, however, the need for corporates to take a proactive role in ensuring products that are associated with their company meet international safety and quality standards.

This isn't a problem of the past, as numerous examples from within the last ten years attest: lead paint found in Mattel's children's toy in the US, Nike's association with sweatshops, illegally-sourced plywood produce sold in Wickes and B&Q UK stores and contaminated milk in China. Supply chains today are increasingly large and opaque and, as such, reputational risks are increasingly elevated.

Wherever products are manufactured, it is the corporates' responsibility to understand the origin of products and minimise the risk of supply chain scandals. Knowing who your partners, suppliers and employees are is a necessary part of due diligence and taking every precaution when evaluating prospective business partners is essential.

When operating in countries which are less transparent, a heightened awareness about the potential pitfalls to avoid and local practices and laws is going to be necessary. Knowing what is (and isn't) required within a country will eliminate the chance of unwelcome surprises. In other words, the potential of product scandal necessitates greater vigilance and active management at all points of the supply chain. "To the extent that you can take steps to avoid having a scandal to begin with, clearly that is going to produce a better outcome. Prevention is the best medicine," explains deHaan.

Riding the storm

Should the worst happen, investors will be weighing up the costs of staying in or joining the stampede that could be destroying their assets. Not only that, but the larger public will be rapidly forming opinions which could create a much broader fallout. Acting responsibly during this time is crucial for businesses. A 2014 study, 'Reputation Repair after a Serious Restatement', by Jivas Chakravarthy, Ed deHaan and Shivaram Rajgopal explored the financial importance of repairing a company's reputation with what the report calls "softer constituencies" – customers, employees and local communities, for instance. The results: people care when a tarnished company attempts to rebuild its reputation with goodwill gestures.

After announcing intentional accounting misreporting, the 94 companies in the study sharply increased the amount of reputation strengthening actions aimed at investors. This included: improving internal controls, a change in incentive programmes and announcing replacement of senior executives. But what the study found was that companies also reached out to non-financial stakeholders – in fact, 51% of efforts were focused on these softer constitutions. And the rewards were substantial; the researchers estimated that announcements of actions to repair and enhance the reputation of companies lifted share prices by 2% on average. "You must take a multi-stakeholder view of your company. A common mistake is focusing too narrowly on satisfying the regulators, investors and lenders," says deHaan. Researchers describe 'reputation capital' as a genuine – albeit intangible – financial asset that is embedded in a company's market value.

Reputation Communications' Wilkinson says that 'transparency' and 'authenticity' are the key when it comes to

protecting one's reputation in the midst of a scandal: "Immediately acknowledge the scandal and share as much information as you can. Investigate what led to the crisis and share your findings with the public, as well as the steps you are taking to resolve the underlying issues. According to her, there are lessons to be learnt from the examples of the past. "Study the strategies of companies who have successfully navigated a major crisis, as well as common downfalls." Whereas J&J quickly responded with a plan of action, Exxon was very slow and inefficient in its management of the notorious 1989 Exxon Valdez oil spill in Alaska and it had a (well-reported) devastating effect on the company. Exxon's chairman at the time, Lawrence Rawl, didn't fly to Alaska until two weeks after the event. He sent a succesion of lower ranking executives and efforts to help the local community were delayed. Such occurrences suggest to the public that a company doesn't consider an incident a genuine concern. As corporate scandals go, this is often referred to as one of the worst. The problem for companies seeking to avoid similar damage to reputation is: "Even very large organisations that have communications departments don't necessarily have five or six crisis managers sat around waiting for the next crisis. They are not going to have the current knowledge of how a scandal is best managed," says Nigel Pearson, Global Head of Fidelity at Allianz Global Corporate & Specialty (AGCS).

In the public eye

Part of the problem is that companies are often slow to react, then. And, in a digital age where news spreads like wildfire, quicker and quicker responses are necessary. This is evidenced from research from legal firm, Freshfields Bruckhaus Deringer, which revealed that news of more than one-quarter of crises – including senior employee misconduct and bribery and corruption – spreads to international media within an hour and over two-thirds within 24 hours. As Kweku Adoboli, a trader convicted of fraud after losing $2.3bn at UBS, remarked in a letter dated June 2014 to a journalist at the Financial Times: "No-one in finance ever realises how close they are to the imaginary, transitory red line until they cross it and get smashed in the face by a million camera lenses."

Behavioural crises (illegal or questionable by the company or employees, like the Adoboli example) were the fastest to spread through social media, over 40% within the hour. And because, as Wilkinson explains, "consumers, investors, prospective partners and journalists now conduct their research about companies, products and industry leaders online," the role the media plays has an increasingly immediate knock-on effect on the value, revenue and operations of business which can be felt for a considerable time afterwards. According to Freshfields, 53% of companies had not seen share prices regain pre-crisis levels.

"If you wait until the media are leading the charge then you are going to be playing catch up when what you should be doing is establishing the message, rather than responding to it," explains Stanford Graduate Business School's deHaan. The interest in crises is certainly growing too as The Wall Street Journal's 'Crisis of the Week' column illustrates only too well. Here, experts comment on current high-profile crises stories.

The recent TalkTalk scandal in the UK inovolved financial details of subscribers being hacked. There was zero transparency in the immediate aftermath and this is a good proof of the effectiveness of Wilkinson's advice – had they have been more open more readily with their consumers it would have lessened the crisis.

Counting the cost

For the treasurer, the direct impact of a scandal means there is a need for tools to assess levels of financial impact, and, ultimately, to work out where the money will come from to cover legal fees, damages incurred, the potential use of other external experts, severance packages and so on.

When these sums become very substantial they can wreak havoc on cash flow and forecasts. Referring back to the recent example of Volkswagen, it is reported that the company has set aside €6.5bn to cover the costs of the scandal. Some analysts have claimed it could cost more, however. Credit Suisse's most conservative estimate, for instance, is around €23bn – and according to the company's latest earnings statement, it has €21.5bn cash on hand. It has been suggested that the group may sell off some brands (for instance, its supercar brands, Bugatti and Lamborghini) to raise capital; although Volkswagen has a fairly robust balance sheet, a capital raise is likely. What's more, companies embroiled in scandal must brace themselves for a hit to sales and prices.

Referring to deHaan's earlier comment that prevention is the best medicine, for some companies with the resources to do so, it may be possible, to an extent, to prepare oneself in advance for a scandal. Allianz, for instance, offer a stand-alone reputation insurance product. Pearson describes the approach as "aggressive mitigation." Rather than trying to value a reputation, discover how much it's been damaged and then indemnify for the damage. "The solution tries to deal with the reputational crisis as its developing and aggressively manage it in such a way that we can limit the downside," he says. "There's no consensus on how you value a reputation globally anyway." Allianz Reputation Product works with global partners who are professionals at managing crises (expertise which can be of value since crises, by their very nature tend to be intermittent, isolated events and therefore those responsible for dealing with are often inexperienced). "Large media organisations that have reputational management divisions will help our insureds when crisis happens and we are looking for them to do that within the first 24 hours." The value being, that corporates gain access to people who are used to managing ten or more crises a year, as well as a €10m limit towards media spending.

Although by and large they are unpredictable events, corporates can also take steps to think about the risks their company faces. "BP, for instance, could imagine the possibility of another major oil spill so they can produce a contingency plan including information such as who will be leading the recovery. There is some amount of pre-emptive work that can be done when it's an obvious risk," explains Stanford Graduate Business School's deHaan. It does depend on the nature of the company's business however, but can you afford not to explore the possibility?

As Pearson concludes, "if companies genuinely stress tested their response plan, they might be surprised and they might also look at what's available for them in terms of aggressive mitigation." Forces beyond our control have a habit of manifesting themselves, from time to time, but we can still determine how well we respond when such nightmare scenarios become a reality.

A matter of policy

If a treasury investment policy has not changed to reflect the 'new normal' of regulatory reform, market volatility and struggling interest rates, then something is very wrong. Treasury Today looks at the processes involved in establishing an investment policy that is fit for purpose.

With regulatory reforms in the money market fund (MMF) space and the far-reaching implications of Basel III making their mark on the financial community, corporate investments are facing the kind of pressures now that warrant very close attention. This attention must inevitably extend to investment policy as treasurers struggle with an unprecedented period of low interest rates across the major currencies that shows little sign of lifting anytime soon.

"It's clearly an extremely challenging environment," says Roger Merritt, Managing Director, Fitch Ratings. "I cannot think of a time, certainly in the past 25 years, that treasurers have faced so many different challenges at the same time with regards to how they can effectively manage their liquidity."

Back in April 2015, Fitch Ratings published a report suggesting that if treasurers are not already looking at a policy review in this context, then they really should be. The report said that it is high time for "a proactive, strategic update of investment guidelines" and that corporate investors should give particular thought to future changes in cash management products and ratings coverage. "If the world of cash management is changing and the products that you are used to investing in are not available any more – or perhaps not available to the same degree – then flexibility with regard to the type of products that fit with your investment guidelines is important," Merritt explains.

The balance of yield versus liquidity versus the inevitable cost of carry that holding cash incurs is an unenviable task. It is thus the role of an appropriate investment policy, in the words of the Association of Corporate Treasurers (ACT) Handbook, to "encapsulate how a company's risk appetite translates into practical objectives and rules". This appetite will be determined by a number of factors including the nature of the industry within which it operates, the strategic direction of the company itself and the resources available to manage risk (both in terms of skill and experience of its personnel, and its ability to absorb any losses).

Think again

There are three areas treasurers may wish to focus on when revising policy, says Hugo Parry-Wingfield, EMEA Head of Liquidity Product at HSBC Global Asset Management. First, as ratings agencies continue to review and in some cases downgrade banks, corporates should be thinking about whether polices do indeed remain 'fit for purpose'. "Companies should not simply adjust their criteria downward in response," says Parry-Wingfield, "rather there should be a deep analysis to decide whether they have the right – and sufficient – counterparties."

The second area for consideration is the investment products referenced in an investment policy. If the ability to place some short-term deposits with banks is becoming limited, then perhaps treasury needs to explore if other instruments are needed, such as MMFs or direct securities (see the section 'Try something new', opposite).

Finally, in light of Basel III and the introduction of the LCR, corporates should also be thinking about how their investment policies define their liquidity profile. "The treasurer should now be reviewing what liquidity they really need to run the business. There is always an opportunity cost to holding too much liquidity but we believe that is going to be accentuated in the months to come," adds Parry-Wingfield.

As part of its Treasury Leadership series of videos, J.P. Morgan's 'Is Your Investment Policy Holding You Back?' provided viewers with some thoughts on structuring an appropriate investment policy. Jose Franco, J.P. Morgan Liquidity Solutions, EMEA Regional Executive, considered the realities of investing in the current environment, commenting that the negative rates seen in some European countries means treasurers "could be breaching the company's investment policy as negative yield erodes capital".

The J.P. Morgan take on this situation is that treasurers can either adopt the view that, in time, interest rates will rise above zero (whilst realising that their current investment policy is not adequately structured to deal with a negative rate scenario) or alternatively, they can help re-write the investment policy to address the risks associated with these unusual market conditions. In the latter, the suggestion is to consider reducing reliance on overnight balances by extending the yield curve. This strategy, it advises (in concurrence with HSBC's Parry-Wingfield), must be balanced against liquidity requirements and risk appetite, since some businesses may feel that sacrificing liquidity will not compensate for a longer-term investment's potential returns.

The changing face of policy

The purpose of an investment policy has necessarily changed in recent times, notes Steve Baseby, Associate Policy and Technical Director, ACT. The emphasis since 2008 has been more about return of capital than return on capital, and counterparty exposure management has risen to the fore. With the availability of funding now in question for some borrowers, he feels that policy will also tend to lean towards depositing surplus cash with relationship banks, "as a reward for offering credit facilities", although the demands of Basel III are making short-term cash deposits less attractive for banks.

And when it comes to steering policy in the right direction, Baseby notes a current tendency to be far more reactive. "Prior to the 2008 banking crisis, a treasury policy might have remained almost static for years on end; now there is usually a requirement to change it in the period between regular reviews." Often there will be provision for 'emergency changes' to be effected. With improved communication and awareness within business, counterparty exposure for cash holdings is something that he sees as "high on the list of things most executives and non-executives will monitor".

Aside from changes in the risk of target counterparties, bringing policy into line with current needs requires that a number of other key elements be considered when establishing or re-visiting an investment policy.

Treasurers are still thinking in terms of what can be done if they need to access their money quickly. Investment policy must dovetail into the liquidity requirements of the business and the evidence seems to be that most are sticking with simple deposits because they can build in fixed maturity dates, Baseby notes. In fact, in a very high turnover cash business, it is likely that most or all maturity dates will be short term, but for other business models, forecast accuracy is increasingly important as a means of determining investment strategy – there is after all a boardroom requirement to know that, should some event beyond treasury's control suddenly impact the business, it will not run out of money. "Forecasting used to be something that companies did on an approximate basis, on a weekly cycle, over the next quarter. Now it is done in much more detail."

For this reason, there is today more active oversight of where funds are, and why they are there. But how often should policy be inspected to keep investments relevant? "Investment policies are not supposed to be something that change every six months," says Jim Fuell, Head of Global Liquidity, EMEA at J.P. Morgan Asset Management. "They are broadly written, but with a level of constraint. Having said that, though, I think it is also important to build in some level of flexibility that allows you to navigate through some of the impending changes without necessarily having to go back to the board for further approval."

A general rule of thumb is that it should be revisited annually at least, but more often during times of market stress. Certainly a policy that never changes should be a thing of the past, but conversely there should be a wariness of over-analysis. One means of avoiding so-called analysis paralysis is to make accurate and timely data easily available in a format that avoids confusion.

Sitting on the dashboard: case study

Harvesting and presenting information to fulfil the high level needs of the board and the broad practical requirements of treasury is a function of advanced technology. The confluence of IT and investment policy is an approach taken by Dow Corning, a global leader in silicon-based technology and innovation. Its specific focus was counterparty risk management which had, by the company's own admission, historically fallen short of industry standards. The process had involved a considerable amount of manual monitoring, was primarily reactive versus proactive and was limited in scope: "Treasury realised that this approach was not acceptable," says John Coon, Global Treasury Manager, Dow Corning.

With thoughts of protecting its $2bn-plus in cash and investments from counterparty default to the fore, in 2014 Dow Corning created a Global Cash and Investments Committee. It consisted of a cross-functional team with members from

Customer Financial Services (CFS) and Treasury. The team adopted a mission statement to "ensure that the risks associated with the company's global cash and investments are monitored and are made transparent, leading to best in class practices supporting our investment objectives as defined in the Dow Corning Corporation Investment Policy".

With this in mind, it set itself a number of practical goals including the implementation of a counterparty risk limit model, and the creation of a monitoring system in which risks could be quickly identified and remedied. The result – a Treasury Today Adam Smith Award 2015 Winner – was an internally developed risk limit model capable of aiding and checking the implementation of investment policy. This uses multiple independent sources of counterparty and default risk metrics including balance sheet health at bank-parent and subsidiary levels, as well as regulatory data such as Basel III risk ratios. Aggregated data is presented via a centralised "fully-automated one-stop-shop" dashboard for treasury. It enables easy daily monitoring of financial counterparties and provides a clearly defined escalation process when credit events occur. Functionality includes limit usage by financial institution (delivering real-time monitoring with alert notifications for breaches) and breakdowns of limit usage by cash type (for example bank accounts or time deposits). In addition, it provides background credit ratings information and credit default swap (CDS) activity for all counterparties.

> "Investment policies are not supposed to be something that change every six months."
>
> Jim Fuell, Head of Global Liquidity, EMEA, J.P. Morgan Asset Management

Counterparty risk management solutions tend to use one or two sources of data to monitor risk. Dow Corning has developed a comprehensive limit model using in-house quantitative measures and credit risk metrics with real-time updates to a dashboard that incorporates supplementary sources including Bloomberg and Credit Risk Monitor. Coon explains that the overall process includes a "forward-looking, scalable model" to assess counterparty risk. It gives a 40% weighting for in-house quantitative measures using bank financial statements. Short and long-term credit ratings from multiple rating agencies are given a 25% weighting. Probability of default, calculated using a third-party tool with real-time market data, has a 25% weighting. The final 10% is made up of the Dow Corning Intangible index, incorporating a scale of bank service offerings and other relationship criteria.

"Like any risk management solution, it is difficult to place a figure on an event that you avoided by having the necessary safeguards in place," says Coon of the system's value to the company. "What we can say is that our ability to rest easier at night knowing our assets are allocated appropriately is worth a lot to us."

Trying something new

Whilst treasury should always adhere to policy, the generally changeable state of the market requires having the flexibility to respond in a timely manner to any cash or investment issue. It is therefore Baseby's view that companies should have an "escape valve" to use when investment for some justifiable reason cannot remain within those conditions. A treasurer may be granted power to step beyond policy in certain circumstances but usually an exception would be executed through the Finance Director, CFO or, if a major breach of policy is required, then by referral to either an internal committee of senior executives or the board.

Regardless of the difficulties that investing may present, dealing with lower-rated institutions and products is not inevitable in today's low/zero return environment. "Treasurers are beginning to find other ways of achieving security," notes Baseby. The repo (repurchase agreement) market is developing to enable short-term (usually three to six months) investors to mitigate counterparty risk by taking baskets of high quality securities (such as bonds or equities) in exchange for cash.

Repos are often perceived as difficult to administer by the inexperienced user: this is almost certainly criticism levelled at bi-lateral deals where a corporate must find a custodian, manage a complex contract and have valuation, settlement and variation margin capabilities. But as an antidote to such difficulties, tri-party repos are gaining ground. Here, an appointed collateral agent does most of the background work so that beyond fine-tuning the standard contract (the Global Master Repurchase Agreement or GMRA), establishing any policy restrictions and preferences, and issuing instructions to go to market, the operational involvement of the treasurer is minimised.

Indeed, Baseby's observation is that this route into the repo market appears to be the favoured one for the corporate investor although, he adds that the agent may seek to manage a number of counterparties on behalf of its corporate client to make it worthwhile. In policy terms, this may be desirable anyway, as not only will treasurers feel more comfortable lending more to counterparties with covered cash than without, it also means they can lend against the quality of collateral, not the borrowing institution, and this in itself may generate more scope for deals.

This may even open up safe non-bank financial institutions as viable deposit counterparties – insurance companies and pension funds sitting on high quality securities from time to time need short-term cash and at least one London broker has software enabling these transactions. This could be a market to watch as a means of diversifying investments without degenerating credit quality. As long as there is full understanding of what is being done, and that it does not conflict with policy, then arguably any collateral is better than no collateral in risk management terms.

With treasurers in ever-closer engagement with the wider corporate finance function, it has placed them in the driving seat as far as preparing and acting on investment policy is concerned. An effective investment policy need not prevent a progressive approach to cash and liquidity so that it is entirely possible to reflect the dynamic landscape of regulatory reform, market volatility, and low, zero or even negative interest rates whilst providing sufficient headroom to add yet more value.

Treasury calling

Marek Chruściel
Treasury Director

PLAY

Any treasurer who doubts the efficacy of virtual accounts should listen to the story Marek Chruściel, Treasury Director at Play tells. Every month, Play handles millions of incoming payments all through the company's recently established virtual account structure. But before sharing with us the secret of this success, Chruściel talks about how his career in finance got started, why treasurers need a broad education and why the virtual account solution is only just the beginning of his efforts to transform the treasury function at Play.

With over 13.5m customers and a 23% market share, Play is the third biggest and fastest growing Polish cellular network provider. The company was founded in 2005 and is based in Warsaw, Poland.

One of the most remarkable things about virtual account solutions is their scalability. Whether your company handles payments from several dozen customers or several million is of no consequence; an infinite number of IBANs can be created to give treasurers those enriched bank statements that have become so coveted in recent years.

Marek Chruściel is one treasurer who can testify to that. The Treasury Director of Polish telecommunications firm Play was at EuroFinance last October to tell an audience of astonished treasurers at a bank-hosted seminar how at his company, virtual accounts now handle no less than 3.6m individual monthly payments. After he had finished telling the audience how in the month prior, only six of that number required manual correction from his team, the room was momentarily stunned to silence.

It certainly is an impressive case study. When speaking with Chruściel, however, it quickly becomes apparent that the introduction of the virtual account solution at Play is but one of

many interesting stories he has accumulated over a near two-decade long career. In that time his work has taken him around the globe: from Poland to the US and Asia and back again, and from overseeing the treasury operations of a major financial institution to where he is today in the corporate world. It is a journey which, as we will see, has given him a unique perspective on the corporate treasury profession today.

A different world

Having moved to Play after close to two decades in the treasuries of various subsidiaries across the American International Group (NYSE:AIG), the first question which comes to mind when interviewing Chruściel is what he considers to be the biggest difference in working for a non-financial corporate.

"The biggest difference is that finance is more heavily regulated than the non-financial corporate sector," he says, without hesitation. Regulators pay particularly close attention to financial institutions, of course; especially those, like Chruściel's former employer AIG, that are deemed to be of systemic importance. Treasurers in the non-financial space have regulatory responsibilities of their own too, but nothing approaching the level of scrutiny their peers working for banks and insurance companies must contend with on a regular basis.

"The non-financial sector affords much more freedom around treasury management," he says. "Otherwise I would say that the basic principles – whether it is funding, liquidity and financial risk management – remain the same; each require a similarly high degree of understanding and attention from the treasurer. In my view, experience with the systematic, more demanding approach to treasury in financial institutions is a superb foundation for a corporate treasurer."

Chruściel began developing his understanding of treasury back in the late 1990s when he was recruited to work as a money and capital markets specialist by the Polish arm of AIG Bank. That his initial role was very broadly defined afforded him an early career advantage. Instead of finding himself pigeon-holed early on as a specialist focusing of a particular process, he was able to develop a broader skillset by jumping from one activity to another. "At that time the treasury team at the bank was relatively small, and that gave me an opportunity to get involved in all aspects of banking treasury."

Remaining within the AIG Group, Chruściel moved on from this initial role to take up other senior positions in a range of different locations (including Thailand and the AIG Consumer Finance Group New York headquarters) and different areas of the bank. In 2011, he parted ways after more than a decade at AIG when he was hired by AIA, one of Asia's leading insurance companies (and former AIG subsidiary), as an associate director for Group Treasury. An even bigger career change was imminent however.

Play time

In second half of 2012 the call came from Play, the mobile operator which in a few short years had gone from being one of Poland's smallest and newest operators to one with a 23% market share. It was an exciting opportunity for Chruściel: certainly exciting enough to pull him away from where he seemed to have settled in financial services. A large part of his job now, of course, is communicating with the very same types of people he used to work with. That has its advantages. He says: "My experience of treasury in the financial sector helped me to develop a very deep understanding of the financial markets which is, of course, a great asset for me now especially when it comes to those regular discussions I have with banking partners."

So what has the former bank treasurer been doing in the past few years at Play? What have been his priorities? Along with all of the daily routines around liquidity management and risk management, much of Chruściel's time since taking up his position has been occupied remodeling collections processes and making sure financing is in place to support the company's long-term growth ambitions. Given Play's rapidly expanding customer base, the meeting of these objectives remains as challenging as it is essential.

> "My experience of treasury in the financial sector helped me to develop a very deep understanding of the financial markets which is, of course, a great asset for me now especially when it comes to those regular discussions I have with banking partners."

Fortunately, Chruściel says he has an experienced and flexible team to support him in such endeavors. This is a benefit of the deliberate way in which the department is structured, he says. Chruściel explains that too much compartmentalisation in a department is not only harmful to the professional development of staff, but can also be very disadvantageous from a management perspective too. After all, what senior treasury manager would want to be in a position where a certain task can only be executed by one individual? "We try our best to make sure people are not only responsible for what they do, but replaceable by colleagues" he explains. "From time to time, then, I am shifting treasury staff between different roles and responsibilities so that they can explore other areas and learn new skills."

A flexible team undoubtedly helps when some areas of the department become preoccupied with a huge project. And Play's treasury has had one or two of those in recent years.

A virtual reality

One of the surprising things Chruściel reveals about virtual accounts is that in Poland they are not especially new or cutting-edge – as seen by much of the rest of the treasury universe – but a very well-established solution already used by a large number of organisations.

After the collapse of communist rule in the late 1980s, a whole new financial infrastructure needed to be built and the country chose to implement the most modern banking and settlement systems available at the time. Beginning in the mid-1990s, collections factories and virtual accounts became quite commonplace in Poland.

Introducing a virtual account-based collections operation was not, therefore, an especially radical step for the treasury of a big biller like Play to be taking in Poland twenty years on.

But it is something that has, without a doubt, made cash management a great deal more efficient.

The company now runs three billing cycles each month and payments are received 365 days a year – running to over 350,000 on peak days. Payment data files are delivered on a daily basis by the bank via secure file transfer protocol (SFTP) or web service every afternoon and they are processed overnight with payments assigned in Play's billing system. Payments are automatically allocated, with very occasional manual input for any individual payment that requires it. But savings on treasury time and resources is just where the benefits of virtual accounts start, says Chruściel. "It is a very powerful solution," he says. "The biggest benefit is the true automation of incoming payments, but it can also help to improve customer satisfaction, because you can avoid unnecessary interaction with the clients regarding any payments that you think you didn't receive but did receive. Virtual accounts give us all the information we need the same day as the customer makes the payment."

> "I am seeing more corporate treasurers focusing now on cash visibility and I think this is more than the right time to do it."

Implementation of the virtual account structure – even at a firm with a customer base the size of Play's – can usually be achieved in a fairly expedient time-frame of about two to three months. But treasurers will encounter challenges along the way, Chruściel warns. "The biggest is actually working out technical details: the structure of the virtual accounts; the composition of the data; the ironing out of the service level agreement," he says. "These processes need to be carefully thought through, to ensure maximum automation. Otherwise you might end up with a lot of transactions that still require manual entry and intervention."

Lessons from a crisis

As Chruściel revealed earlier, a second important strategic priority for treasury over recent years has been ensuring the company has the financing it requires. At the beginning of 2014, Play boldly decided to refinance its entire capital structure, replacing the long-term bank loans on its books with high-yield bonds in euros and Polish zloty.

Exceptionally favorable borrowing conditions on the capital markets (especially relative to the deleveraging banking sector) naturally factored in this decision. But Chruściel explains that there was also another, more strategic, reason: one stemming from his experience working at AIG during those dark days in 2008-2009 when liquidity was all of a sudden in very short supply. "I remember very clearly how banks were turning their backs on major clients, cutting off credit lines and demanding early repayment of long-term debt commitments," he says.

On the one hand, the experience has made Chruściel more attentive to the minutiae within the contractual clauses in funding agreements he is negotiating. But it has also made him more wary of the danger inherent in being overly reliant on one funding source. "I think one of the lessons learned from the 2008-2009 financial crisis is to pay special attention to short-term liquidity, cash visibility and funding structure," says Chruściel. "And, just to keep in mind, that things might get messy very quickly when the help isn't there."

The freedom offered by the capital markets compared to bank financing is also helpful. Although issuing bonds for the first time is naturally a major step change that demands a lot of preparation (in Play's case the process took approximately three months and involved visits to all leading financial centres in Europe), once concluded returning in the future is much more straightforward than it is to refinance bank loans. "It is much easier to tap the market again and refinance existing bonds, compared with going back and obtaining more funding from the banks," says Chruściel. "Usually you need approval from your current lenders to get more funding from other banks. So when it comes down to it, the flexibility of the capital markets is one of the most important reason for switching to the capital markets. Bank finance is just a lot more rigid."

Next steps

After the successful implementation of virtual accounts and the overhaul of the company's capital structure, Chruściel has already achieved a great deal in a very short space of time since arriving at Play. But he is adamant that the job of reengineering the treasury at Play is still far from over. In fact, one could say he is only just getting started.

First on the agenda is communication between Play's ERP system and the banks. Over the coming year, Chruściel plans to be working on streamlining processes around this, with the idea being to harness technology for the purpose of optimising the workflow internally within the company at the same time guaranteeing segregation of duties and security of outgoing transfers. And a new TMS is also on the shopping list for 2016.

> "It is a very powerful solution. Virtual accounts give us all the information we need the same day as the customer makes the payment."

Both of these projects reflect the importance Chruściel attaches to the automation of treasury processes. Whether via SWIFT or other software that integrates bank systems with ERP and TMS, the ongoing automation of treasury processes remains no less a key priority for Play than it did before the implementation of virtual accounts. "I am seeing more corporate treasurers focusing now on cash visibility and I think this is more than the right time to do it," he says. "It surprises me when I talk with my industry peers that some of them do not exactly know how much cash they have at a given time and where that cash sits."

In addition to an unswerving determination to find ways to improvement, Chruściel identifies one other trait which he believes has helped to make him the treasurer he is today, and his possession of which can perhaps be traced back to the early days of his career when he was being rotated around the different areas of AIG's treasury function. "You have to be open-minded, because treasury issues can be extremely multifaceted. One needs to be able to consider issues from many different angles."

A risky business

Corporates operating in today's uncertain markets know they cannot afford to be encumbered by dated, ineffectual risk technologies. Those treasurers looking for new tools to help them manage risk are often confronted with a confusing array of options. But as industry experts interviewed in this article maintain, when it comes to navigating the treasury technology landscape, it helps if you have a clear idea of your risk management needs beforehand.

Plunging commodity prices, relentless currency volatility and several abrupt policy changes by major central banks besides; after a year of such surprises, it is perhaps little wonder that so many treasurers have been increasing their focus on risk management technologies.

In Deloitte's 2015 Global Corporate Treasury Survey, 50% of treasurers noted that their biggest challenge is to manage foreign exchange volatility, with 40% citing insufficient technology infrastructure as one of the key problems hampering them in this regard.

To manage risk, treasurers need reliable, complete and consistent data, available on a timely basis and, technology, they know, remains the key to delivering this. But finding the right solution is not easy: and not because of a lack of choice. Technology giants or nimble local specialists; installed software or cloud hosting – today's technology landscape offers treasurers more options than ever before. With a little bit of foresight though, evaluating the various vendors and finding the right tools for the job need not be a costly and time-consuming ordeal.

Time for an upgrade

A number of factors might lead treasurers to the market to look for new solutions. Top of the list today, perhaps, are new market realities. The recent commodity price slump is but one example. Such was the speed of that decline in prices over the course of 2014, especially in the energy commodity markets where oil market benchmarks halved in less than six months, it triggered some corporates to review risk management arrangements at an organisational level.

A treasurer of a company that is producing finished goods derived from material inputs (like oil or oil derivatives), obviously has an exposure which may or may not – depending on a number of factors – require hedging. In most organisations that decision would, traditionally, have been made by procurement without treasuries involvement. But according to the representatives of two leading risk management solutions providers, a growing number of companies are now beginning to reconsider this arrangement.

"Procurement would be managing the physical contract buying along with the logistics of getting commodities from A to B, but when it came to risk management and hedging, this becomes a bit more challenging without a robust system designed to handle that.," Mark O'Toole, Vice President Commodities & Treasury Solutions at OpenLink explains. "This was being done on spreadsheets, for the most part, and it didn't have full transparency and a global view into the position and the real risk around it. But what we've seen over the past year and a half, is CFOs now looking to break down the barriers between procurement and treasury. As zero based budgeting becomes more prominent, this is a chance for companies to system rationalise on a single platform while getting this visibility."

O'Toole is not the only person in the treasury technology business identifying this as a growing trend. "Commodities was typically managed in procurement outside of treasury, but now a lot of global organisations have started incorporating commodity risk into treasury organisations," says Sanjay Thoppil, Solution Consultant at Reval. "What that means for treasurers is that they have got to come up to speed very quickly."

Regulatory changes may have also given a few treasurers cause to reassess their treasury technology needs in recent years. Take, for instance, post-crisis changes to the OTC derivatives business such as Dodd-Frank and the European Market Infrastructure Regulation (EMIR). Although it is two years on now since trade reporting under the latter begun, the new demands placed on treasurers by the regulation still appears to be a compelling reason for many treasurers to look at new solutions.

"EMIR and Dodd-Frank have been around for a couple of years, but reporting has really come into focus for a lot of corporates these past few months," says Thoppil. "We are starting to see a lot more requests around for EMIR requirements, more clients asking us to provide output for reporting."

Other compliance issues, notably the imminent Markets in Financial Instruments Directive (MiFID) II, have also been a boon for multi-dealer platforms as responsibility for execution is increasingly pushed away from the bank to the corporate customer who are then looking for electronic platforms with TCA tools that can help them manage risk. "That's one of the biggest changes in the industry we are seeing," concurs Neill Penney, Head of Foreign Exchange Workflow at Thomson Reuters, the business information and technology specialists that provide a suite of solutions for corporate treasurers. "Regulators are saying to the customer that it is their responsibility to make sure they get the right price and to ensure they are executing at the right time of day."

Lastly, there is the evolution of treasury technology itself to consider. The typical ERP/TMS or FX portal has a very long cycle; implementing a new solution every year, even if affordable, would be neither practical nor feasible in many organisations. Even accounting for upgrades then, it is likely that solutions introduced ten or perhaps even five years ago are going to look very antiquated alongside some of the more recent advents in the treasury technology space.

"Five years ago the industry was beginning to get there with comprehensive treasury solutions and now I think the problems are well-understood with good solutions out there," says Penney. "Now treasurers are walking into a very mature market that understands corporate treasury and can meet their evolving needs." Penney cites the recent introduction of innovations such as algorithmic trading and order slicing into the corporate FX market as examples of how vendors are developing their offerings to meet their clients differing execution strategies. "Large order slicing is something stemming from the customer saying they that are going to take more responsibility for how the order is broken up and how quickly or slowly they push it into the market. If you are on the market for a new FX solution now and you want to future proof it then that is the sort of question you should be asking yourself: what happens if my policy needs algos or order slicing?"

Before you buy

What other tips do treasury solutions vendors have to share with potential customers as they navigate the technology landscape? There is a long list of things the corporate customer should keep in mind, they say, when purchasing new technology – ranging from functionalities included and the degree of centralisation on offer, to know knowing what ones priorities are, in particular, where the biggest risks are in the business that need to be managed.

First of all, treasurers need risk management technologies that are comprehensive with respect to the scope of functionalities on offer. Wolfgang Koester, CEO at FX exposure management solutions provider FiREapps says: "The biggest mistake I see at the moment is people looking for programmes and not platforms. A programme is something that allows you to do one particular thing but nothing else – and nothing else in today's environment can end up being very costly, because one needs to have an environment where at a moment's notice one can look at risk from a different perspective and/or a different type of risk not previously pre-defined."

One should be careful, Koester adds, not to lose sight of the original objective – managing risk – because of the cost-savings a particular solution offers. "Unfortunately, this is something some people still do," he says. "But when considering technology, the first thing the treasurer should be thinking about is where the biggest risks reside – not what a solution can do to make their lives easier."

This sentiment is echoed by Thomson Reuters' Penney, who explains that, as with any purchasing decision, it helps if the customer is clear on their priorities from the offset. "I would encourage treasurers to think end-to-end, and look at their company's risk management needs holistically. Start with the whole picture and then write a list of the things you want to fix with respect to your current workflow," he says.

The danger in heading to the market without one's priorities clearly articulated is this could mean ending wasting a lot of time and money on solutions that fail to address the fundamental problem. "It is a band-aid approach, versus

Easing the process

When issuing an RFP, there are a number of factors that sometimes get overlooked, but which can help make the process easier both for the issuer and the service providers.

- It is important to create a realistic time-frame for responses and for the selection process. One or two weeks are simply not enough time for providers to gather information and make a submission. Allowing respondents a month or six weeks to prepare it enables them to tailor their proposal to the unique aspects of the project.
- In addition, any changes made to the RFP for one service provider – for example an extension or question changes – should be made for all respondents.
- When drafting an RFP it is a good idea to separate it into logical sections. This will help respondents to organise their responses as well as helping the issuer to avoid irrelevant and duplicate questions.
- Be consistent throughout the document in wording and in expectations. Try to keep formatting constant as well. This will make it easier for providers to respond and result in better quality responses.
- Many companies get frustrated when they receive a 300-page response from service providers. It can be helpful to put a limit on the length of responses – either on the entire RFP or by section. In addition, using short, precise questions can help respondents to be more succinct in their responses.
- It is better not to bid for too many services at once, as the decision-making process can grow to be excessively complex.
- It is important to work closely with other functional areas affected by the service or solution – such as accounting, IT and purchasing.
- Visiting final candidates provides the opportunity to meet the technical staff, sort out any existing concerns, and complete due diligence.

trying to fix the problem holistically," Reval's Thoppil asserts. "Do you want to just patch something up, or do you want to really revisit your risk management practices?"

Depending on how the company is organised, a truly comprehensive solution might mean considering solutions that help the treasurer manage risks across the business. "A big trend we are seeing at the moment is the breakdown of commodities and FX into treasury and the introduction of systems that allow corporates proactively manage that," says O'Toole. It is all about centralisation: both technologically and departmentally. "Certain things – cash management, or in-country banking – might remain regional for some firms, but it should all roll into one centralised view, of cash, of commodities and of financial hedges."

Finally, it is no good finding a solution that ticks all the boxes if the money to purchase it is not forthcoming. "You need CEO, CFO buy-in," says Reval's Thoppil. "Without it, treasurers are often just fishing and hoping they can get budget for a product on which management may not mandate." But given the way treasury is traditionally perceived as a cost-centre, securing those necessary approvals is often easier said than done. To help, Reval – like most leading vendors – offer an array of documentation and analytical examples explaining clearly what the particular solution in question does and how it will benefit the company. These can be used to help treasurers frame the conversation when they begin to explain to senior executives why it is the company needs a new solution.

Listen to your peers

Having taken the decision to purchase a new treasury solution, established what ones priorities as a customer and secured the necessary buy-in at the C-level, how should the treasurer go about navigating the multitude of different vendors and solutions?

The consensus amongst industry experts is that the best way for treasurers to evaluate the claims of the various technology vendors is to listen to the experiences of their industry peers. There are a variety of ways for them to do this: read objective research in industry magazines like Treasury Today, source vendor case studies and attend user-conferences and other industry events, to name but a few.

"I would advise treasurers to try and socialise their purchasing decisions," says Thoppil. This process is not too dissimilar, he points out, to what many of us already do as consumers. "Any time I make a purchase of a large item I am usually talking to friends and family," he adds, "and I know that some people use social media in similar way."

FiREapps' Koester concurs on this point, but adds that when it comes to the client references supplied by vendors treasurers should be cautious not to give too much credence to case studies that are not relevant to what their own treasury environment is and what treasury is attempting to achieve. What fits one firm's unique requirements may not, after all, be appropriate for another company in a different sector or with different legacy technologies. "References need to be applicable to them," he adds. "If a treasurer wants to address a certain issue with a solution and they have a SAP supplied ERP system, a reference from a corporate who uses Oracle is going to be next to useless to them."

This is a crucial point. There are no one-size-fits-all solutions when it comes to risk management. Treasurers who fail to keep this in mind when shopping for risk management technology may well find themselves lumbered with an unsuitable, piecemeal solution – and that is a risk no corporate treasurer should be willing to accept.

Managing the unknown

In 2015, currency volatility couldn't be kept out of the headlines. Today, a big question for many corporates is when, and where, the next shock will come from and, perhaps more importantly, am I prepared? In this article, experts from the world of banking, consultancy and corporate treasury share their views on how to best manage currency risk in a volatile world.

It has been a year in which the management of currency volatility has been firmly in the forefront of treasurers' minds as a number of events caused sharp movements and shocks to global currency markets. These ranged from the Swiss central bank's sudden unpegging of the Swiss franc from the euro; one of the most dramatic central bank announcements of recent times, and an event that created a selling tsunami in the market that brought a number of FX brokers to their knees. Other notable instances include China's shock devaluation of the RMB in August, an event which served to exacerbate the already volatile currencies of many emerging economies such as Brazil, Malaysia, Turkey, Russia and Indonesia. Today, the threat of a currency war is real and its potential implications for corporates and their earnings could be profound.

We are already seeing this in the financial statements of many companies. Data compiled by the Frontier Strategy Group, for instance, highlights that $51bn was lost by the 211 European and North American companies surveyed due to negative currency impacts in the first half of 2015. Whilst these losses are the direct impact of currency volatility there are other impacts that, arguably, remain hidden including the potential risk of a ratings downgrade and the increased cost of access to capital.

Many predict that this volatility is here to stay, at least for the time being. The reason being that the two main causes of volatility, the divide in policy between the US Federal Reserve and the world's other major central banks and the continued weakness of commodity prices that is creating a general malaise in the global economy, look set to continue. And whilst this trend is a 'known' (to borrow on old expression used by a former US Defence Secretary) that corporates can look to manage, it is the 'known unknown', namely that corporates cannot easily predict what direction currencies will move and when, that makes hedging such a challenging activity to get right.

Understanding the risk

Whilst currency risk is an ever present challenge, the recent bouts of volatility, and the losses suffered as a result have certainly caused treasurers to become more attentive to its management in the past year. The difficultly, however, is that currency risk is a complex subject that cannot be approached with a broad brush. The first step that treasurers should take, therefore, is to make an attempt to understand the different types of currency risk and from where these exposures arise. A research note published earlier this year by PwC succinctly highlight the three key exposures:

- **Economic exposures.** These arise from selecting markets and choosing office and factory locations plus the currency profile of your competitors.
- **Transaction exposures.** These arise from generating revenues and incurring costs in various currencies.
- **Translation exposures.** These arise from the revaluation of foreign currency balances (cash, receivables and payables) in accordance with accounting rules.

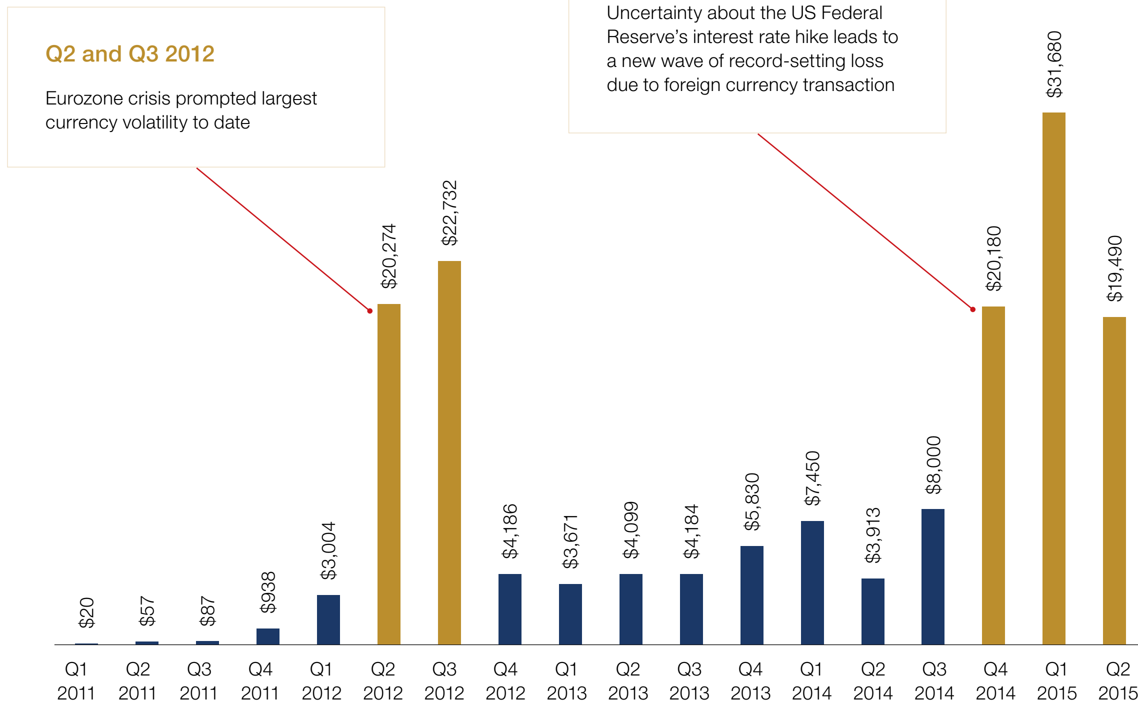
With this knowledge in tow the next step is understanding how these various exposures manifest themselves. Unfortunately, as with most aspects of managing currency risk, this is rarely, if ever, a straightforward task. As Yann Umbricht, Partner and Treasury UK Leader at PwC explains: "You only begin to see that risk management processes are not working effectively when there is a crisis and unexpected FX gains or losses begin to appear in the profit and loss account. The challenge then is understanding why and where your risk management process has failed." According to Umbricht the reasons for this are typically multi-faceted and are not often obvious.

> Whilst currency risk is an ever present challenge, the recent bouts of volatility, and the losses suffered as a result have certainly caused treasurers to become more attentive to its management in the past year.

Managing currency risk is complex because the end-to-end process flows far beyond the office of treasury. "The exposure begins from the strategic decision to buy or sell in a particular market," explains Umbricht. "It then flows all the way through to accounting where the impacts of these decisions are seen. Treasury sits somewhere in the middle of this." It is Umbricht's view that the only way to effectively manage the risk is for all these departments to work together to clarify what the organisation is trying to achieve and then build a robust and agile risk management framework that defines who will do what and when.

Bringing it home

A corporate's FX management policy should, if completed correctly, outline what exposures to manage – be they economic, transaction or translation related – and how. And there is no single right answer – it really depends on each individual corporate's exposures and how these impact cash flows. Following analysis, some corporates may wish to hedge every exposure, some may wish to hedge part, while



Source: Frontier Strategy Group

others none. According to Mike Robertson, Global Head of Transactional FX at Bank of America Merrill Lynch (BofAML), whether a treasurer chooses to hedge an exposure in part or fully, is still doing something. "The question corporates should therefore ask themselves is what is the best approach to manage their exposures and why. This analysis should lead to a risk management framework to work within."

With this framework in place the final piece of the complex jigsaw is ensuring that the decisions are being made from accurate forecasts built with accurate data. Of course, the issue of accurate cash flow forecasting opens another Pandora's Box of challenges for corporates, but without this it would be almost impossible to effectively hedge currency risk. This again places the onus outside of the treasury office and onto other departments. Treasurers, therefore have a vital role to play in ensuring that these departments understand what they need and how to ensure the data they are inputting is robust.

Building a robust framework and ensuring that the data it has is correct is something that the Honeywell treasury has strived to achieve over recent years. Over half of Honeywell's sales are outside its home market, the US, meaning that changes in FX can have a meaningful impact on the company's reported financial results. "We therefore place a lot of focus on managing FX and have built a solid framework, using both people and systems, to gather and analyse information around FX and our exposures." To do this, Jim Colby, Assistant Treasurer at Honeywell and his treasury team have worked closely with other Honeywell business units and senior management to ensure exposures are reported correctly. "Systems are important and are the means by which we input the data, aggregate our exposures and understand the impact they have on our company. But it is perhaps even more vital to educate people within the business to understand the various risks."

To hedge or not to hedge?

With this information at hand, the company will then need to decide whether to hedge or not. Naturally corporates should not hedge just for the sake of it and, whilst losses during extremely volatile times may be painful in the short term, the treasurer should not panic as currency movements over the long term are often offset by price changes, thus reducing the real risk.

Once the decision what to hedge has been taken, the next call to be made concerns what particular product is to be used. Again there are many factors that play into this decision including: what is being hedged, why, and for how long. Other factors, including senior management's understanding of hedging products, may also influence this decision.

Despite the recent bout of volatility the products that corporates use to hedge have not changed a great deal. The four most commonly used FX derivatives remain futures, options, forwards and swaps. Yet, in recent months there has been debate within the profession around the usage of these products for hedging particular transactions. Take for example FX forwards, the most commonly used corporate hedging instrument. Whilst the efficacy of these instruments for the purpose of hedging the major currencies remains unquestioned, some corporates have closely examined the effectiveness of forwards in the hedging of EM currencies. This is primarily due to the fact that, quite often, the risk premium on these products is very expensive. Corporates may

therefore wish to consider various options contracts instead which are known to have a lower premium than forwards.

Indeed, this is something that the Honeywell treasury team and Colby have recently been investigating. "Currently we work exclusively with forward contacts because these deliver the greatest amount of certainty which, we want in our results," says Colby. "Yet, in recent months we have been exploring the use of options to hedge certain currencies." For Colby the benefit of using options is that treasury can ensure some degree of certainty whilst also preserving the upside on its underlying exposures. "Some currencies have been on a continuous downward trend, as have been many EM currencies, this therefore could be a logical step to take."

Of course, vanilla instruments can be layered with complexity to create exotic derivatives, but it is largely recommended that corporates keep their hedging strategies simple. "This is down to the levels of understanding that senior management has," explains PwC's Umbricht. "If you go to the board with a complex instrument, even if it is the perfect hedge, if the board can't understand it they will probably not agree to its use. Choosing a simple hedge can also significantly reduce the complexity associated with hedge accounting." Also, if the hedge goes wrong then there can be significant repercussions on the business and it is unlikely that a treasurer would want their name attached to that.

However, a hedging instrument can only go so far. "Natural hedging is always preferred because financial hedging has a finite life, each hedge has a maturity date and after this you are exposed again," says Colby. "That is why I think finding ways to develop natural offsets to your currency exposures is a more permanent solution to mitigate currency risk." Yet, with many things related to driving change to implement natural offsets is not a treasury issue alone. "Natural hedges are ultimately a business decision," says Colby. "Treasury can find these and help the business understand them but there needs to be coordination and cooperation across the business to push these through and make lasting change."

Overcoming the regulatory pressures

As if treasurers do not already have enough to contend with, given the recent volatility, hedging strategies are also being impacted by regulatory pressures. For Honeywell's Colby, this has manifested itself in two ways: "It is tough to meet the reporting requirements that have come from European Market Infrastructure Regulation (EMIR) and Dodd-Frank. For instance, we need to report all our European inter-affiliate activities with the European authorities within 24 hours of trading." To be able to comply, Honeywell has had to invest significant amounts into sophisticated technology.

Aside from this, Colby also sees the Basel III regulations having an impact on the pricing of derivatives. "The increased bank capital and leverage requirements have made certain products more expensive," he says. "Especially longer dated derivatives. As a reaction to this it wouldn't surprise me to see corporates roll shorter-dated hedges in order to reduce the cost." There is still value to be found in the market, however, because of variations in the way that Basel III has been implemented across the globe. "We use FXall as our multi-dealer FX platform and this enables us to send our deal request out to a wide market and obtain the best deal."

Banks it seem are also recognising the issue and are innovating in order help their clients. Bank of America Merrill Lynch for example has recently launched a product, CashPro® Flow, which guarantees the rate for a set time period, yet this isn't classified as a derivative and can only be used for transactional volumes. "The treasury risk in the trade and payment space is largely predicable and thematic," says Suzanne Janse van Rensburg, EMEA Head of Liquidity for GTS at Bank of America Merrill Lynch. "This product therefore allows corporates to reduce the FX background noise and focus on the real FX exposures." It is Janse van Rensburg's belief that this is a space where banks will continue to innovate in order to ensure that corporates have the tools and services they need to support them in an uncertain world.

With experts saying that currency volatility is not likely to be going away anytime soon, and regulation adding further pressure on the resources of both corporates and banks, innovation may be key to ensuring that corporates can continue to navigate this landscape effectively. But, as Honeywell has proved, when it comes to hedging FX, corporates would be well-advised to keep it simple and do the basics correctly – report, understand and act. This is the key to protecting corporate cash flow – however volatile the markets become.

Naturally exposed

Rather than paying to use hedging instruments, many corporates will analyse their cash flows and try to spot natural hedges within their business. Yet, Jan Vermeer, Director at Belgium based consultancy firm Treasury Services, believes that, when analysed closely, what is perceived to be a natural hedge is often not effective.

"The mistake that corporates make is that they attempt to apply cash management techniques to risk management," says Vermeer. "For example, if $100 comes into the business and $100 leaves then this is net $0 and it would seem the exposure is naturally hedged." But Vermeer highlights that while this is true, a corporate is also assuming that the risk sensitivities of the two cash flows are equal, which is very often not the case.

Vermeer believes that the reason for this is because transactional FX exposures exist in two categories: committed exposures such as outstanding invoices and receipts and anticipated exposures predicted in forecasting. "These two exposures have different sensitivities," explains Vermeer. "Committed exposures for instance are not sensitive to changes in prices due to exchange rate movements. Yet, many corporates I speak to who naturally hedge assume that the sensitivities are equal. And with more corporates moving to natural hedges because of the increasing cost of derivatives, in many cases they are actually neglecting their risks and this can result in increased volatility in earnings."

Women in Treasury: here to stay

Although the progress towards gender equality can sometimes feel sluggish, the good news is that, across the globe, comprehensive campaigns and industry specific initiatives are raising awareness and inviting everyone to join the conversation on how to achieve gender equality. Over the past few years, significant progress has been made towards addressing legacies of inequality, with a loud and inspiring global push for diversity. Here, we take a closer look at the results of Treasury Today's global Women in Treasury Study 2015, which presents milestones to celebrate, as well as reasons to keep up the momentum.

Whether new to the world of corporate treasury or a seasoned professional with many years' experience, the challenges women face in the workplace are similar. This commonality provides the foundation from which a sense of unity can be built upon.

Speaking about the London Women in Treasury Forum in September last year, panellist Debra Todd, Vice President, Global Treasury Services, BP explained:

"Hearing from other women is just as interesting at my stage of the career as early on. I think there are so many common messages.

Certainly for me, I think it is really important that all those things that it has taken me so long to learn, I just want people to learn them a lot earlier."

Whilst awareness of the importance of gender equality is on the rise, it isn't quite there yet. Jennifer Tinsley, Treasury Director – Treasury Eurasia at Joy Global, a guest at the Women in Treasury Forum said: "We need to ensure that we continue to promote a greater mix of age and gender in the workplace and not replicate the status quo. This is how we generate new business and build a better economy."

Indeed, Treasury Today's Women in Treasury initiative aims to highlight the importance of having women integrated in the industry – at all levels of seniority.

"We are bringing together women to share their experiences, challenges, successes and failures, as an inspiration for all operating in this field," says Angela Berry, Group Publisher, Treasury Today Group.

Opening doors

Central to the Women in Treasury initiative is the annual global Women in Treasury Study. Going from strength to strength as it enters its third year, the 2015 study attracted over 300 responses from women around the world. Just over half of all those who participated have been in a corporate treasury role for more than ten years – although for most, treasury was not their first role.

Despite this, there are a solid number of women with aspirations to reach FD and/or CFO levels, 9% and 17% respectively. With 82% also having access to training and development opportunities within their company, these percentages are only going to rise.

Top tips given by the study respondents highlight the importance of career progression, including:

- "Anything is possible. Stop looking for barriers, look for opportunities."
- "We must give the best of ourselves, demonstrate that we can work together with men and not see them as competition. There are new opportunities that warrant recognising that we do not know everything – but we can learn."
- "Find a sponsor and start advertising yourself much more than you would naturally do."
- "Get a good mentor early on so there is more balance towards guidance rather than learning from one's own mistakes. Have a good idea of where you are going and have a plan how to get there; there should be flexibility in the plan to take advantage of opportunities as they come up and to make adjustments as you learn and progress. Most importantly, stay true to yourself."

One piece of advice that is frequently articulated is the importance of getting a mentor. It was once again received positively in the study, with 86% agreeing that mentoring is beneficial in helping the advancement of careers. In terms of helping the cause, 58% would be interested in being a mentor to others. Only 9% responded that they would not be interested, and the remaining 33% responded maybe. There is an implication that the benefits of mentoring could increasingly be felt in the future as the process becomes more commonplace. Sixty five percent of respondents did not have a mentor during their own career development and yet it is continually referred to as a springboard for success. At the Women in Treasury Forum 2015 in London, panellist Jennifer Boussuge, Head of Global Transaction Services, EMEA at Bank of America Merrill Lynch, said "you'd be surprised how willing senior women are to mentor. Don't sit and wait for it to happen."

More than qualified

Against this backdrop, it is pertinent to celebrate the success and determination of women in the world of treasury. Seventy seven percent of respondents are professionally qualified, 59% speak a foreign language and 68% would be willing to move to a different region or country to progress their career. What's more, 71% envisage finishing their career within a corporate treasury environment.

There is also recognition of a number of other key skills that are important for roles in finance and corporate treasury – interpersonal skills, financial analysis, the ability to multi-task and influencing skills, for instance.

"You need to be an excellent communicator and be able to articulate complicated concepts to a non-financial audience. You also need to be good at building relationships both internally, in order to get buy-in for your strategy, and externally, in order to get what you need from banks and advisers," one respondent commented.

Given that 67% of respondents didn't believe their career path at their current employer is mapped out for them, embracing a wide range of skills beyond professional qualifications is bound to be advantageous.

It isn't, of course, all about what employees can bring to a company.

Businesses have a responsibility for the working environment created too – and the factors ranked the most important for career enhancement were:

1. Job satisfaction.
2. Great treasury team.
3. Competitive salary.
4. Being accepted by senior management.
5. Being treated equally.
6. Career path in treasury.
7. Access to the board.

Playing the right game

Having more women in senior roles might also promote female-friendly hospitality events across the sector. This year, for the first time, the study assessed how these events can often encourage gender exclusion and – unsurprisingly – the topic triggered some lively response. Forty two percent reported that hospitality events are more centred towards their male colleagues, 37% disagreed and 21% weren't sure.

The fact that events are often sports-related was mentioned frequently, with one respondent commenting that it's hard to argue that it's anything other than stereotyping on the part of the host when females aren't invited to events such as rugby. Given that attempts to balance out often swing to the opposite extreme by holding female-only events, the advice would be to develop a broader hospitality programme and encourage events with mixed appeal.

A kind reminder

It is easy to concentrate on how much legwork is yet to be done to achieve gender equality – 33% of respondents believe they are paid less than their male counterparts and 45% do not feel their career prospects are the same as male colleagues, for instance – but the study serves another purpose.

It is a reminder that progress hasn't stalled and there are many developments to celebrate. For instance, undoubtedly a huge part of job satisfaction is achieving a desirable work/life balance and 2015 saw a dramatic increase in the number of flexible working arrangements.

In 2014, only 44% of respondents reported having the opportunity for flexible working arrangements but by 2015 it had shot up to 62%. This sharp increase would suggest recognition that employees don't always fit into neat boxes, and therefore an approach that appreciates the value of flexibility is on the rise. Such changes are undoubtedly welcomed by the industry's women and men.

We look forward to seeing you at the Women in Treasury Forum in London on 15th September to discuss how further triumphs can be realised.

Women in Treasury Asia Forum 2016

A growing number of women are finding their voices and inspiring others to achieve progress – you can be one of them. If you are interested in attending our Women in Treasury Asia Forum on Thursday 14th April 2016 at The South Beach, Singapore please contact:

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+44 (0)13 0462 9016

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INSIGHT & ANALYSIS

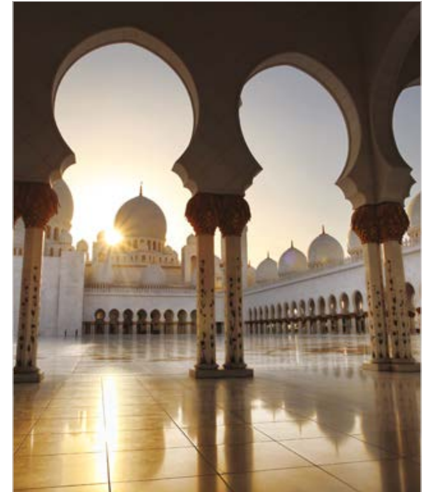
Overcoming pension headaches

In recent years, pensions have not only caused a headache for many corporates but have left a large hole in their balance sheets. Various companies worldwide are now burdened with significant pension deficits, made even more challenging by market volatility and regulatory changes. How can corporates best overcome this?

FINANCING

Supply chain finance: what's new?

In the wake of the global financial crisis, supply chain finance was billed as a win-win solution that would be the saviour for small businesses struggling to get their hands on much needed funding and also an effective way for corporates to reduce risk and make better use of their cash. Whilst this remains true, the supply chain finance debate has evolved considerably. Here, we investigate what's new in this space.



REGIONAL TREASURY

Treasury in the Middle East

In the past few decades, the Middle East has transformed into one of the most important financial centres in the world and become key to global trade flows and business. But what has this transformation meant for the treasury profession? In this article, we explore the nuances around working in treasury in the Middle East and also look at what more needs to be done to develop the profession and also the financial, regulatory and political landscapes that companies have to operate within.

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

Steve Baseby, Associate Policy and Technical Director, ACT; Carole Berndt, Head, Global Transaction Banking, ANZ; Jennifer Boussuge, Head of Global Transaction Banking, EMEA, Bank of America Merrill Lynch; Melissa Cameron, Principal, Global Treasury Advisory Services, Deloitte & Touche, LLP; Di Challenor, Managing Director and Head of Treasury Services, Asia Pacific, J.P. Morgan; Marek Chruściel, Treasury Director, Play; Jim Colby, Assistant Treasurer, Honeywell; John Coon, Global Treasury Manager, Dow Corning; Ed deHaan, Assistant Professor, Stanford Graduate Business School; Ivo Distelbrink, Asia Pacific Head of Global Transaction Services, Bank of America Merrill Lynch; Jim Fuell, Head of Global Liquidity, EMEA, J.P. Morgan Asset Management; Philippe Gelis, CEO, Kantox; Kevin Grant, Member of the Executive Board, Hanse Orga; Amol Gupte, Region Head, Treasury and Trade Solutions, Asia Pacific, Citi; Natasha Kaye, Partner, Cooley (UK) LLP; Wolfgang Koester, CEO, FiREapps; John Laurens, Head of Global Transaction Services, DBS; Jacques Levet, Head of Transaction Banking, EMEA, BNP Paribas; Roger Merritt, Managing Director, Fitch Ratings; Mark O'Toole, Vice President Commodities & Treasury Solutions, OpenLink; Hugo Parry-Wingfield, EMEA Head of Liquidity Product, HSBC Global Asset Management; Nigel Pearson, Global Head of Fidelity, Allianz Global Corporate & Specialty; Neill Penney, Head of Foreign Exchange Workflow, Thomson Reuters; Hans-Gerd Riediger, Solutions Architect, Hanse Orga; Mike Robertson, Global Head of Transactional FX, Bank of America Merrill Lynch; Alastair Sewell, Senior Director, Fitch Ratings; Jessica Silbering-Meyer, Managing Editor, International Tax, Thomson Reuters; Bob Stark, VP Strategy, Kyriba; Sanjay Thoppil, Solution Consultant, Reval; Jennifer Tinsley, Treasury Director – Treasury Eurasia, Joy Global; Debra Todd, Vice President, Global Treasury Services, BP; Yann Umbricht, Partner and Treasury UK Leader, PwC; Ruth Wandhöfer, Global Head of Regulatory and Market Policy, Citi Treasury and Trade Services; Shannon Wilkinson, CEO, Reputation Communications.

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