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July/August 2016

Do you need a credit rating?

A credit rating is generally a requirement of public bond issuance and for some companies is an essential means of accessing debt markets. But what does it mean to be rated? We take a closer look.

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Audited member of BPA Worldwide

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Brexit… what to do now?

What many people, industry experts, politicians, the media and professional commentators thought would never happen, has. On 24th June we all awoke to the news that the British people had voted by a margin of 52% to 48% in favour of leaving the European Union and financial markets around the world went into meltdown. UK Prime Minister David Cameron resigned. There was a coup to oust the leader of the Labour Party and a meeting of the European Union in Brussels came to no real decision as to exactly when the UK will invoke Article 50 of the Lisbon Treaty which would start the divorce process.

So what does this all mean for you, your company and, importantly, the treasury functions you are tasked to manage?

This is a complex issue and we want to invite you to tell us what you are doing and what advice you are receiving. Please let us know on or off the record at **editorial@treasurytoday.com** We will report back and be your information base for this important topic. You can also start a discussion or ask a question in our LinkedIn Brexit discussion group. All accessed at **treasurytoday.com/brexit**

Your immediate focus is probably on managing market volatility but here are some of the issues and questions hearing:

- Is my company credit rating likely to be impacted? Might this be linked to the recent downgrade by Moodys of the UK's credit rating to negative?
- What does Brexit mean for SEPA?
- How is my supply chain likely to be impacted?
- Should I deploy my UK-based personnel in my EU-based operations?
- Is my UK-domiciled bank likely to move its offices to the EU?
- Should I review my treasury policy in any way?
- Should I delay or bring forward projects?
- Should we be thinking about alternative suppliers/markets ex-EU?
- Should we be considering Ireland as an EU base now that the UK has voted to leave the EU?
- If we are in M&A dialogue, are there any changes to competition law which affect M&As?
- Do we have any legal contracts/documentation which reference EU legislation which may be impacted?
- What is the likely approach to renegotiating the UK's trade arrangements with the EU?
  - Membership of the EEA (eg Norway)
  - Membership of EFTA (eg Switzerland)
  - Customs Union (eg Turkey)
  - WTO rules, or,
  - A bespoke deal
- What is the likely impact for my company's trading arrangements with the EU?

Help us to help you

Mail us at **editorial@treasurytoday.com**
Join in at **treasurytoday.com/brexit**

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For some companies attaining a credit rating is essential for access to the debt markets and is generally required for public bond issuance. In this article we explore the process, hear from the major ratings agencies and speak with the Group EVP of Corporate Finance & Investor Relations at Mahindra & Mahindra in India about his experience of the credit rating scene.

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Mike Hirst
Group Treasurer

easyJet

It's easy to get distracted by all the innovation in recent years, but managing an effective treasury that is fit for purpose should be every treasurer's key focus. Mike Hirst, Group Treasurer, easyJet, seems to have struck the right balance with a focus on perpetual improvement, leveraging innovation as a solution to specific problems. Here, he talks to Treasury Today about maintaining focus in turbulent times.

Adam Smith Awards 2016

in association with Bank of America Merrill Lynch

Rising to the challenge

Corporate treasury's biggest innovators were honoured at the ninth annual Treasury Today Adam Smith Awards Gala Presentation Lunch in London last month. We spoke to some of the winning treasurers who, in the face of an ever more complex set of challenges, have shown remarkable creativity and hard work in developing new groundbreaking solutions.

At last year's Adam Smith Awards, Treasury Today's Group Publisher Angela Berry challenged the treasurers in attendance to take inspiration from the day and return to their offices around the world with a determination to dream up even more innovative solutions to the evolving challenges they face. The bar, as Berry readily acknowledged, had been set incredibly high. But judging from the quality of this year's nominations, the treasury community was more than ready to rise to the challenge.

This year the programme attracted 219 submissions of the highest quality, coming from 19 different countries and spanning a wide range of companies of different sizes and industry sectors. Of course, from its very inception, the Adam Smith Awards has not only been about showcasing the creativity and ingenuity of treasurers across the globe, but also raising standards in treasury to new heights. And year after year this means an ever tougher job for the judges in picking the winners.

The Adam Smith Awards Gala Presentation Lunch was held on 16th June at Gibson Hall in the City of London. In the impeccable surroundings of a building once home to the National Provincial Bank of England, 240 industry professionals from across Europe, the Middle East, Africa and the Americas gathered for an event that will no doubt live long in the memories of all who were present. With such a diverse mix of treasurers, bankers and technology vendor executives coming together for one day to share ideas and experiences, the Adam Smith Awards Gala Presentation Lunch always has a special buzz about it. And this year was no different.

For the fourth year running, the awards were supported by Bank of America Merrill Lynch (BoAML). Speaking to Treasury Today after the lunch, Jennifer Boussuge, the bank's Head of Global Transaction Services for EMEA, said the variety and quality of the winning solutions never ceases to amaze her. "As the job of treasury teams continues to become more complex, [treasurers] are constantly challenged with new problems," she said. "The creativity, the hard work and innovation shown in the submissions this year was really quite exceptional. I would like to extend a hearty congratulations to all those who submitted but particularly to the winners."

Reflections on achievement

Treasury Today will be presenting the individual case studies in detail as part of the forthcoming 2016 Adam Smith Awards Yearbook. In the meantime, here is a taster of what will be included in the yearbook as well as the reflections of some of the treasurers who took home awards, either as an overall category Winner or Highly Commended Winner.

Etihad Airways

Overall Winner Treasury Today's Top Treasury Team, Best Financing Solution and Best Cash Management Solution

This year the Top Treasury Team – perhaps the most highly coveted of all the categories – was presented to the team at Etihad Airways, who also took the awards for Best Financing Solution and Best Cash Management Solution.

To say that Etihad Airways' treasury has been kept busy this past year would be something of an understatement. Under the leadership of Group Treasurer Ricky Thirion and Deputy Treasurer Adam Boukadida, the company embarked upon a multi-disciplined transformational project covering payment processing, liquidity management, collections and supply chain finance ahead of a scheduled change to the ERP platform in H216. An RFP process was initiated leading to a new mandate with Citi to become its international transactional banking partner outside of the Middle East, shortly followed by a second deal with the National Bank of Abu Dhabi for the airline's Middle East business.

Incredibly, given the resources already committed to the treasury transformation project, treasury also found time to execute a highly innovative diversified financing solution to raise $700m at 6.875% for itself and its equity partners amid incredibly challenging market conditions. The funds raised from the transaction will be used for increased capital expenditure and investment in the fleet, as well as for refinancing for each of the individual airlines depending on their needs.

Asked post-ceremony what winning an Adam Smith Award meant to him and his team, Ricky Thirion, Group Treasurer said: "I think the most important thing is the excellent recognition that we get. It validates the work that we've done as a team, not just to us but to our senior management and to our board and our shareholders. Coming from an organisation like Treasury Today, which is obviously world class and global, just adds so much more to that validation."

On the first-of-a-kind centralised funding vehicle that enabled Etihad and its equity partners to efficiently access the capital markets in a very cost effective manner, Thirion had this to add. "We are particularly proud of all the hard work we've put in, but also the ability to actually close and price a deal like that in a difficult market."

Microsoft

Overall Winner One to Watch, First Class Relationship Management, Best in Class Treasury Solution in the Middle East and Best Risk Management Solution

Microsoft is, of course, a company with a long history of innovation. The company's devotion to developing creative and new ways of doing things is evidently deeply embedded in the company's treasury department who have been serial winners at the Adam Smith Awards for many years now.

After winning two awards in two categories in 2015, Microsoft's General Manager of Treasury Anita Prasad and her colleagues managed to go two better this year by taking home awards in four categories. They were selected as overall category winners for First Class Relationship Management, Best in Class Treasury Solution in the Middle East and Best Risk Management Solution and the One to Watch category, in addition to scooping a Highly Commended in the Harnessing the Power of Technology category.

"We have done a lot of innovative things over the years leveraging Microsoft technology," says Anita Prasad, Microsoft's General Manager, Treasury and Capital Management commented. One of the more recent initiatives that the treasury team is very excited about is the utilisation of Microsoft's Power BI service through which reporting can be done in a very dynamic and visual manner. "For treasury, leveraging these products is brilliant as it allows us to manage a lot more work with a lot fewer people in the sense that people can now do other things and not just be data mining all day."

This year's success means a great deal to her team, Prasad added: "It is always a pleasure to be recognised by the Adam Smith Awards. They are the industry leading awards and, as I always tell my team, we always work hard and do some brilliant things. And then to be recognised by the Adam Smith Awards and our peers in the industry just makes it that much sweeter."

Total Nigeria Plc

Overall Winner Best in Class Treasury Solution in Africa

Africa, with its many complex and tightly regulated markets, is a region where treasurers perhaps encounter greater challenges than anywhere else. It should not come as a surprise then that this category, first introduced in 2015, tends to attract some imaginative solutions to counter the unique problems corporate treasurers face in this part of the world.

> "The award is a dream come true to me personally and to my colleagues – it is a success story."
>
> James Ajose, Treasurer, Total Nigeria

The solution implemented by this year's winners Total Nigeria was no exception. Amidst the current depression in the oil and gas sector, Total was keen to review their treasury processes with a view to enhance working capital and cash flows. High on the agenda was the processes around collections from 500 service stations that paid for their supplies with cash via one of the company's 12 relationship banks across the country. An E-Billspay solution that enables Total Nigeria's merchants to lodge payments via 8,000 bank branches across Nigeria irrespective of Total's relationship banks was implemented. This resulted in a dramatic streamlining of the collections process and reduced security risk as well as the costs associated with cash handling.

The treasury team's pride at winning such a prestigious accolade for the first time was evident to all who attended the Gala lunch. "The award is a dream come true to me personally and to my colleagues – it is a success story," James Ajose, Treasurer, Total Nigeria said after collecting his team's award. "And it is a confirmation of the good effort directed towards a project that is very beneficial to the company. And today, we are using this project, and it's giving us high cost savings and technology driven process so that a lot of frauds that were taking place are being prevented."

Royal FrieslandCampina N.V.

Highly Commended Best Financing Solution and Highly Commended Top Treasury Team

Treasurers know that undertaking an ambitious transformation project can often be incredibly challenging – even with the help of a large, well-resourced department. That is one of the things that make what the treasury team at Dutch dairy company Royal FrieslandCampina so remarkable. With a staff consisting of only two full time members and in a timeframe of only six months, the team were able to implement new technology to improve cash management processes and issue a first Green Schuldschein bond that established a link between finance and sustainability.

For the treasury team of a company that only became a multinational less than a decade ago, it was some achievement. "My former boss always said we are coming into the Champions League now so we have to play Champions League," a delighted Klaas Springer, Corporate Director Treasury for Royal FrieslandCampina told Treasury Today. "With this prize we can say we are up to it."

Rana Fayez El-Hajjar – Qatargas

Overall Winner Treasury Today Woman of the Year 2016

This year's winner of the Treasury Today Woman of the Year went to Rana Fayez El-Hajjar, Treasurer at Qatargas. As a leading treasury manager in the Middle East for one of the largest oil and gas companies globally, Rana has had to overcome a number of challenges and stereotypes to reach this position in a region where, unfortunately, there are not many women working in treasury, let alone at one of the leading treasury organisations. Her remarkable ascent to the top has left her eager to help others break through the glass ceiling, and she has played an active role in mentoring and coaching female employees at Qatargas aspiring to a career in finance.

Reflecting on her extraordinary journey at Qatargas, Rana said it is the recognition of experienced industry experts that an Adam Smith Award represents that means the most to her. "When you are doing something good you do realise that," she says, "but when experts in the field tell you that, it means a lot more. So I was really honoured to be here today."

Offering some advice to other woman seeking to emulate her success in building a successful career in finance, she added: "I think, whether it is treasury or any other field for that matter, the first thing is to build your confidence and make sure you have the knowhow. Because once you do that then you are a subject matter expert and you will be listened to. And then after that, once you have that knowhow, you need to operate slightly above the role that you are in. Don't always do just what is expected do a little bit more."

Work begins over

And so after a day of celebrating the achievements of industry's very best and brightest, the assembled treasurers departed from Gibson Hall to return to offices located across Europe, the Middle East, Africa and the Americas. But having taken a moment to reflect on what they have accomplished, they will all no doubt be eager to get back to their desks and continue the search for next year's winning solutions.

This is what the Adam Smith Awards are all about: recognising the creativity and ingenuity of the treasury community, in doing so, inspiring treasurers (and their banking partners) to think creatively and develop even better and more innovative solutions. As Vince Lombardi, arguably the greatest American football coach of all time, once famously quipped: "Winning isn't everything, but wanting to win is."

Agents of fortune: the value of a credit rating

A credit rating is generally a requirement of public bond issuance and for some companies is an essential means of accessing debt markets. We look at what it means to be rated.

A credit rating is the considered forward-looking opinion of a professional independent credit rating agency (CRA) concerning the relative ability of an entity to meet its financial commitments. The overarching aim is to provide necessary transparency, independence and consistency to the capital markets to help investors assess and price risk. The rating could be either international or national with ratings running in parallel. The latter concerns only issuers in their home market, meaning a higher rating could be achieved nationally than internationally (see the case study below) but giving access only to the domestic markets and currency.

The aim in all cases is to bring transparency and consistency to the assessment of creditworthiness, aiding the accurate pricing of credit risk. Once attained, the chief benefit of a rating is the increased comfort that independent analysis gives to investors, potentially opening up a wider pool of investors. To achieve a rating, a corporate will have undergone a high level of disclosure and evaluation and so for investors, although prudence suggests other sources of information should be added to the mix (not least the more detailed 'personal' story of the corporate issuer), ratings are commonly seen as a benchmark for helping to make investment decisions.

When rating a corporate, CRA analysts will source and sift a wide range of public and private qualitative and quantitative data. Once issued, public credit ratings are thereafter continually monitored and assessed in terms of issuer performance, providing stakeholders with as accurate, timely and consistent a picture of relative creditworthiness as is possible. Of course, it is up to the market to decide if that rating is useful or not.

For companies that have slid down the scale, even if it has moved into 'junk' territory (junk is predominantly an investor term, CRAs prefer 'high-yield' or 'non-investment grade'), CRAs will continue rating it all the while there is debt outstanding, although if the information required to maintain the rating is not available (such as if the company is in liquidation) the rating can be withdrawn by the CRA. "Generally, regardless of rating level, investors would want and need a rating on all outstanding debt," says Anjali Sharma, Head of Business and Relationship Management for EMEA Corporates, at Fitch Ratings.

The reality of deriving a credit rating is complex for the CRA not least because it must put its view into a very broad commercial context. "By assigning a rating, we are not just providing an opinion and a rationale about a company but we are also comparing it to all the other companies that we rate," explains Moody's William Coley, SVP Credit Policy, EMEA Corporates. Using a common language to discuss credit quality thus means an individual rating from one CRA allows an investor to compare relative creditworthiness regardless of the class of debt it is applied to. Although not all CRAs will take the same view of that creditworthiness, well-known equivalency amongst their ratings make for easy comparison.

The Big Three and the competition

The first ratings agency was effectively created in 1900 by Wall Street errand-boy, John Moody. Poor's Publishing Company (the precursor to S&P) climbed on the bandwagon in 1916, and both were joined by Fitch in 1913. Today, the so-called Big Three issue an estimated 95% of the world's ratings. However, there are 94 other credit rating agencies and organisations spread across 44 countries globally.

The obvious power of the three main players has created a desire to break that stronghold. Scope, an agency with offices in London, Paris, Madrid and Frankfurt, vowed to become an "alternative to the status quo", taking on the Big Three in its European homeland. It first offered corporate ratings in 2012 following its merger with PSR Rating, a Germany-based firm specialising in the analysis of mid-size automotive companies.

In November 2013, credit ratings organisations from five countries (CPR of Portugal, CARE Rating of India, GCR of South Africa, MARC of Malaysia, and SR Rating of Brazil) formed a joint venture to launch ARC Ratings, a global agency that also had its sights set on the Big Three. Today it has 18 offices and about 400 ratings staff. By way of comparison, Moody's alone employs 10,400 people worldwide and maintains a presence in 36 countries.

Concern that the Big Three credit ratings were not meeting the needs of emerging economies saw the rise of Hong Kong-based Universal Credit Rating Group (UCRG). 'The only international credit rating agency based in the Asia Pacific area' was officially founded in 2013 as a partnership between China's biggest ratings agency, Dagong Global Credit, the US-based investor-funded Egan-Jones Ratings, and Russia's privately-owned RusRating. Its inception was hailed by former senior World Bank vice-president Ana de Palacio as an "invaluable asset" that can take on companies which now dominate the global industry.

More choice for corporates means more transparency of opinion for investors but also perhaps increased confusion for corporates. Ratings advisors can guide companies through the selection and subsequent processes. This role is often taken by the lead bank employed by the corporate to bring its bonds to market. "A rating advisor can be invaluable for a company considering a rating for the first time," notes Sharma, adding that more than one CRA may be used at one time and that changing agency is possible.

From top to bottom

Issuers will normally be given a rating as a business (Fitch for example refers to this as the issuer default rating). In addition, all its debt issuances can be rated separately (for Fitch, this is the instrument rating). If, for some reason, the company does not agree with the rating decision it can appeal to the CRA if it provides materially new or additional information, but there is no specific right to do so.

Broadly, ratings range from investment grade (where, for example, S&P's AAA is at the top, down to its BBB- at the bottom) to the non-investment or high-yield grade, which for S&P ranges from BB+ down to D (D being a state of default). For all but defaulted ratings, or (in Fitch's case) very lowly rated issuers where default risk is already very high in the 'C' to 'CCC' rating categories, the CRAs also offer a 'rating outlook' to guide investors on the likely direction of the rating over a one- or two-year period. This dynamic but self-explanatory assessment ranges between 'positive', 'stable' or 'negative', with the option of placing the issuer on a shorter timeframe (three to six months) 'rating watch' where events dictate, again citing a negative or positive stance based on the expected outcome of a major event (such as an M&A).

A ratings watch can be applied when something material is expected to change the credit profile, explains Sharma (a debt-funded acquisition that might materially affect the leverage metrics, for example). A rated company will already have, she adds, "rating headroom" at its existing rating level whereby it has a degree of latitude before it would become necessary to consider changing the rating.

Although a low rating may be seen as undesirable or even "insulting", the high-yield end of the spectrum it opens up for corporates still has an important role to play. "There really should not be a stigma attached to a lowly-rated company because ultimately a corporate can choose to operate at a capital structure that provides an optimal return for its shareholders," explains Sharma. Indeed, it could decide to operate as a more highly leveraged company which may result in non-investment grade status. "Ultimately it is the company's decision as to what capital structure it feels is appropriate for itself and for its shareholders," she notes. And clearly there is an investor base covering all ends of the ratings spectrum.

Building an accurate picture

"When a company is thinking about getting a rating, the sooner they engage with the rating agency the better," advises Sharma. The reason is simple: at the time a bond is being launched, the company will be going through many different concurrent processes including bond documentation, meeting with lawyers and bankers, and organising roadshows.

The first step forward with the agency in the (typically) two to six-week process, is to create a formal ratings presentation of key facts and figures. This also entails a detailed Q&A session with the CRA. Because CRAs do not give advice, the presentation may be prepared in-house by the company or with the guidance of its ratings advisor.

From here, methodological analysis will call upon a broad sweep of qualitative and quantitative data. It will include aspects such as financial profile, cash flow, earnings, capital structure, financial flexibility, corporate governance and group structure. To achieve a rounded view, typically a CRA would start with the previous three to five years' of audited accounts giving it a base in terms of historical performance of the company. The base analysis will be supplemented by details on the business plan including its market position, anticipated transformative events (such as major M&A), product portfolio, geographical presence, operational scale and flexibility and so on.

Ultimately, a rating must be forward-looking, so history is never going to be the sole source, says Coley. Forecast information will therefore be required and it is likely that once all data has been aggregated, stress testing certain scenarios will help create that view.

It may be that a company wishes only to dip a tentative toe in the credit rating pool, in which case it may opt for a private, rather than public rating. This, Coley explains, allows the company to develop a relationship with the agency and industry analysts in a private setting. The advantage is that it enables the company to understand the way in which external parties view its credit status, how the agency rates it relative to its peers, and also to understand the key ratings drivers in terms of its ongoing ratings performance. It will then be the decision of the company – not the CRA – to choose when it wishes to make its rating public.

Managing the message

All ratings are subject to regular reviews by the CRA's rating committee, typically annually, although awareness of any grounds to examine it will call the rating committee to action at any time. Unlike price-based market-implied ratings, which may change from day to day, the purpose here is not just to provide ratings accuracy but also deliver a degree of ratings stability for investors and issuers. "Part of the essential role of managing a rating relationship and having the right rating out there is that it should be at least somewhat resilient to everyday volatility," explains Coley. Ensuring this requires the identification and setting out in advance of the key drivers that could influence a rating. Such events might relate to a planned M&A or divestment, or the publication of the annual report.

Of course, as ratings need to be forward-looking, all CRAs value a transparent relationship with their corporates. And, says Coley, wherever possible if a company is announcing a transformative event (such as an acquisition) "it is helpful for us to know what is coming, giving us an opportunity to form our view in advance of it happening". The alternative is to run the risk of being placed on review, possibly for a downgrade, at least until the CRA has had time to formulate a full opinion and response.

Sometimes though events take on a life of their own. A company that has had an otherwise successful recent history may suffer a negative blip in a run of otherwise good fortune. CRAs must try to assess and calibrate such an event rather than having an automatic reaction. The recent events that led to the Moody's A3-rated Volkswagen putting aside over €16bn to cover its diesel emissions crisis is a case in point. Because the lines of communication were kept open and management remedial plans were discussed, the firm's rating was able to be maintained. "There is a lot of interaction and judgement applied," states Coley. "It is certainly not a mechanical process, we don't just look at historical figures or react on a hair-trigger basis to results as they come through."

Taking the plunge: Mahindra & Mahindra

When in October 2015 India-based multinational Mahindra & Mahindra (M&M) was assigned a Baa3 issuer rating with stable outlook by Moody's (matching India's sovereign rating) the company – which was already AAA-rated by a number of domestic credit rating agencies (CRISIL, India Ratings, ICRA and CARE) – it joined a select group of Indian corporates with investment grade status.

M&M is a $16.9bn multi-sector business headquartered in Mumbai, with a presence in more than 100 countries. K Chandrasekar, the group's EVP of Corporate Finance & Investor Relations, says the international rating not only enhances the "finance brand" of M&M but also adds credence to its Mahindra Rise programme which aims to place the company amongst the top 50 'most admired global brands' by 2021. "The initiative to get this rating was a step in tune with this aspiration," he comments.

The decision to go with Moody's was based on M&M's pre-rating evaluation of the agency's philosophy and rating methodology, coverage and industry understanding. This starting point led to "meticulous preparations involving data room, details and presentations". A "crack team of finance professionals" researched, assembled and presented their findings to Moody's. "The team undertook to understand Moody's ratings of various industries and companies and the underlying drivers for ratings, linking this to our businesses," explains Chandrasekar. Preparations were both "challenged and enriched" by the nature and structure of M&M and the team sought help from M&M's relationship banks "whose interactions assisted us in appreciation of the process and enhanced our level of preparedness by practising shadow-rating exercises".

Prior to this exercise, M&M had been "mulling about the ratings for quite some time," notes Chandrasekar. The team was aware of the resources it had to dedicate to create the right outcome but once engaged, although demanding, he says the process was also exciting. "It was in a sense, also a deeply reflective exercise and at the end of it, despite the toil and sweat, the leadership and the team felt enriched."

With the rating secured, the importance of dialogue "at good and bad and in fact at all times" is acknowledged says Chandrasekar. "Sticking to agreed information sharing is a hygiene but ensuring a constant level of engagement is the real key. We have now started implementing this in our relationship with all our rating agencies."

Although having an investment grade rating "gave the entire ecosystem of the group a boost", Chandrasekar points out that the most "visible and immediate" impact is on treasury activities. "It improved our international access to capital and credit lines – and now even the most conservative of international banks have made a beeline to us," he notes. "Today we are known not only as a sound treasury but also as an externally benchmarked treasury."

Having been through the process, Chandrasekar is ready to impart his wisdom to other corporates seeking a rating. For any business aspiring to become a global company "it is an obvious thing to do", but it is better to be done much in advance of raising capital, and then not just to fulfil a rating requirement. The exercise itself is "a long drawn-out one" in which business and finance functions "have to tango together". As such, he feels it pays to have a team approach "and to take it in all earnestness as a self-discovery for the company". However, he adds, the three most important elements for success are "preparation, preparation, preparation".

Turkey: a resilient bridge

A leading emerging market economy, Turkey is positioned in a strategically significant location between the East and West. In addition to a long history of relations with the EU, the country's economy has shown remarkable performance with steady growth over the last decade. Treasury Today takes a closer look at the business and treasury landscape.

During a briefing in the country's capital at the end of 2015, Turkish Deputy Prime Minister, Mehmet Simsek, reported a rise in that year's growth forecast to 4% from the earlier 3%. Citing economic "momentum" and domestic political stability, Simsek added that the government expect annual GDP expansion will reach 5% in 2017 and 2018. Fast-forward to May of this year and Standard & Poor's had revised Turkey's credit rating to stable from negative. The firm also evidently recognises the Turkish economy's resilience in the face of global and local threats to the country's stability.

Making an impression

These recent signals add to an ever-growing list of Turkey's achievements in recent years. GDP has increased from US$230bn in 2002 to US$799bn in 2014 and in the same given period, GDP per capita rose from US$3,492 to US$10,395. Turkey represents the 16th largest economy in the world and has been expanding its reach; exports totalled US$158bn at the end of 2014.

There is a unique set of factors working in the country's favour – for example, Istanbul, Turkey's largest city, is also the largest city in Europe. It is the only city stretching across two continents and over 50 countries from three continents are within a four hour plane journey. But the country doesn't rest on its laurels; Turkey's economic performance is recognised as an example for other emerging

Key facts

Geography and society

Population: 79m (2015 estimate)

Capital city: Ankara

Time zone: EEST

Land boundaries: Greece, Bulgaria, Georgia, Armenia, Azerbaijan, Iran, Iraq, Syria.

Economy and business sector

Currency: Turkish lira

Financial capital: Istanbul

GDP annual growth (2015 annual): 4%

GDP per capita (2015): US$9,261

Ease of Doing Business rank: 55th (2016)

Index of Economic Freedom: 79th (2016)

Politics

Government type: parliamentary republic

President: Recep Tayyip Erdoğan

Prime Minister: Binali Yıldırım

Trading partners

Top import partners (2015): China, Germany, Russia, US, Italy, France.

Top export destinations (2015): Germany, UK, Iraq, Italy, US, France.

Country credit rating

BB+ (S&P)

markets. A recent World Bank report, titled 'Turkey's transitions', explores the country's transition from lower to higher middle income in order to share learnings with interested developing countries. In terms of what has driven Turkey's economic progress, the country's "economic integration into global markets and among advanced and less developed regions in Turkey" was identified by the report.

This development and integration, of course, is also of interest to those who do, or wish to do, business in the country. According to the Central Bank of Turkey, foreign direct investment (FDI) into Turkey reached US$16.5bn in 2015 at a growth rate of 32% from the previous year. In 2015, the country attained the highest ever annual FDI since the global financial crisis with the monthly average exceeding US$1bn.

The country's currency, the lira, however, could be cause for concern. It is one of the key emerging market currencies that comes under pressure as a result of market events – the Federal Reserve raising interest rates again, for example. No country is without its challenges, though, and the outlook, in general, is very promising. For example, the Investment Support and Promotion Agency noted the country's attractiveness to foreign investors is likely to increase further with the realisation of a number of reforms, which have been defined in the 64th Action Plan – a government reform with numerous incentives for the private sector to flourish. Support for students and graduates, interest-free loans for entrepreneurs, and rural development incentives, for example.

In a 2014 report prepared in collaboration with the Foreign Economic Relations Board of Turkey (DEİK), Deloitte identified three major opportunities available for foreign investors planning to invest in Turkey:

1. The stable and continuous growth of the Turkish economy, with the goal of becoming one of the top ten economies in the world by 2023.
2. Its strategic location with strong historic and cultural links that would afford investors access to the whole Middle East market.
3. A favourable demographic distribution of the population with a very high ratio of young people.

In fact, the country's location drives a noteworthy trend, says Soyer Ersoy, Head of Global Liquidity and Cash Management, HSBC Turkey. "Many corporates decide to make Turkey their regional treasury hub to cover the Europe, Middle East and Africa (EMEA) and Middle East and North Africa (MENA) regions."

Treasury in the country, in general, is strategic, collaborates with the businesses it serves and is using automation and treasury centres of excellence to consolidate and standardise finance and accounting activities, he adds. "Mostly, treasury departments are very mature and centralised, consisting of former bankers and treasurers with experience globally and locally."

Supporting corporate growth

Against this promising backdrop, all eyes are on the country's future. For treasurers wishing to operate in Turkey, a strong banking group to support the company's activities will be a necessity. HSBC has been present in Turkey since 1990 and in February this year, the bank announced its commitment to the Turkish market. HSBC was amongst the banks that weathered a radical macro and financial sector adjustment programme, implemented in the aftermath of the 1999-2001 financial crises in Turkey. The Banking Sector Restructuring Program is largely credited for the turnaround of fortunes for Turkey's banks. Banking legislation was also adjusted in accordance with the relevant international regulations and the European Union (EU) banking directives.

"Now, the banking sector in Turkey enjoys a leading position in the world with an ever-growing asset size and strong equity structure, protecting it against shocks that may arise from loans or turbulent market conditions. This strong equity structure enabled Turkish banks to weather the storm well during the liquidity crisis in 2008," says Ersoy.

The Turkish banking industry is highly developed and competitive. There are 47 local, international and participation banks in Turkey, according to The Banks Association of Turkey in May 2016. "International banks bring with them new technologies and risk management techniques, funds for the banks in need, regulations which can reduce the amount of financial capital that may flee the country in times of crisis and continued lending following shocks that could have a negative effect on the local banking sector," says Ersoy.

In terms of regulation, the sector is well-regulated. All local and international banks are monitored and governed by two primary regulatory authorities: the Banking Regulation and Supervision Agency (BRSA) and the Central Bank of Republic of Turkey (CBRT).

Payment instruments

- Cash is mainly used for low-value retail and commercial transactions.
- Credit transfers are used for high value payment transactions. All credit transfers are automated and can be initiated via bank branch, ATM, telephone, mobile or online. Please also note that there are no low value payments in Turkey.
- Direct debits. Although direct debits are not widely used, they are available.
- Cheques are mainly used for large-value commercial payments. The use of cheques in Turkey can cause operational issues – although the use is declining.
- Card payments. The use of card payments has increased rapidly in recent years; there were 57m credit cards and 105.5m debit cards in circulation at the end of 2014.
- Electronic banking is also available from all of the country's commercial banks.

From a global liquidity and cash management perspective, internet and mobile banking users increased by 34m in 2014, representing a 300% increase from 2009, according to the Turkish Banking Association. Therefore, there is "much demand for technology to grow and innovation is highly appreciated by corporate banking clients", says Ersoy.

As banks continue to heavily invest in high-tech and user-friendly solutions, HSBC's Global Liquidity & Cash Management Team (GL&CM) in Turkey prides itself on innovation. For instance, HSBC launched a Virtual Account solution last year in Turkey that "has been welcomed by the market", says Ersoy. The solution allows identification of payer information attached to collection to facilitate the reconciliation process and achieve timely management reporting, and can be managed by HSBC or an ERP.

The GL&CM team offers an enriched proposition with a fully aligned cash management, liquidity management and cards proposition to the Turkish market. As a direct member of all local collection and payment systems, HSBC Turkey provides a full range of payments and cash management products and services. The local sales team also provide a consultative approach to support connectivity and SWIFT solutions.

According to Ersoy, the banks' services are a recognition of the fact that the same online banking tools popular with international corporate clients, such as FX treasury tools and/or efficient customs tax payments online tools, are also very important for local customers in Turkey. "Local or international banks who can provide these tools have considerable shares in these large corporate clients."

Overcoming hurdles

As with most countries, there are some nuances for treasurers to be aware of. "Turkey can be a complex and challenging market requiring adaptability and persistence," says Ersoy. When compared to the SEPA countries and US cheque and cash collections, he says, payments practices are somewhat different for corporates in Turkey. Post-dated cheques in the market, for example, are an issue. Cheques are still frequently used in the commercial segment and are a part of daily life. HSBC, as a direct member of the clearing system provides electronic solutions to customers for cheques.

Turkish laws and regulations regarding tax issues within group companies is a key point that treasurers should be aware of, on top of local cash collection practices. There are some regulations around liquidity management, such as notional pooling – a common practice in Europe – that are not allowed in Turkey. "Liquidity management is basically regulated in the context of companies rather than financial institutions in Turkey. Therefore, before entering into any type of liquidity structure, companies will be expected to seek their own tax and legal advice," says Ersoy.

All eyes ahead

Turkey's natural position at the crossroads between Europe, the Middle East and Central Asia means the country is a regional logistics base and the transportation sector a source of economic growth and employment. Turkey's current logistics industry size is estimated to be around US$80-100bn and is forecast to reach US$108-140bn by 2017. In addition to a customs union agreement with the EU (all customs practices are aligned to WTO standards) and ambitious government plans for infrastructure improvements across road, rail, air and sea transport channels, it is perhaps unsurprising that trade plays an important role in Turkey's economy. According to the Turkish Ministry of Foreign Affairs, the EU is Turkey's largest economic partner, accounting for around 40% of Turkish trade. It has been an EU accession country since October 2005 and, in accordance with its accession talks, has adapted a number of its policies and procedures in line with EU standards.

There shouldn't, therefore, be too many shocks for European treasurers. What's more, there are no exchange control restrictions affecting inward or outward investment, the repatriation of income or capital, the holding of currency accounts or the settlement of current trading transactions. Corporate income tax is 20% (reduced from 30% in 2006) and the dividend withholding tax rate is 15% on distributions of profit to non-resident shareholders and amounts repatriated by a branch to its head office. Dividends distributed by a resident Turkish entity to another resident Turkish entity are exempt from dividend withholding tax.

Since current global market conditions are volatile, treasurers are likely to be (rightly) cautious about exploring new markets. But Turkey is often heralded as a leading emerging market economy. In April this year, Bloomberg reported that Turkey is defying domestic challenges and offers one of the best risk-adjusted returns in emerging markets, second only to Colombia.

And as banks such as HSBC confirm their commitment, access to a "trusted and recommended banking partner, with a broad range of innovative and relevant products and services, and the financial strength and stability to support their business in the future", says Ersoy, is assured.

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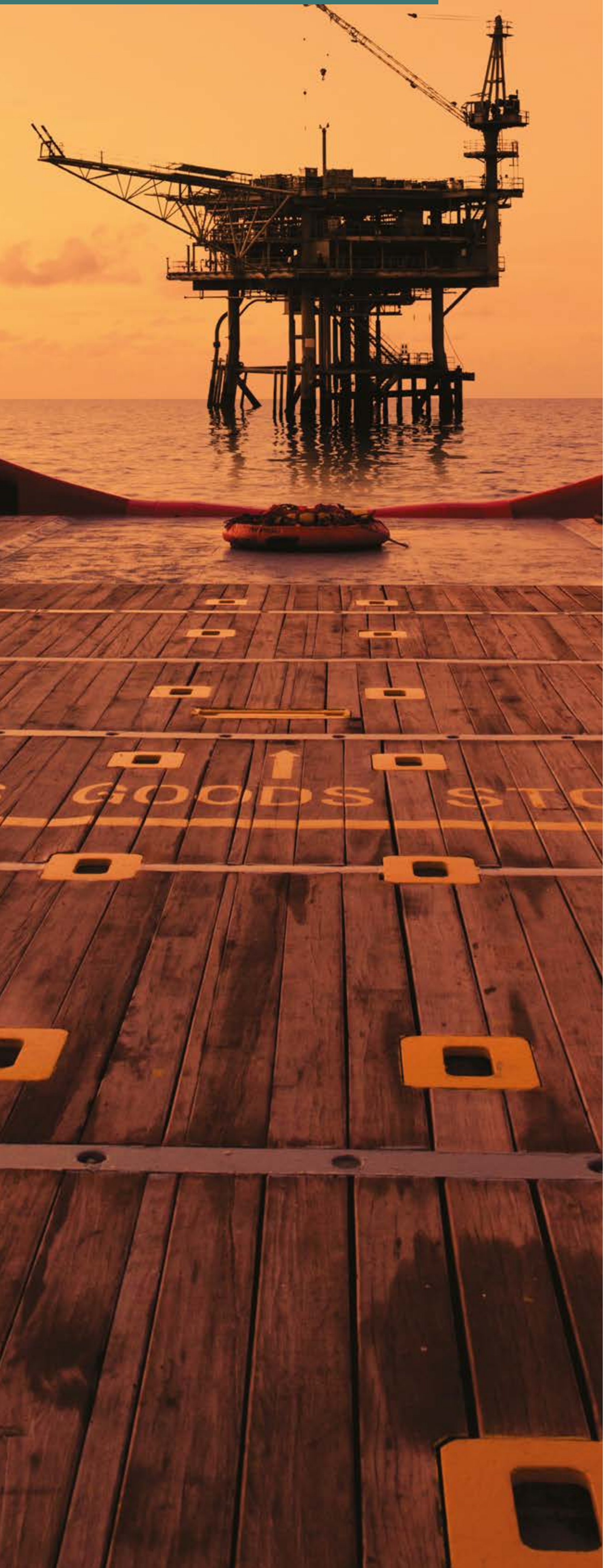

Treasury in the next oil shock

The recent slump in the price of oil is already having far-reaching consequences for corporates and their treasury departments. In this article, we consider what treasurers might be faced with were we to see yet another big collapse in the commodity's market price. Considering the impact of the most recent price shock will be key to understanding how such a scenario might play out.

Who guessed in the summer of 2014 that the price of a barrel of oil would be less than half of its value by the beginning of the following year? One or two now very wealthy hedge fund managers aside, the answer was almost nobody.

Back in June 2014, a barrel of West Texas Intermediate (WTI), a commonly used market benchmark, would have set a buyer back $109. By January 2015, the price hit $48 – a decline of around 55%. One year later, in January 2016, the benchmark had slipped to below $27 a barrel, its lowest in nearly 13 years.

Although this event was the fourth market correction oil has seen since 1980, financial markets seem to be perpetually surprised by large swings, hence the 'price shock' label. The difficulty experts have in predicting where the price will go next poses a challenge for market participants given how hugely consequential price shocks can be for the global economy. Soar too high and the oil price will, as we saw during the 1970s, trigger deep recessions. Plunge too low and the oil price can spell trouble for economies which are geared around production.

Corporates are subject to a similar dynamic. A very low oil price is usually good news for some companies – downstream oil consumers – and bad news for firms producing the commodity. The consequences for treasurers of another dramatic decline in the price will, for that reason, vary accordingly between individual companies and sectors.

Very broadly, the implications are likely to fall principally within the field of risk management for treasurers of manufacturing companies, airlines and manufacturers, who consume oil and its derivatives. Treasurers of oil producers, on the other hand, may face much bigger challenges. Just as we have seen in the wake of the most recent correction, the very survival of some companies may hinge on how well their treasury adapts in the face of the challenges it poses in the area of liquidity management and funding, as well as risk management.

Attempting to forecast precisely the timing and extent of the next price shock would be a perilous endeavour. But by looking back at how the last market correction played out, treasurers can get some sense of what might be in store when it eventually comes around.

Credit crunch reprise

Perhaps the most troubling of all that might be in store is a potential repeat of the sort of turmoil we saw at the height of the last financial crisis. Back then, of course, a banking crisis was triggered when billions of dollars of dodgy subprime loans sold and then resold by banks and investors began to unravel and default. Those defaults then put those who had bought and sold the securities under near existential pressure.

If there is another, even bigger oil price shock in the coming years, experts worry we could see a spill over into the credit markets of similar proportions. All the ingredients would appear to be already there in the markets. According to data from Barclays, junk-rated energy producers expanded their borrowing on the bond markets 11 fold to $112.5bn at the height of the shale boom from 2004 through to 2014. This debt is naturally becoming a lot more challenging to service with the price of oil where it is now, and defaults are beginning to mount. In 2015 alone, 42 oil companies filed bankruptcy proceedings, according to law firm Haynes and Boone. Were the price of oil to go into freefall again in the near future, the numbers could get even worse.

"If there was a very significant drop in oil prices I think the impact could be almost similar to the housing crisis that we had in the US," says Daniel Stauffer, Commodity Risk Consultant, Intl FCStone. "It will perhaps not be quite of that magnitude, but I think the credit tightness that we saw back then could definitely remerge if we started to see new lows in oil."

Specifically, Stauffer believes the tipping point would be WTI breaking through the double bottom around $25.50 set back in February 2016 and began heading towards the "high teens". "That would really start to cause some pain," he says, "and unfortunately the fear would spill over into the credit and equity markets, potentially leading to credit constraints throughout the wider economy."

Upheaval upstream

Perhaps, then, the aftermath of the next major oil price shock will look not too dissimilar to what we saw back in late 2008 and early 2009. During that period corporates learned, some the hard way, of the existential importance of effective cash and liquidity management. When banks begin to become more selective in their lending, treasurers have little option but to look more closely at how they can get the most out of their own resources. Using new technologies as an enabler, many treasuries have since endeavoured to centralise operations to achieve better visibility and control over liquidity and, ultimately, put isolated pockets of cash to work.

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>
> Daniel Stauffer, Commodity Risk Management Consultant, Intl FCStone

In the energy sector, we have been seeing a revival of this trend over the past several years. Indeed amongst oil producing companies – and firms heavily exposed to oil producing economies – the 2014 oil price shock put treasury efficiency in the spotlight like never before.

"When the crude price was around $148 per barrel, these companies were somewhat flushed with cash," explains Lance Kawaguchi, Managing Director and Global Sector Head, Resources and Energy Group for HSBC's Payments and Cash Management product group. "They didn't worry that much about efficient liquidity management."

A prolonged down cycle in energy prices impacts these companies a number of ways. The first effect is that liquidity begins to dry up. The second is that companies' credit ratings are put under downward pressure, leading to a decline in debt capacity. Thirdly, staff levels are commonly reduced leaving treasuries tasked with doing more with less. That banks say interest in liquidity solutions has been growing in the oil dependent nations of the Middle East in particular lately is not perhaps that surprising then. "It's a hot topic," says Kawaguchi. "In fact, liquidity has been the number one topic for clients in every country I've visited this year."

Kawaguchi says more clients now want to know what industry best practices are with respect to liquidity management. They want to know what practical steps they can take to acquire better visibility over trapped pockets of cash and they want to know about solutions that can help them bring this cash home in an expedient fashion.

Many of them are still carrying out their cash forecasting manually on spreadsheets he discovered. If there is a bright side to the turmoil an oil price shock can provoke, therefore, Kawaguchi thinks it is that it at least encourages treasuries to think about how legacy processes and systems for liquidity management might be due for a revamp. "What is so exciting for us at the moment is that these companies are now focusing and investing in ways to improve their days sales outstanding (DSO) and days payables outstanding (DPO)."

Growing awareness

Along with a renewed focus on working capital, a new oil price shock might also precipitate a change to risk management processes. Although conventional wisdom says a low oil price is good news for airlines, car manufacturers and other heavy consumers of the commodity for whom oil is a significant influence on revenue, a new approach to hedging commodity price risk may be just as necessary for these firms as for their upstream counterparts. In fact, the extent of the volatility seen in energy commodity markets since the oil price began to plummet in 2014 has already precipitated a review of risk management technology and processes at some companies producing finished goods derived from oil or oil derivatives.

To begin with, more companies are showing an appetite for using derivative instruments to offset their oil exposures, rather than simply agreeing to do a forward buy on the physical. "We have been seeing an influx of new clients, both on the consumer and producers side, who have been enquiring about hedging products," says Intl FCStone's Stauffer. "Many of these new customers are companies who have never hedged before. If a treasurer or CFO was not familiar with hedging commodities before the downturn, they should be familiar with it now."

The traditional model in which responsibility for managing commodity risks commonly resides with the purchasing department is also being questioned by a growing number of companies. Many are now endeavouring to incorporate the management of commodity risk into treasury departments. After all, not only are corporate treasurers experts in managing market risk, trading derivatives and hedge accounting: they also have an advantage in that they are able to look at commodity related risks more holistically, understanding better their relationship with other forms of market risk.

"What we've seen over the last 18 months or so is that CFOs and treasurers are becoming increasingly focused on breaking down the barriers between procurement and treasury," says Mark O'Toole, Vice President of Commodities & Treasury Solutions for OpenLink. For a vendor like OpenLink, which offers companies the means to obtain better visibility of both commodity and financial risks through a single platform, this is evidently good news. Indeed, O'Toole says his team have been inundated over the past twelve months with enquiries from multinationals, including a number of household names, now looking to take a more integrated approach.

But it may take the pain of another price shock and spell of severe volatility for some companies to make the switch from the way they have traditionally approached commodity risk management. "Something I am still noticing within some treasury departments is that treasurers say they are managing FX risk, for example, but are completely ignoring the FX exposure that comes from the procurement side of the business – their commodity exposures," O'Toole says.

"Procurement may have a lot of commodities denominated in US dollars, so you may be buying a physical commodity and it has an embedded exposure already built in it. However, that is not always visible inside treasury, so you may have a large outlier that treasurers may not be accounting for in their overall positions."

Technology can help in giving treasurers the visibility they need over such exposures by providing faster access to data that is part of the network. It is common, O'Toole says, for OpenLink to go into companies and find numerous different systems in place covering different areas such as cash management, currency, credit, investment and debt and enterprise risk management and procurement. Consolidating all of this data onto a single platform – as OpenLink do – can benefit corporates not only by reducing the cost of paying different vendors, working with multiple integration pain points, but also in terms of operational efficiency. Positions taken by the purchasing team affecting a particular exposure are automatically visible to treasury and accounting teams.

Perhaps one of the reasons some companies have been slow to make such changes is that, like the oil producers only now beginning to work on working capital efficiency, it is only lately market conditions have highlighted the shortcomings of the traditional approach. According to the Deloitte Global Corporate Treasury Survey 2015, only 22% of the treasurers surveyed cited commodity price risk management as a system functionality used by treasury. Were there to be yet another price shock in the near future, one might reasonably expect to see still more companies reaching the conclusion that an integrated approach is required.

Preparing for the unexpected

Looking at how the recent collapse in oil prices was felt in the treasury community evidently tells us a lot about how the impact of a hypothetical future market correction might be felt. We can see that another oil price shock, together with the market volatility that usually follows such a correction, would mostly likely force companies downstream and upstream to review traditional treasury processes and consider new ways of working – as many have already been doing since the last price shock.

Under pressure to implement drastic cost cutting measures, upstream oil producing companies (and others closely linked to oil producing economies) will be strongly incentivised to focus on optimising working capital and liquidity management. Meanwhile downstream, we may see yet more companies in oil exposed sectors such as manufacturing, retail, food and beverages, seeking to actively hedge their exposures with financial derivatives for the first time and develop more advanced and integrated procurement and treasury methodologies.

It would be better, of course, to begin taking action now rather than waiting until the pressure of a crisis necessitates it. Although few people could have guessed the timing and the scale of the last oil price crash, the number of price corrections we've seen over the past several decades suggests they are events worth preparing for. In the long run, the changes introduced by companies in the wake of the recent oil price shock should be a very positive development for treasurers and their companies. The time is now for treasurers to take the lessons that can be drawn from the last price shock and start planning for the next one.

Digital flows

The digitisation of trade has been a long time coming. It would seem however, that real momentum is beginning to build and that trade is truly beginning to enter the digital era. But what does a digital trading ecosystem mean for corporates and what may a fully digital trading ecosystem look like? Treasury Today explores.

Over the past century, technological advancements around trade have dramatically reshaped the way global business is conducted. Be it the developments made in transportation, that now see planes, trains, ships and automobiles weave a complex web of trade routes across our planet, keeping the global economy, and indeed our everyday lives, ticking over. Or the ever expanding digital ecosystem, where data flows invisibly and instantly around the world.

The result of these changes is a world that demands instant gratification. No longer do businesses and consumers want to wait more than a few days for goods – even if these are being shipped from the other side of the world.

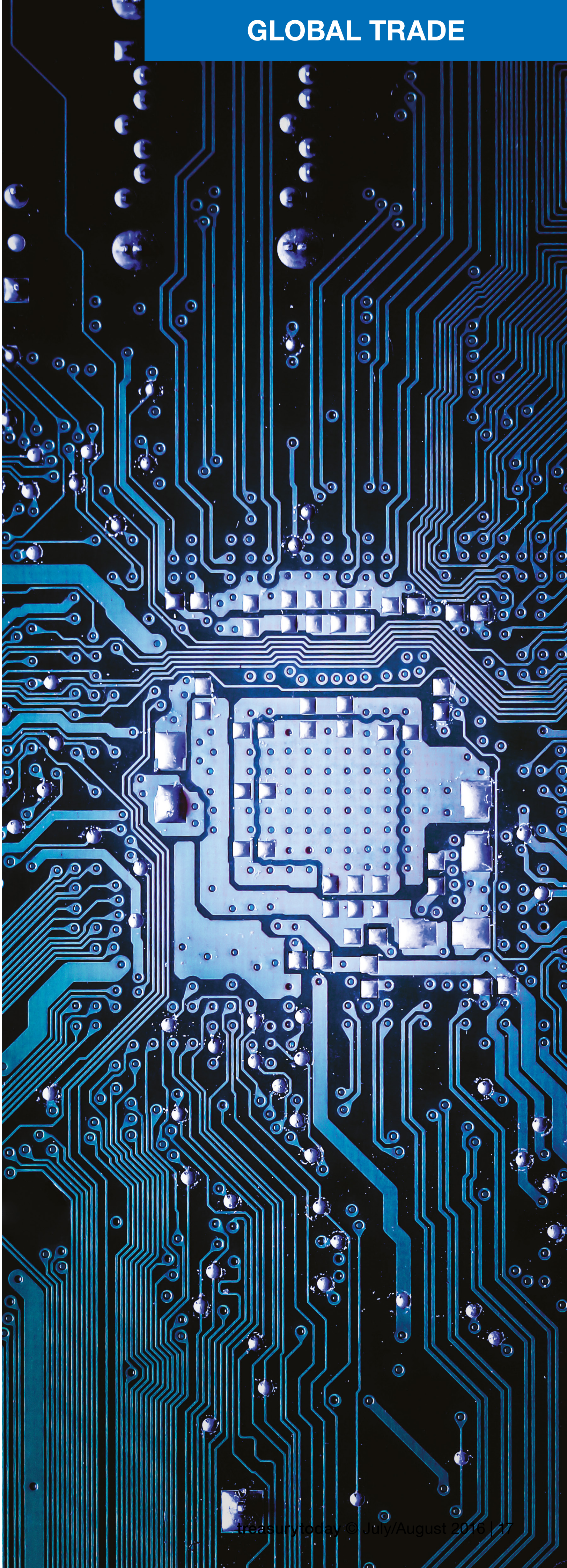
At a consumer level, arguably this has been achieved. Businesses have been able to develop complex supply chains and distribution networks that enable instant gratification for their customers – Amazon, for instance, are now offering one-hour delivery on some goods in certain locations.

But at a commercial level, this isn't often the case, and goods can only move as quickly as the paper documentation that supports them – just as was the case a century ago. This causes delays, risk and ultimately cost to businesses on both sides of the trade. But paper's tenacious grip over the trade ecosystem may be beginning to abate and corporates may soon, if not already, be able to digitise at least some of their trade activity.

The last bastion of digitisation

It would be natural however for some treasurers to be sceptical of that comment, and not without good reason. After all, the promise of digitising trade documentation, and the trade ecosystem more broadly, has existed for some time. Indeed, it was Professor Paul Todd at Southampton University, who, in 1997, wrote that "it is possible, on the basis of existing technology and under the existing legal framework, to replace bills of lading by electronic documents, which can in principle afford to the parties security at least as great as existing paper documents."

And nearly two decades on, whilst there has been some progress, it still remains a key topic for the industry. "I describe trade finance as the last bastion of paper and



manual process in financial services," says Ian Kerr, CEO at Bolero, a company that has been pushing for the digitisation of trade for nearly two decades. "If you look at other areas such as cash management, payments, investments and so forth, these have all moved onto digital channels."

For Kerr, trade is an area gripped by inertia. "The processes in trade finance have been around for many centuries," he says. "Bills of lading for instance were first launched in the 13th century and how these are used hasn't changed much since then."

Vivek Ramachandran, Global Head of Product and Proposition Management at HSBC, is another who agrees that trade has been slow to digitise when compared to other areas. And he offers two key reasons for this. "A trade transaction has many stakeholders involved in the process, and is typically cross-border," he explains. "Even the most basic transaction will feature an importer, an exporter, a logistics company, customs, clearing houses and often multiple financial services companies. As a result, it is an incredibly complex ecosystem and one where it is difficult to drive change. Even if 99% of the process is digital, it all falls down as long as one party requires paper to be introduced into the transaction."

Moreover, Ramachandran also believes that the lack of coordinated regulatory pressure on a global scale has further limited digitisation in the trade world. "A lot of digitisation in cash management has been driven by regulatory considerations – think SEPA," he explains. "But, in the trade space there hasn't been this coordinated regulatory response on a global or regional level." This leaves both institutions and corporates with a lot of questions over how a fully digital trading ecosystem can be created and what standards this should adhere to.

Incremental steps

Trade is therefore digitising incrementally with small but meaningful enhancements being made to solutions by all parties in the ecosystem. And these in turn can have a big impact on how corporates can look to automate and streamline their trade processes, and ultimately be the building blocks that lead to a fully digital ecosystem.

Bolero has recognised this incremental change in the market. "It is a conservative industry and this has to be recognised," explains Kerr. "What we are seeing however is the adoption of digitised trade solutions by some very high profile corporate names and consequently their financial partners and trading partners. There is a momentum shift in the market and these companies want to become fully digital in the next five years."

And banks are recognising this as well, with many investing heavily in their own solutions to ensure that where possible trade and the management of trade documents can be done digitally. Bank of America Merrill Lynch (BoAML) for instance, earlier this year, announced an enhancement to their CashPro® Trade solution which enables electronic document identification and retrieval allowing the entire transaction history and associated documents to be viewed through a single window.

As Percy Batliwalla, Head of Global Trade and Supply Chain Finance at BoAML, explains: "Enhancements such as this ensure our clients have full visibility over the transaction and know what needs to be approved and by when. Whilst this may seem fairly basic and fundamental it hasn't existed before in such a way that can really add benefit by streamlining the often tedious, manual process of document identification.

"In trade, corporates have relatively simple requirements: they want enhanced working capital, operating efficiency and cost reduction. And incremental improvements such as this that we and others have done can therefore add a lot of value to what our clients are doing today."

The bank payment obligation

In fact, data matching sits at the heart of digitising trade and ultimately it will be this that enables corporates to achieve straight through processing. The question that remains is how exactly this will be achieved.

To date, the solution that has widely been seen as having the most potential is the bank payment obligation (BPO). Billed as the first end-to-end automated trade solution, the BPO is an irrevocable conditional obligation from one bank to pay another bank, subject to the presentation of compliant data in the SWIFT Trade Service Utility (TSU) – which matches data items such invoices and orders – and is based on ISO 20022 standards.

Despite the solution's attributes, take up has been slow to say the least. Numerous explanations have been given for this, but one key reason it seems is the poor education and positioning of the product by the banks. "The positioning of the solution is very important," explains Nadine Louis, Market Manager, Corporate and Supply Chain Markets at SWIFT. "Some simply see this as just a digital alternative for documentary trade. But it has more potential than that and can actually assist corporates with their open account transactions by enabling them to receive much faster financing than would typically be available."

And SWIFT are seeing the solution grow in popularity, especially given its ratification by the ICC and also the BPO+ transaction that took place last year which utilised electronic documentation – provided by essDOCS – straight through, end-to-end for the first time in BPO transaction. This removed the need for data from documents to be manually entered into the SWIFT TSU, thus mitigating risk and eliminating inefficiency from the process.

Also rapidly gaining credence in the SWIFT portfolio is the relatively new MT798 trade envelope. "In fact MT798 is used by corporates to communicate with their banks instructions related to import LCs, standby LCs, guarantees, or export LCs, in a similar structure as used between banks with the MT7xx family messages," says Louis. "That's why MT798 is seen as an extension of those flows in the corporate-to-bank space."

Growing the digital ecosystem

With developments like these, it would be fair to say that trade is truly beginning to be brought into the 21st century and that there will continue to be a concerted effort by industry moving forward. But as we have already explored, financial services alone cannot drive the digitisation of trade. There are numerous other parties that also need to be brought on board.

Regulators therefore will play a big role in driving the acceptance of digital trade globally. That being said, despite the talk, there remains no concerted effort to bring the world's regulators together to agree on a single set of principles and standards that will define how a digital trading ecosystem will work.

A disparate landscape will continue to exist adding complication for corporates and those delivering digital solutions. And whilst it may still remain difficult to trade digitally in emerging markets, there are countries, such as Australia, Canada and Singapore, with its 'smart nation' concept that are looking to push ahead.

The increasing regulatory burden on financial services more broadly may however accelerate the digital agenda. "Reacting to regulation is a challenge and you can sometimes feel that you are always behind the curve," says BoAML's Batliwalla. "But they are a reality of doing business and it is more prudent to focus on the opportunities these create. Digitisation can help financial services meet the standards of the regulators around areas such as know your customer (KYC), anti-money laundering (AML) as well as more broadly reduce systemic risk."

Away from regulators, corporates themselves have a vital role to play in driving the digitisation of trade. "A lot of what we are doing is still around education," explains Bolero's Kerr. "It is about growing an ecosystem and once one corporate adopts a digital solution and the benefits around increasing efficiency, removing cost and risk are made obvious to those companies in its ecosystem, they may then adopt and it will continue to spread."

A brave new word

As we have explored, there are many things that corporates can use today that can help them digitise their flows. But, the promise of digitisation doesn't stop at just making what we do today more efficient and effective. It actually provides the chance to go back to the drawing board and start thinking about not just how to make what is done today more efficient, but also how it can be done differently.

Distributed ledger, the internet of things (IoT) and big data are all areas that banks and other players are currently experimenting with. Distributed ledger, out of all of these, perhaps provides the most potential, in respect of creating a platform that can piece together all the disparate parts that make a trade transaction happen and in turn create a visible and secure chain of events that can go a long way to removing risk from the process. The recent Qingdao scandal for instance – where warehouse receipts were used to borrow loans from banks against a single deposit of metal – probably wouldn't have occurred should the distributed ledger have held all the documentation and transaction flows.

Yet to corporates, the distributed ledger still largely remains a theory, rather than a reality. And despite banks working on solutions there is still little information around what these entail and how they plan to be commercialised.

The IoT is another, perhaps even more ambitious, area that the industry is beginning to explore. And it may be that in the future every item contains a chip with its own IP address that allows all parties involved in the transaction to track the movement of goods and thus automate the financial flow – perhaps utilising the distributed ledger – alongside this. "This will provide full visibility over the flow of goods and finance in a transaction," says Kerr. "The risk can be reduced and so can pricing as a result."

HSBC's Ramachandran concurs. "There is an untapped opportunity to merge physical and financial supply chains and provide financing earlier into the system," he says. "At present, traditional supply chain finance is dominated by post shipment financing. But, with this extra visibility there is a real chance to bring pre-shipment financing into the equation."

Despite the promise of these areas, there are few that are brave enough to say exactly how this will all develop. And BoAML's Batliwalla issues caution: "Whilst it is important to focus on these cutting edge technologies, we must not lose sight of the fact that there are corporates today with real challenges that banks can help to solve," he says. "As an industry we must have two parallel areas of focus: namely how we can add value today, as well as how we can transform the industry in the future."

The third dimension

And looking to the future there may be technology that will more broadly transform the world of trade and how it is conducted. As previously mentioned, no longer is trade defined by the physical movement of goods and services, it is also defined by the flow of data around the world. And according to a recent report by McKinsey, the value of data flows added $2.8trn to the global economy in 2014, slightly more than the $2.7trn traded in goods.

Few would argue that this trend will not continue, and it may even grow at a greater speed as the development of 3D printing accelerates making it a real possibility for companies to completely re-define their supply chains and how these operate. And for some market leading companies this is already happening. The Mckinsey report highlights that General Motors is using 3D printing to make fuel nozzles for jet engines and expects the aviation unit to be manufacturing 100,000 parts using the technology by 2020.

"This has the potential to fundamentally change what our clients do," says HSBC's Ramachandran. "It will be these trends that shape the digitisation of trade and trade finance in the future, rather than the streamlining of traditional trade flows. And it poses many new questions to corporate treasurers with regard to how they manage the financial flows that accompany this movement of data and the technology that will facilitate this."

Moving ahead

Given all these developments, it would be fair to argue that after much delay, the digitisation of trade is truly upon us and that it will be the next five years that will shape how this space will play out.

Of course, there remain numerous hurdles that must be overcome, especially in regard to entire trade ecosystem coming together to decide on an agreed set of standards that will define how the digital era of trade will operate. But it is certainly an exciting time, and one that will pose numerous new opportunities, as well as challenges to treasurers, who must not only stay abreast of what they can do to help streamline their trade flows today, but also be prepared for the potential changes in global trade that may take place in the years to come.

Managing cash in a low interest environment

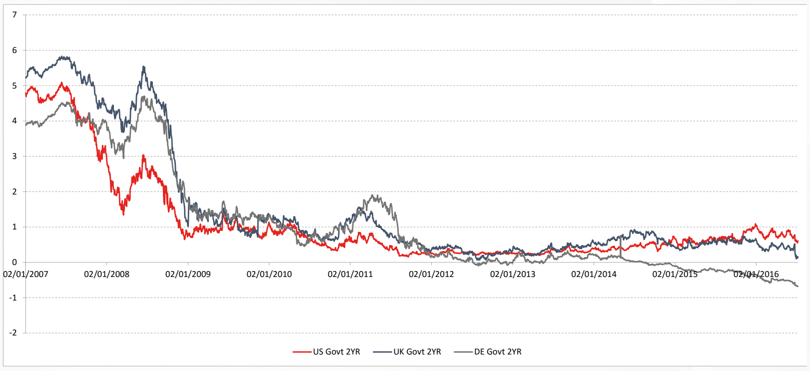
The low interest rate environment has been a dominant theme for the cash manager and corporate treasurer for several years. We look at the outlook for global growth, inflation, interest rates, and what to look for when evaluating investment options for longer-term cash balances.

A difficult backdrop

It has now been over seven years since the Bank of England Monetary Policy Committee (MPC) cut rates to the current historic low of 0.5%, and despite low unemployment and recruitment surveys indicating a tightening of the labour market, since early 2016 forward rates have been suggesting an unchanged or lower UK base rate for a further three years.

Sterling cash managers have been spared negative rates (for the time being at least), but they have nevertheless had to deal with the equivalent economic effect, as deposit rates have failed to compensate for the erosion of inflation. Furthermore, changes to bank regulation discouraging reliance on short-term funding, as well as an overall reduction of short-term wholesale funding needs, mean that even when policy rates begin to rise, the return available on short-term cash will be structurally lower.

Figure 1: Short-dated government bond yields remain low



Source: LGIM, Bloomberg, based on generic two-year government yields since January 2008

It is little surprise then that many corporate treasurers have been keen to explore how they can generate improved returns on their cash. How should the corporate treasurer interpret the interest rate outlook, and what options are available to mitigate the low return environment?

The macro picture

Our view is that growth and inflation (and therefore interest rates) will struggle to rebound. This is based on what we call the ‘four Ds’ – namely debt, deficits, demographics and deflation – which we expect to dominate the macro backdrop, keeping base rates and government bond yields subdued for the foreseeable future.

The first D is debt. If the ratio of debt to economic activity (GDP) rises for a prolonged period of time – as it has for some three decades in the case of the US – then the assets have not been able to generate the return to pay for the debt. In other words, capital has been misallocated, weighing on growth, discouraging future investment and sowing the seeds of social inequality.

The second D is the typical government response to a perceived cyclical downturn in the hope that growth will eventually improve deficits. Governments are promising their populations all sorts of future benefits, but have very little chance of following through on all of these commitments. In the meantime, they run deficits, thereby building up more debt and crowding out potentially more productive private sector activity.

Debt and deficits are real problems that are ultimately fixable by policymakers. However, the third D, demographics, is harder to influence. The problems faced by many developed countries are well known, particularly Japan and a number of ageing European countries. But perhaps the most important country in terms of global growth is China, and here the one child policy will weigh on demographics for a number of years to come.

It must be a great surprise to many people, notably the global central banking community, that despite seven years of zero interest rates and trillions of dollars of quantitative easing (QE), our final D, deflation, continues to threaten a number of countries. We believe the cause of this to be the structural problems outlined earlier.

The regulatory picture

Regulatory changes that have their roots in the financial crisis are also depressing returns for cash investors. In short, regulators wanted to make the banking system more secure by reducing its reliance on short-term funding.

As a result, Basel III regulations therefore state that banks taking in large deposits (such as those from large money market investors or corporate treasurers) must hold high quality liquid assets – typically central bank reserves or government bonds. In effect, this makes short-term wholesale funding more expensive for banks, reducing the return they offer for this type of financing.

The alternatives

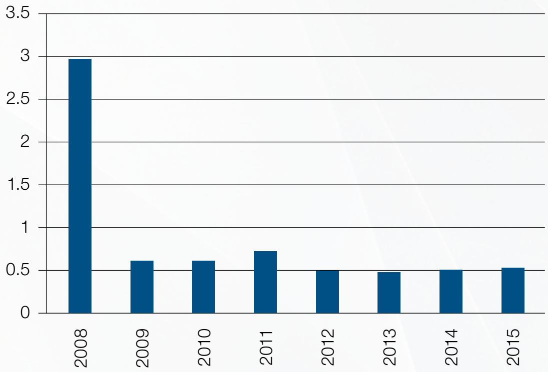
Typical approaches to generating an increased return on cash include:

Direct investing: Corporate treasurers can look to manage a portfolio of these assets where they have the appropriate internal credit research and trading resource available. A higher return can be generated, but potentially at the expense of capital preservation should the anticipated investment horizon change at short notice.

Liquidity plus or ultra-short bond funds: The more developed US money market saw significant allocations into ultra-short or liquidity plus funds in the years immediately following the implementation of ultra-low policy rates. There has been significant interest in these products in the UK as well, despite the bumpy performance of some funds during the financial crisis.

Separate accounts: Separate accounts enable investors to have a professionally managed portfolio tailored to their specific return requirements and risk appetite. In practice however, separately managed account guidelines often deviate little from standard pooled funds (eg AAA short-term money market fund), and therefore do not offer much in terms of increased return while sacrificing the efficiency of liquidity associated with a pooled fund. Separate accounts are useful where investors have particular risk and return profiles and where cash flows are predictable, or the investor is willing to sacrifice some return to meet unexpected cash requirements.

Figure 2: Sterling stable NAV money market fund returns have fallen



Source: IMMFA, based on 30 day gross returns at year end

A closer look at liquidity plus

We believe that the AAA short-term money market fund provides the best return outcome when also wanting to meet the principle objectives of daily stability of capital and same-day access.

For longer-term cash allocations however, where price stability may be a six or 12 month objective, the liquidity plus fund can be a useful addition to the cash management tool kit. That said, while the AAA short-term money market fund product is well established and understood, there can be significant differences between the liquidity plus, ultra-short and short-term bond options available.

Different approaches will suit different investment horizons and risk appetites. We believe that there are five key considerations for corporate treasurers when evaluating ultra-short or liquidity plus funds:

1. The investment horizon, and how the fund is designed to target capital preservation within that context.
2. The fund rating. While the bond fund rating assigned to a liquidity plus fund is less prescriptive than a short-term money market fund rating, these can provide a guide of overall credit quality and sensitivity to market risk. A bond fund rating will typically consist of a credit and market sensitivity component.
3. The investment capability of the provider, including credit research resource, and where the product fits within a range of investment products offered.
4. The underlying investments within the fund, particularly important with regard to structured finance, where the maturities of underlying loans can be very long dated (for instance mortgages) and perhaps therefore not consistent with a shorter-term investment horizon.
5. How return is generated. A short-term money market fund (ie liquidity fund) generates return over cash through a combination of credit and duration risk, albeit in a very controlled way (eg maximum 60 day weighted average maturity and 90 day weighted average life). A liquidity plus fund has more flexibility, so you should be comfortable with how risk is allocated and managed.

Ian Lloyd

Head of Global Liquidity Distribution, Legal & General Investment Management

Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets of £757bn*. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors. Throughout the past 40 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

as at 31st December 2015, including derivative positions and advisory assets.

Taking the rough with the smooth

Mike Hirst
Group Treasurer

easyJet

There have been volatile times in recent years and as such, it seems pertinent to speak to a treasurer who has had first-hand experience with the increasingly strategic role of treasury, including the necessity to shield cash flows against volatility, and advising both the board and team on how best to do so.

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easyJet's first flight was in November 1995 and less than ten years later, in 2004, the company had exceeded a £1bn turnover for the first time. Now, as Europe's leading airline, easyJet operates on over 750 routes across more than 30 countries with a fleet of over 220 Airbus aircraft.

Asides from being synonymous with the colour orange, easyJet is known for its no thrills approach to commercial flying – and this is something which shouldn't be understated. The value of systems and processes which reliably work without the pressure to fuss over innovation for innovations sake is perhaps overlooked in this day and age. And a treasurer who is focused on continuous improvement with an eye for what is – and isn't – fit for purpose is therefore someone to take note of. Mike Hirst, Group Treasurer of easyJet, meets these criteria.

"Why is it like that? Why does it have to be like that? Is there a better way to do this?" These are all reasonable questions to drive improvement and to challenge the status quo, Hirst says. It is with this type of "enquiring mind" that he approaches tasks, and the benefits are clear to see in easyJet's recent performance: in January this year, Moody's and Standards & Poor's assigned first-time stable ratings to the company (Baa1 stable and BBB+ stable respectively) and off the back of this, easyJet launched its first public bond.

Catching the bug

For someone who came across corporate treasury quite by chance, Hirst seems to have found his fit. "My undergraduate degree is in electrical engineering and when I graduated, it was very hard in general to find a job. I realised that whatever path I wanted to go down, some sort of business qualification would be beneficial," he recalls. Hirst therefore did his accountancy training with Coopers & Lybrand (now PwC), based at the firm's regional Cambridge office. "I was in audit and one of the most interesting clients, for me, was Thomas Cook. I was responsible for auditing Thomas Cook's travellers' cheques in their Peterborough office which was and still is home to the company's intensive treasury operation."

What followed Hirst's "first taste" of corporate treasury is extensive. Twelve months doing financial controls at J.P. Morgan's middle office and ten years at Tesco working in numerous different roles and projects – including as Financial Director for Tesco Stores Malaysia and assisting in the negotiations and implementation of chip and pin. Later followed by time at UK Power Networks building treasury capability after separation from EDF Energy Plc, it is evident that Hirst has racked up quite the experience since catching the bug early on.

Moving pieces

In this time, he has also seen the industry change as a result of the financial crisis in 2008 – and consequently the role of treasury evolve too. "After the Lehman collapse, corporates (rightly so) have required a more granular look at what drives cash flow and in particular what could cause volatility in cash flow," Hirst says. "Therefore, treasurers have to be risk managers."

And it is well known that risks have been intensifying over the last few years. The price of oil, an example pertinent to the airline industry, has been volatile for some time. "If you look at the business risk of easyJet, it can be split into operational and financial risk. Given the sector we operate in, there is already a lot of operational leverage in the business, the airline industry being cyclical," he says. Therefore, the board's appetite to take on additional financial risk beyond a certain point can be limited.

Hirst sees his role as three-fold in this regard. Firstly, he must assist the board in identifying the size of all financial risks they are exposed to and, secondly, it's about "helping the board guage whether they are in appetite or beyond their appetite", he says. Once this has been articulated, you have a gap between the risks you are taking and the level of risk that the board would like, he explains. "It's my job to then put together strategies for how that risk can be brought within appetite and execute the risk management strategy."

In terms of oil, the policy is clear, transparent and easily accessible online. This is intentional: easyJet wants its investors, both equity investors and debt investors, to understand what the company is doing and why, explains Hirst. "Any hedging policy should be consistently applied. You can't just keep changing your mind because your stakeholders won't know where you are and what you are about."

The role of hedging

The commodity price risk that easyJet runs as a business is, of course, quite substantial and could have a considerable impact on available cash if treasury did not hedge. "Cash flow

> "It's my job to then put together strategies for how that risk can be brought within appetite and execute the risk management strategy.

volatility risk is one of the financial risks we are mandated to control and not hedging would put that risk beyond the appetite of the board." Therefore, treasury hedge forward 65-85% of year one jet fuel and 45-65% of year two. The same policy is applied for FX.

Hirst describes this as "semi-active". Whilst, if you take the base line (65% in year one; 45% in year two), the monthly activity involves going to market and topping up the hedging profile across the curve, the second part, deciding whether to go from the base line upwards, necessitates treasury monitoring the market and making recommendations to the CFO. "Recently, where we have seen jet fuel price coming down, we have recommended topping up over hedging profiles over the course of those two years to take advantage of lower rates," says Hirst.

This combination delivers what is required in terms of smoothing cash flow volatility, while retaining the flexibility necessary to take advantage of market movements. "This all plays into the strength of our balance sheet – and credit rating – as you effectively remove these financial risks." And having a solid investment grade rating allows the bank to extend easyJet more credit line, Hirst explains, which in turn enables treasury to hedge using outright jet forwards. "We keep it as simple as possible and the strength of the balance sheet helps us to do this. You can see it as a circular argument – hedging supports the balance sheet and vice versa."

Changes to finance

Historically, easyJet had no formal banking group for these activities. "When I first joined, the banking group was fairly amorphous – we had a lot of counterparty banks." It's easy to forget this business is only 20 years old, he adds, and there has been a certain degree of maturity gained over the last five years. Where the airline previously funded its expansion with aircraft mortgage deals, it has since stepped away from that and recently put together a revolving credit facility (RCF) with a syndicate of 12 core relationship banks. Hirst had been with the airline for less than a year at the time but had clearly understood the financial flexibility and diversity of funding needed by easyJet; the fact he is committed to the company being a repeat issuer on the bond market going forward (market condition dependent) is further indication of this.

The RCF has achieved two things, Hirst says. "It allows us to support our liquidity buffer. As an airline, we like to keep a bit of cash on the balance sheet in case of short-term shock events. The RCF facility is a much more efficient way of doing that." It is secured on aircraft that easyJet have

> Recently, where we have seen jet fuel price coming down, we have recommended topping up over hedging profiles over the course of those two years to take advantage of lower rates.

unencumbered on the balance sheet and it only draws if a short-term shock event actually occurs. The structure also avoids any financial covenants.

Secondly, treasury have been able to corral and pull together a much tighter banking group than they were dealing with before. In addition to the 12 banks in the RCF, easyJet work with three specialist banks. In terms of managing banking relationships, this makes it a lot easier. "Generally the idea is that the whole wallet around FX, cash management, deposits, jet fuel hedging and so on goes to that banking group on the basis that they've stumped up some balance sheet," Hirst says.

As banks only made incredibly fine margins on lending, which requires significant balance sheet commitments from a regulatory perspective, they want ancillary wallets, clarifies Hirst. "My view is that getting the best out of your banking group is about knowing the size of your wallet and making sure you have the range of banks with the capability of supporting that – but not being beholden to one or two, that's what keeps them on their toes." But the relationship is also facilitated by transparency. "We give our banks feedback on share of wallet and we are very fair over how we allocate business."

Technology as an enabler

When it comes to electronic dealing on platforms, Hirst sees technology as facilitating banking relationships further. What he doesn't want is those responsible for trading simply logging on, clicking and executing the trade. The purpose of such technology, according to him, is to enable them to go and have "quality open dialogue" with the banks about different trading strategies or different services that they could provide, for instance.

In fact, technology in general is something which Hirst sees as an enabler to allow the capability from a people perspective to be stepped up. "What I really want my team to be spending time on is thinking about what we are doing, the strategies and products that we are using to mitigate risks, how we approach the banking group to leverage their expertise and how we price the deal," he says. "The execution almost becomes the press of a button – and having automated processes in place is key to supporting that." A big part of what Hirst expects of his team, then, is not just the execution of the day-to-day but to challenge the stlatus quo and look at the processes and systems for slicker ways to operate.

From his perspective, overseeing the front and middle office with a lot of cross-functional work with the back office (which doesn't report to Hirst for segregation of duty purposes), he believes in the team being given space to get on with this. But he also acknowledges that treasurers must be prepared to "go back to grass roots occasionally" – this involves getting into the details and boasting a proper understanding of what every person in your team is up to, what their challenges are and what value they are adding. "Individuals appreciate a group treasurer who understands the problems they are facing and someone who, as a consequence of that, can help to make changes," Hirst says. That is part of his commitment to perpetually improve.

Systems in place

And it is a commitment which should be praised; a continued focus on improvement and the open conversations that facilitate this amidst the current climate's volatility is admiral. Whilst it is clear that what drives this is the belief that execution in treasury should be slick and effortless, this is an experience easyJet clearly want their customers to have as well. "The company is not just an airline, but a large .com business. Therefore, I have heavy involvement in customer payments – how we take and settle payments, control the risk of fraud and all of the commercial arrangements associated with accepting card over the web," Hirst says.

Alongside this is the upcoming priority that airlines need to comply with the Payment Card Industry Data Security Standard (PCI DSS) by December 2017 – an extended deadline owing to the fact that airlines receive payments through common use infrastructure based at airports, which is not actually owned or supported by one particular airline. PCI DSS is "designed to make the transmission, storage and use of card holder data very secure such that it cannot be stolen, compromised and used to perpetrate fraud", explains Hirst.

Although this is indeed a matter of compliance, Hirst has pitched it as a piece of risk management. "We take care of our card holder data that our customers are entrusting us with whether there be PCI standard or not, but we don't just stop there. We've got a whole programme of work going on at the moment to reduce the amount of systems we use to take and process cards and further secure the way we transmit and store data so that we minimise the risk of data breach."

For example, implementing a new customer payments switch has centralised all of the card data processing out of individual distribution sales channels to one piece of code for easyJet to handle payments. "Getting that data centralised has helped enormously on the PCI programme, by significantly reducing the number of systems in scope of PCI," says Hirst.

Keeping up the pace

In terms of other projects, Hirst, like any good treasurer, keeps his eye on technology developments. For him, it is about leveraging technology so that ultimately treasury has more time for "quality thinking"; it is not about "innovation for innovations sake". In order to do this, Hirst says, you need to challenge the status quo and challenge yourself. It is certainly clear that Hirst isn't one to rest on his laurels and his personal philosophy has clearly served him well in his career to date. Indeed, being a champion of your own advice sets a standard in treasury teams which can only result in the perpetual improvement Hirst is after.

Financially leveraging the physical supply chain

Wayne Mills
Head of Receivables, Asset Based Lending and Corporate Asset Finance

LLOYDS BANK

Amid all the recent market uncertainty, corporate focus on financial supply chain management has never been stronger. But for banks, identifying and delivering the right working capital solutions to corporates requires a strong understanding of not only their clients' financial supply chains but their physical supply chains too. In this article, we talk to Wayne Mills, Head of Receivables, Asset Based Lending and Corporate Asset Finance at Lloyds Bank Commercial Banking. He explains how the bank's client-first approach facilitates the development of such an understanding and helps the bank financially leverage their clients' physical supply chains – both cross-border and in their domestic markets.

In supply chain management, why is it so important for companies to focus on financial supply chains as well as the flows of physical goods and information?

It is absolutely crucial to consider both the financial and physical supply chains when working to optimise working capital. How a company manages working capital – the time it takes to pay creditors and, conversely, be paid by its debtors – is heavily influenced by the physical supply chain.

It is therefore incumbent upon us as a bank to understand how our clients' physical supply chains work so we can deliver the right solutions for their financial supply chains. It is about getting to know the client, and understanding the inherent risks when financial and physical supply chains are not aligned.

There is always the danger of a 'disconnect' if financial solutions are implemented without consideration of the physical supply chain. For any company endeavouring to optimise working capital, the level of internal stakeholder collaboration is crucial. Although most bank relationships are treasury-led, when we talk with clients about supply chain finance (SCF) there is often a need for a wider discussion with other functions such as procurement and IT. The need for positive engagement and support from those stakeholders (some of which may be working to different Key Performance Indicators (KPIs) from treasury) is, in my experience, one of the most significant barriers to the better integration of the physical and financial supply chains.

Another major barrier to integration arises from definitional confusion. Often one of the first items on the agenda in meetings with new clients is establishing what, precisely, SCF means to them. There are a multitude of providers offering SCF solutions within the financial sector at the moment. Each tend to have their own terminology for what is essentially the same thing. When one bank speaks about SCF and another about reverse factoring it can become, quite understandably, very confusing for the client. The approach we take at Lloyds Bank is to recognise the simple truth that for every buyer there is a seller. This then allows us to speak in terms of a 'seller-led' Receivables Purchase programme or a 'buyer-led' Supplier Finance programme. This simple distinction allows us to clearly determine our client's view on the extent to which they wish to control the programme. We have a number of clients who prefer to sell their receivables to us through their own "seller-led" programme whereas others are happy to on-board to their customer's supplier finance programme.

Often there will be a choice for clients to make when thinking about the degree of control they wish to retain with any supply chain financing solution when compared against price advantage, for example, where a rating mismatch offers an ability to secure liquidity based on a better-rated counterparty.

This is why we need to develop a clear understanding of what SCF actually means to our clients. It is especially important for us as we continue to move away from what was, historically, a product-led model to one based on relevant and timely client-specific needs. The question we always ask ourselves is whether the solution is the right fit for the client – irrespective of the different nametags people may give it.

> Our 'client first' approach is more than a mere vision statement: it is something all of us genuinely live at Lloyds Bank.

What role can banks play in facilitating the integration of financial and physical supply chains?

Bringing it all to life is all about successful execution and, for a bank, this ultimately comes down to having the right business and distribution model to support clients.

To that end, having the right sector and solutions focus is obviously important. Lloyds Bank has experts focused on particular industries collaborating closely with colleagues focused on particular solutions such as trade or SCF. Having the right coverage model helps us ensure we are talking to the right clients at the right time and in the right way.

Our 'client first' approach is more than a mere vision statement: it is something all of us genuinely live at Lloyds Bank. That's why we have focussed on building really strong internal collaboration across our teams so that we can work together to provide clients with end-to-end solutions. If a colleague from within our trade business, for example,

Bringing physical and financial supply chains together

To underscore why understanding both clients' physical and financial supply chains is so important, we look at the role Lloyds Bank played recently in supporting a company's efforts to improve working capital.

Lloyds Bank's client is a UK-based industrials company with operations across EMEA and North America. As part of a wider working capital optimisation project, the company was looking for solutions to help it manage the impact of payment terms being extended by its customers. Discussions were initiated with Lloyds Bank. The bank was able to identify and deliver the ideal solution for the client – but only after it had considered the entire spectrum of who the client buys from and sells to alongside its approach to risk management.

A multi-currency seller-led receivables purchase solution was structured for the sale of outstanding trade receivables in the UK and in certain European territories. This would help mitigate the impact of payment term extensions. The solution had an immediate positive impact. Contract renewals increased and, largely thanks to the flexibility now provided by payment terms, better pricing was negotiated with some customers.

Lloyds Bank's understanding of its client's physical and financial supply chains also enabled it to identify certain relationships where the client could support its supplier base with its superior credit rating. A buyer-led supplier finance programme was accordingly set up for selected suppliers in the UK and Europe.

"When viewed on a combined basis, both solutions provided our client with the required mix of liquidity management, balance sheet treatment and control," says Wayne Mills. But the bank's commitment to understanding the client does not end at the point a solution is implemented. "We regularly keep under review the performance and relevance of the solutions as the client's business grows and evolves," Mills adds, "especially given the current volatility we see across markets."

identifies a suitable solution residing in a different area of the bank, our business model positively supports and encourages that colleague in collaborating across the business to deliver that solution to the client.

As a recent case in point, we successfully supported a client with a funding solution involving multiple asset classes alongside more traditional trade solutions including Letters of Credit. The key to successfully delivering this for our client was a truly collaborative approach across internal teams, harnessing the common understanding of the client's objectives.

> Overall this has to be a good thing for the market. Fintech is keeping the banking sector on its toes, and its rise is creating a more competitive landscape for clients. For Lloyds Bank it is a tremendous opportunity.

Such collaboration is of critical importance when it comes to supporting our clients in the integration of physical and financial supply chains. The opportunities it presents for colleagues to interact with different areas of the business has an additional benefit to the bank. It helps our teams to broaden their knowledge and skill base, which in turn helps us in finding and delivering the appropriate solutions.

With supply chains becoming ever more globalised, the support a bank can offer corporate clients cross-border is increasingly important. How is a UK-focused retail and commercial bank such as Lloyds Bank able to accomplish this and cover its clients' end-to-end supply chain?

Our aim at Lloyds Bank is always to support our clients' trading activities, whether those activities are of a cross-border nature or limited to the domestic market.

Our ability to do that rests on two key elements. Firstly, we have local teams based in-country across our existing franchise which spans a number of markets in Europe. We have hubs in key locations – France, Germany and the Netherlands, as well as our franchise in North America. In addition to our presence in those markets, we recently opened new offices in Singapore which is our hub for supporting our clients' business needs across Asia. Our clients informed us that much of their trade flows were passing through the Asia Pacific region, so we decided to invest and strengthen our capabilities there. Secondly, we look to utilise the other relationships we have through a partner bank model. In certain circumstances, it may not be economic to invest directly in a certain territory, but that does not prevent us from supporting our clients by, for example, utilising the local capability of another carefully selected financial institution.

Overarching all of this, of course, is the fact that Lloyds Bank has a sincere commitment to the UK economy. We recognise that our clients are trading far more widely than ever before and, indeed, often across borders. Helping them to do that is all part of meeting that core principle of supporting the growth of the UK economy and our clients.

In a developed market where clients typically have good credit ratings and access to liquidity, how does the bank deliver relevant, capital efficient solutions to large corporates?

Again it comes back to having a strong understanding of our clients and their operations. There are a growing number of providers of financial services and a considerable amount of excess liquidity in the market. Our response to that is to focus on our core strengths and capabilities. Honesty and transparency are important here. If as a bank you lack a particular solution in a particular market, you will only build a long lasting relationship by having an open, honest discussion with the client.

Clients understand and appreciate that. Treasurers do not expect banks to be able to service all their needs comprehensively in every jurisdiction across the globe – but they do expect, quite rightly, their relationship banks to be straightforward with them.

Fostering those longer-term relationships is the top priority for Lloyds Bank. That means striving to work very closely with clients and maintaining good quality two-way dialogue so that we can better understand what they need and when. It is a source of pride when I see the length of time we have had supply chain solutions in place where most have endured for longer than five years and some more than ten years. That tells me we have successfully identified an appropriate solution in each case and continue to adapt as markets and client needs evolve.

What influence do you expect fintechs to have on this market?

We have seen a deluge of new entrants in the SCF space in recent years, so naturally there has been a huge amount of industry discussion on the topic. From a personal point of view, I am absolutely convinced that rather than being a threat or a disrupter in relation to banks such as Lloyds Bank, fintech can be an enabler and a facilitator. Working together with fintechs can benefit our strategy in terms of supporting clients and delivering the right working capital solutions to help them optimise their financial supply chain.

Our client-first approach also puts us in a strong position to collaborate with the fintech sector. Through regular dialogue, we have a deep understanding of our clients' physical and financial supply chains. This helps us understand, when we look at the new fintech entrants, which providers can offer solutions that would be beneficial to our clients. We can therefore evaluate whether they would be suitable prospects for partnerships. Some of the new entrants have developed solutions that we think are very credible.

Overall this has to be positive for the market. Fintech is keeping the banking sector on its toes, and its rise is creating a more competitive landscape for clients. For Lloyds Bank it is a tremendous opportunity. If we harness it in the right way, we can achieve our goal of better supporting our clients and delivering solutions that are relevant to them now and in the future.

An assisting role

What skills and experience are necessary for treasury assistants? How do successful candidates progress? Treasury Today asks these questions and more to shine a light on the role in the first of this new series focused on the different rungs of the treasury career ladder.

Treasury assistants perform an array of tasks which support the daily operations of a treasury department. These could include: multi-currency cash management, bank reconciliation, settlements and the review of payments and receipts, amongst many other responsibilities. Although generally considered an entry level position, they have an important role to play in ensuring operations in treasury run efficiently – so what makes a good treasury assistant?

In this article, Treasury Today talks to recruitment experts, as well as former treasury assistants themselves about the key aspects of a successful candidate. What quickly becomes clear is that the answer to the preceding question is not a straightforward one. A range of skills and wealth of knowledge to build upon, as well as practical ability and softer skills, need to be demonstrated by any professional who wishes to fulfil the role of a treasury assistant.

Gaining exposure

The world of treasury is generally very supportive of new entrants, according to Martha Pierce, Senior Consultant at UK-based recruitment firm Hays Treasury. "Early on, you should be able to get the opportunity to gain exposure to the various elements needed to make a good treasury assistant."

A common gripe made by candidates to recruiters, she says, is that there are not sufficient opportunities within their current company. But employers, on the other hand, sometimes feel like junior staff are not working hard enough to seize opportunities. "I will be having conversations with line managers, who will say 'they are great at their job, but are not showing much eagerness to learn'." Conversations need to start occurring then which ensure employees know their employers are willing to invest in them and, conversely, that employers know their employees are keen to develop professionally. "In my experience, it's difficult to recruit at the moment so businesses, most of the time, are going to give you that opportunity to gain more experience," Pierce adds.

Making the most of such opportunities will help individuals counter a mistake Pierce sees occurring too often at the beginning of a career. "I see a lot of people moving from roles too quickly for the wrong positions and a very small wage increase." Rather, they should, she believes, be making the most out of their current position. "People that are very eager and asking their managers for more responsibility are getting it."

As a result of such a conversation, Jennifer Gillespie, now Head of Money Markets at Legal & General, started her treasury career at Scottish Widows Bank as a treasury assistant, before later becoming a treasury manager. "As I had no finance or treasury experience, this didn't come into play at all. It was more who I knew and the conversations I was willing to have – I talked my way into the job!"

A willingness to get involved is also necessary to fulfil a key part of the treasury assistant's remit: liaising with banks and other senior people outside of the treasury department. For these activities, efficient communication skills – as well as a genuine enjoyment working with others – are absolutely necessary. "As a treasury assistant, you are not a silo. You are reliant upon other people, such as IT, so maintaining good relationships with other areas of the business is incredibly important," clarifies Gillespie.

What's more, according to Hays Treasury's Pierce, being able to show your personality is a necessary part of the recipe for success. "Quite often at this level, personality is what gets somebody the job. Going into an interview and saying the right things – showing how keen and personable you are, for instance – and having the right foundational experience are components for success."

Nadine Dannenmuller, now Treasury Analyst at Nokia Oyj, notes that when she initially joined the company (formerly Nokia Siemens Networks Finance B.V.) back in 2008, her treasury assistant role consisted of 70% administrative and logistical tasks and 30% treasury tasks. But, by showing a desire to progress and learn, she attracted the attention of a member of the team who believed she could make the step towards a more treasury-orientated role – and offered informal training and guidance. Dannenmuller does point out, though: "The treasury assistant role can be varied so you have to be flexible and ready to accept some uncertainty in the definition of your role which can evolve and develop over the course of time."

The foundations

But what are the necessary building blocks from which to grow? First of all, the right attitude is important. "Clients looking for treasury assistants don't want someone to try and run before they can walk. Rather, showing an eagerness to get stuck in and learn will hold you in good stead," says Pierce.

Initially, those who tend to be successful have experience with multi-currency bank account and loan administration, for instance. They will also be familiar with settlements and confirmations. But the beginning stages of involvement with risk management and forecasting could help further their career development, says Pierce.

When you look at the more manual treasury functions, rather than those at departments with TMSs in place, treasury assistants must have intermediate level Excel skills: experience with pivot tables, the VLOOKUP function and the ability to trace back macros. "Requirements do depend on the company in question, however," says Pierce. Therefore, treasuries with more automated processes will be looking for familiarity with these systems. However, a fundamental understanding of the underlying processes remains necessary. As Gillespie says: "It's like understanding the mathematics behind something. We all had to learn multiplication tables. Understanding the processes behind the systems means you can cope if – or when – they break."

For those interested in the role, it is pertinent to remember that treasury assistants are expected to work extremely hard – and this often involves taking responsibility for some of the department's more administrative tasks. Treasury assistants will be involved in both the day-to-day operations, such as processing payments and receipt posting, as well as having month end responsibilities which could include reviewing the balance sheet or reporting the group currency month end rates. A list of further possibilities duties include:

- Bank reconciliations.
- Bank account management.
- Cash book maintenance.
- Answering payment related queries.
- Preparing and processing payments.
- Compliance activities.
- Posting of bank transactions.
- Maintenance and reporting of standing orders and direct debts.
- Analysing funding needs
- Ad hoc projects, as required.

A certain level of knowledge regarding international payment processing and time zone differences will need to be maintained too. As Dannenmuller said, the role will evolve and, currently, her main role is to ensure "EMEA cash centralisation and repatriation to avoid local currency devaluation and a better use of this cash centrally. For example, for repaying the central debt or for centralised deposits." This involves booking inter-company loans and deposits, for instance, and providing the relevant documentation.

Treasury assistants will also be expected to ensure treasury policies are followed during every process and raise liquidity concerns to managers; a strong relationship between these two members of the team is invaluable. "Seeking and sharing macroeconomic knowledge is also about finding solutions to add value," adds Dannenmuller.

Gillespie, for instance, says that it was perseverance and hard work that helped her gain treasury experience. "Practical experience is the most beneficial. That, and learning when to ask for help." The role, for her, acted as a springboard for success somewhat. During 14 years at SWIP, Gillespie held various positions – the most senior of which was Investment Director, Money Market Funds where she helped to successfully launch SWIP's global liquidity funds to bring the assets under management (AUM) from £3bn to £12bn.
It would seem that the treasury assistant role provides sufficient exposure to the areas necessary to progress in different areas. "From the position you can build yourself out and boast a broader wealth of knowledge," says Gillespie.

> "Practical experience is the most beneficial. That, and learning when to ask for help.
>
> Jennifer Gillespie, Head of Money Markets, Legal & General

Beyond expectations

As with any position, the most successful employees bring something additional to the table. For the treasury assistant, one of the most valuable extra skills is experience with cash flow forecasting. According to Pierce, this will see your salary rise and more opportunities come your way.

Treasury-specific education is not a 'must have' at this level – as Gillespie's success demonstrates – but employers do now tend to require graduates with a degree in a financial field. Those that are enrolled, or are close to sitting or have sat, their first paper of a treasury qualification are the ones in the strongest position. For instance, the Association of Corporate Treasurers (ACT) qualifications or the Association of Chartered Certified Accountants (ACCA). Some also look into the Chartered Institute of Management Accountants (CIMA), but it is important to be aware that this isn't as treasury focused. "For a foot in the door, and to really show your interest in treasury, I think the ACT is the one that helps people massively," says Pierce.

Training courses over shorter time frames also offer opportunities suitable for working life. Dannenmuller, who attended one of Eurofinance's programmes, typically no longer than a week, says: "Although they are intense, you aren't away from your daily tasks for too long. This training helped me see how my work is linked together with the work of other departments, and injected me with motivation and confidence through theory, real life case studies and group exercises."

When it all goes wrong

As with any career, however, there are bound to be stumbling blocks along the way. As treasury assistants tend to be more junior, making mistakes can be daunting. "But it will come out that an error was made," says Gillespie. "Therefore, make sure you have integrity." This entails, she says, owning up to mistakes and, most importantly, thinking about how you are going to amend them. Being able to fix something is far better than hiding your head in the sand, pretending you weren't at fault. "What this does mean is that when other responsibilities come to the forefront, people will trust you to do it correctly – and if you don't, they feel confident that you won't try and hide problems that need amending quickly." Even the most senior executives, Gillespie continues, started from somewhere – and that isn't a bad thing. In a recent conversation Treasury Today had with BP's VP, Global Treasury Services, Debra Todd, she mentioned a remark which she makes to her team: "I'm not telepathic." If they require something, or spot a problem, they need to tell her about it, Todd says. "Then I can either sort something out, or work with them to fix the problem."

Senior colleagues also have a wealth of knowledge others can tap into. An official mentoring programme doesn't need to be in place for employees to be able to ask those senior to them for advice. The reoccurring thoughts Treasury Today hears concur that most professionals are more than willing to share their understanding – and time – with others. And aptly so, as Dannenmuller says: "Treasury can be a mysterious world for a novice."

Moving sideways

Gaining further experience could involve a sideways step. There are, of course, many different roles within the treasury function. What's more, there are other departments where transferable skills can be applied – record-keeping skills or bank fee analysis, for instance. "It's the people that have done their research and know what their transferable skills from their current role are that are the most successful," says Pierce. For example, those in an accounts payable (AP) position that have gained exposure to relevant cash flow analysis could begin to transition into a treasury assistant role. "Over the last year or so, there has been an increasing emphasis on personal development in treasury," says Pierce. This makes it a great time to consider how to progress your career, whilst bearing in mind this might not be immediately in an upwards direction.

A sideways career move will build out your breadth of knowledge in treasury which, higher up the ladder, could make all the difference. "You have to figure out what you are good at and you are only going to do that if you try different things," says Legal & General's Gillespie. And the opportunities are out there. According to her, treasury is a great place to meet other professionals, make friends and learn from others. You also hear of suitable vacancies and are more likely to receive recommendations from those who have worked alongside you in the industry.

This comes as a result of being someone who has a cooperative approach particularly important, as referenced earlier, to the treasury assistant. "It works both ways, however. If you ask AP people, for instance, for help, they are much more likely to do so knowing you'd do the same, rather than if you had sat in an ivory tower," says Gillespie. People remember those that are willing to go out of their way to support the overall progress and efficiency of the whole organisation.

Staying put

Whilst the preceding focus has largely been on progression and how professionals can expand their breath of experience, treasury assistants can generally be split into two kinds. There are a number that have found their place in this position – and are achieving great things for treasury departments.

"Corporate clients do highlight succession planning as a key criteria, but they are always looking for stability and candidates that want to stay in the role for the next five to ten years," says Hays' Pierce. "These professionals tend to prove themselves in one company, rather than move every year or so." During which time, of course, they will see their responsibilities grow. More experienced treasury assistants will, for example, liaise with treasury managers about the company's funding responsibilities and will be more involved in the decisions which ensure effective use of cash than those at an earlier stage of their career. Dannenmuller, for example, controls and monitors the excess cash, instructing and facilitating local entities on cash repatriation, as well as optimising the liquidity of EMEA entities in accordance with local regulations and treasury policy. Also, the earlier operational skills gained will allow senior treasury assistants to manage and guide others at this later stage.

The department, in fact, relies upon the treasury assistant to be able to collaborate and communicate developments to all of the affected parties. It is well documented that treasurers today should act as strategic partners to the business, and these lines of communication are crucial to the meeting of this goal. A successful treasury assistant should have their finger on the pulse of all of the department's activities. "You have to be a good communicator and coordinator. By talking to colleagues and interacting with multiple stakeholders, you can visualise where you stand in the chain and figure out where and how you can help," says Dannenmuller. "It develops responsiveness and reactivity, traits that often prove valuable."

In the midst

This supporting skill, acting somewhat as the seam between parts, is particularly in-demand when employers are looking for a treasury assistant on a contractual basis. For example, over busy periods, large treasury departments may need additional support. These new recruits will have to fit in fast – and keep up multiple communication links to ensure efficient operations. They will not be afforded a lengthy adjustment period. "When recruiting for contractors, employers will typically seek an experienced candidate who can hit the ground running rather than somebody who will need extensive support or training," says Pierce. Contracting also provides greater exposure to a variety of different areas, she adds.

But regardless of whether someone is new to the role, a seasoned professional or taking on contractual work, the conventional activities treasury assistants undertake form key cogs in the treasury machine. A smoothly run department rests on a treasury assistant that can deliver.

Top tips for climbing the career ladder

1. Do not be afraid to ask for advice.
2. Experience may not be found where you expected. Taking on short-term roles or projects outside of the department can give you new perspectives.
3. Try and make sure you stand out by going the extra mile for colleagues.
4. Plan where you'd like to be, and how best to get there – but don't expect it to always be a straightforward route. You can learn from bumps in the road.
5. Know where your strengths lie, and make sure to keep a record of accomplishments.
6. Maintain a healthy balance between your work and home life.

Working capital management:
taking an organic approach

Kevin Grant
Member of the Executive Board
HANSE ORGA GROUP
FINANCE SOLUTIONS

In a recent survey of corporates at Finanzsymposium in Mannheim, Germany, 85% said working capital management will rise in importance in the future. Extrapolate this figure to the wider global corporate community and, give or take some statistical license, it is not difficult to see that in order to meet future needs, now is the right time to invest in process improvements.

Every profession has a small set of activities that are fundamental to the successful execution of their role. For the treasurer, working capital management (WCM) sits at the beating heart of corporate endeavour and is amongst the core elements needed for survival. If ever such a claim was in doubt, take away the control mechanisms that keep the company liquid and start timing how long it takes before the vultures start circling.

Treasurers have always been the custodians of corporate cash, ensuring optimal liquidity, securely deploying any surplus or borrowing sensibly. But in today's strained economic environment, simply putting cash on deposit, when that deposit is subject to unprecedented negative rates, can be costly. And if borrowing, it is flirting with disaster if a company expects its banks to agree to almost any facility. Times have changed and there is no longer a 'one size fits all' answer to the question "what shall I do with my cash?"

With approaching 30 years of industry experience, Kevin Grant, Member of the Executive Board at financial software and services firm, Hanse Orga, takes the view that today's treasurers need to adopt a global vision of company cash. In WCM terms, treasury can be seen as an "overlay function" that looks at, and acts on, information received from operational regions and countries, entities within countries and the bank accounts and facilities they hold. Decisions around surplus cash and cash requirements will thus be influenced by a multitude of factors. Take seasonality of cash flow across the entire business, for example.

An ice cream seller makes money in the summer but will call upon reserves or borrow in winter to get by. This is perhaps an over-simplistic example but transposing it to a major international corporate will maintain the same seasonality effect, even if the demand on cash is extended dramatically. The matter is of course compounded for corporates when their activity takes place across different regions. 'Ice cream selling' – and its metaphorical corporate equivalent – suddenly takes on a whole new complexity.

Changing drivers

Whilst companies have always had to manage working capital in order to survive, for obvious reasons the act of 'working capital management' has come to prominence since the financial crisis of 2008. For treasurers, executing this core activity in the face of adversity must assume a new profundity – and nowhere is this more relevant than where operational complexity exists. This will almost certainly be a matter of concern for the treasury profession.

Indeed, for Grant, almost by definition treasury exists in organisations that are in "such a mature stage of their development" that they are undertaking cross-border trade. For those businesses that have grown into multinationals (MNCs), with overseas entities and banking relationships and facilities to match, international trade will involve the flow of multiple currencies across the organisation. This, he notes, will inevitably create transactional exposures – these typically being associated with payables and receivables – which in turn require risk mitigation processes to be in place.

However, in order to expand, an international organisation demands foreign investment. A new overseas manufacturing plant, for example, may require a company to borrow locally to ensure it has the local currency, or the currency of the contract, to keep the project on track, and this has to be funded. The considered WCM view may suggest that rather than using free cash flow to support a long-term capital investment, it may be more prudent to borrow longer-term, by issuing a bond or going to the commercial paper (CP) market, for example. This loan, rather than absorbing free cash, then becomes a de facto cash generator and, unless there are regulatory constraints, this cash can be repatriated and used to pay down the principal on the agreed loan and interest.

No KPIs

In making working capital decisions, traditionally a company would look at its P&L statement on a monthly basis and ask if it was generating the cash expected from sales activities, and also if it is controlling the cash going out of the business on the 'accounts payable' side (taking this as a generic term to include internal costs such as staffing and office management). "This is not good enough because it only offers a snapshot of a backward looking accounting statement," states Grant.

A company might also look at its balance sheet on a monthly basis because this will reveal what cash is trapped in 'work in progress' (such as the sale of software or a service); the contractual terms around the delivery of this sales offer will influence the company's ability to take that income into the P&L statement. "Ultimately, whether a company uses the balance sheet or the P&L for its working capital management, these are just accounting statements."

Indeed, they give no information as to whether an invoice has been raised in time, if the customer has paid in time, or if the business is paying earlier than it needs to pay. For Grant, even if a business knows what its days sales outstanding (DSO) and days payable outstanding (DPO) activity is, it is not clear what is influencing and impacting this activity on a day-to-day basis if these elements are not being monitored as key performance indicators (KPI) of business processes.

Effective WCM is therefore more than just DSO and DPO from the invoice cycle; it is about cash in the bank account, and a host of other forecasted committed-costs that the company has. Of course, these should be picked up through the budgeting process. But consideration too should be given to monthly refreshes of the typical 12-18 months rolling forecast, the sales and expenditure expectations of each operating unit and treasury's own borrowing and investment cycles and commitments.

Deeper working relationships

Biologists talk about the symbiotic relationship between certain different species, describing how one supports the other. Within business, it is easy to see how different functions interact as a living organism, with great potential for mutual benefit. But, says Grant, this 'mutualism' can and should extend beyond internal relationships. Corporate buyers working closely to support their suppliers can help to maintain supply chain stability. Indeed, as part of the Finanzsymposium survey mentioned earlier, almost half of respondents said customer behaviour and DSO was the area of greatest opportunity to maximise the effects of WCM.

In commerce, most businesses rely on their suppliers. If they start to lengthen business terms they run the risk of making those suppliers financially unstable, notes Grant. Putting a stranglehold on the companies you are dependent upon for your own production and subsequent sales is, he believes, "a very short-term view" that risks becoming "a self-fulfilling demise" for all parties. "But has it stopped large multi-nationals doing it?" Clearly not.

The common WCM approach to extending DPO and shortening DSO is to offer a supply chain finance (SCF) programme, he comments. SCF is a tri-party arrangement, with a financial institution sitting between the buyer and supplier. Where a supplier wishes to receive early payment, it is charged a fee in the form of an interest rate based on the creditworthiness of the buyer. Here, the burden of the financing cost is borne wholly by the supplier. "It may give the supplier its cash earlier, but it is cash that comes with a cost. I would question whether that really is supporting the supplier, or whether that is a buyer-preference model."

More reasonable perhaps is the bi-party arrangement, where the buyer gives the supplier the option to take earlier payment for a discount set by the supplier with buyer approval. Dynamic discounting, as it is known, comes out of the free cash flow of the buyer and therefore does not require any financing third-party involvement. "That is a closer working relationship in my view and one that maintains a healthy collaborative symbiosis between both parties."

A difficult view

As organisations begin to realise that managing cash is a vital skill, the treasury function has come into focus. With a macro-level view of the process, the role is in a position to assimilate information from across multiple functions in order to make key WCM decisions. Where such functions may exhibit inefficiencies – such as the slow raising of a purchase invoice, incorrect or missing references, late delivery or claimed non-receipt – these situations are not observable if the business simply looks at the P&L or a balance statement at a group level. "Companies should be tracking these KPIs as part of the daily management regime," says Grant.

What is required is a system of delivering visibility in an easily digestible way. The refrain at this point may be that this is hard to achieve – and this is fair comment. Many large corporates are still entrenched in siloed operational units, with fragmented data flows exposing them to error. An otherwise professional treasury may be extracting data from a TMS, ERP and forecasting system and trying to consolidate group data – along with data from external partners such as banks – in spreadsheets, sometimes even outsourcing this process to a third party. "Quite often the consolidation process is not automated, there is a mix of electronic and paper-based data and people are re-keying numbers," notes Grant. Using the sum of this process as 'fact' is a dangerous occupation; if results even arrive in a timely manner, there is simply no way of efficiently verifying credibility.

All-in solutions

With organisations cognisant of the need to be more analytical and critical of their processes, the urge to fix the problem is rising up the agenda. Certainly there is acknowledgement by treasurers that today's systems are capable of meeting the challenge but this comes with the conflicting view that technical complexity is perhaps too high a price to pay.

The key is to have data sources circulating within the same homogenised environment. Best-of-breed systems are impressive in themselves but if all data sources flow within an ERP, the fabled 'single version of the truth' might seem more probable, says Grant. For him, an ERP gives access to planning data, treasury activity, accounts payable and accounts receivable, supplier and customer contract management information in one location and available the moment it is updated – even if it is manually keyed at the initial point of entry.

Digitised data can be used for straight through processing and reporting. Business intelligence (BI) and KPI tools, which also reside within the same ecosystem, may also be auto-populated with this data. From here, it is possible to start building management dashboards to address the issues around WCM "in a dynamic and real-time way". This can even be viewable in multiple channels, from smartphone to desktop, and be capable of providing group level information with resources to drill down into regional, country and even customer level, offering user-insight into various behaviours that impact cash and liquidity.

The counterpoint to this singular expression of company financial data is that, system-wise, this is asking for a monolithic structure; it will be complex, hideously expensive to build and resource-intensive to operate. "Things have changed," states Grant. "None of the ERP vendors have been sitting back, failing to tackle ugly and unfriendly user interfaces; none have spurned real-time reporting", he retorts. "They've been developing solutions to these issues: at SAP they introduced the HANA and they have built real-time reporting and BI tools around working capital. We also have the Fiori user-experience development environment which can give a completely new look and feel to navigating standard SAP screens."

The aim is to allow greater transparency, analysis and control over liquidity positions and business processes. Modern solutions also allow global process owners, particularly the treasury function, to respond more quickly to ad hoc requests on liquidity and to meet the increasingly strategic nature of such enquiries. Furthermore, says Grant, not only are treasurers able to proactively provide information to senior management and the board but also, if dashboard capability is adopted, it can give senior managers direct access to that information, in an easily digestible form.

In practical terms, it may be that a customer pays on time every time, but what is the cost of serving that customer? Profitability analysis, notes Grant, is a function of new ERP analytics. "It can reveal a very different story when balancing that cost with individual customer behaviour, especially when annual budgeting costs are added into the mix." There is a compliance issue here too, he adds. If a customer is not behaving in accordance with the commercial contract, easy access to information pertaining to this can prove "significantly advantageous" when applying such information to the overall analysis of WCM.

Ask an expert

Of course, the capabilities of an ERP system can prove somewhat overwhelming when seeking to optimise WCM. Within the realms of the system, treasurers may not even realise the full array of possible data sources that can be brought to bear on the matter, especially if they are not considered 'traditional' treasury sources. For Grant then it is the role of a company such as Hanse Orga to help unwind those complexities and to unlock the true potential of an organisation's technology.

Large corporates often have a fragmented technology landscape and, as a result, fragmented processes. It's a status that is all too easy to achieve. Deploying a best-of-breed approach will always create divisions between technologies and even if these divisions can be electronically bridged, it requires close planning to make those connections work. But fragmentation may also exist even if the organisation has an installed ERP, concedes Grant. Indeed, it is quite common to run different ERPs or multiple instances of the same system, across different locations (an effect commonly attributable to M&A activity). Help may be required.

"Consulting in the ERP space first means understanding what system the client has acquired, how this has been implemented and how can this be fine-tuned – because the same goals can be achieved in different ways," explains Grant. He accepts that the configurability of an ERP may be seen as both a strength and a weakness: if you know what you're doing it will be the former.

When it comes to fine-tuning an ERP to achieve a specific goal, Grant has a clear vision of how he wishes to operate. "We liken ourselves to [Mercedes-Benz performance tuning firm] AMG" he says. AMG does not sell cars but it takes many aspects of a standard vehicle – such as engine, brakes and suspension – and can tune these to whatever specification the customer wants. In much the same way, Hanse Orga does not sell the ERP but it fine-tunes the system to its clients' needs. In doing so it may bring in internally-developed add-ons or third-party tools (as indeed does AMG) to achieve the desired goal of de-fragmenting the overall treasury technology architecture. In many cases, just an expert's fine tuning of the standard parts can bring significant process improvement.

When the goal is to bring about a sea-change in WCM, where disparate sources of data are brought together in the kind of symbiotic relationship that can only yield positive results, Grant argues the case for a technology partner that has financial workflow automation expertise, BI capability and a pragmatic approach to delivery. "There is no point in automating everything and giving the client great solutions if in the end it does not give the organisation information that helps manage its business," he declares.

Tackling WCM efficiency demands the interpretation of a company's goals as a business, its incumbent technologies and its strategies. In taking a view of the "policies, processes and people" that drive it all, Grant asserts that "the cash impact of all these behaviours" becomes readily apparent. This is effective WCM.

Many happy returns

Tax is tax, and treasury is treasury, and never the twain shall meet. With apologies to Rudyard Kipling, this phrase might well apply to the corporate view of two different functions that in the past may not have spent much time in each other's company. This is not how it should be.

The taxation of international corporates is big news in the popular press at the moment. Companies seeking to legitimately minimise their tax outlay use a number of methods made available to them by individual jurisdictions in isolation and in combination. The action taken in this respect does not always sit well with public – and indeed political – perception of what is right (as opposed to legal) but it is nonetheless the duty of the corporate body to be as tax-efficient as it can be, and, as such, the subject of taxation should now be a shared concern for most business functions.

There is no doubt that treasurers are – or should be – a key part of the equation when it comes to providing the most accurate and timely information to the tax department to facilitate the most efficient tax response. Finance function costs have decreased by around 40% over the last decade, according to PwC benchmarking research carried out earlier this year for its 'Tax function of the future' series. Although many manage to operate on slender cost-levels, the research results show that the pressure nonetheless continues for all concerned – including treasury – "to do more with less".

The concern that PwC raises in this respect is that whilst finance functions are transforming to keep ahead of the curve, most initiatives continue to take place without the involvement of the tax function. This, it argues, misses an opportunity.

A meaningful relationship

Streamlining and incorporating the tax function into financial transformations has many long-lasting benefits, it seems. PwC cites increased regulation, notably generated by the OECD's 15-point BEPS action plan (of which more later), and additional international tax reporting procedures as requiring "an increasingly symbiotic relationship between the tax and finance function".

Treasury should take precedence when deciding the most appropriate action for the company, argues David Golden, the Head of EY's International Tax Services Global Treasury practice. "Tax considerations, in my view, come in after treasury decides that there is a particular exposure that needs to be hedged or there is a new operation that requires financing," he says. "But then in order to execute that business transaction most effectively, treasury should bring the anticipated business transaction to the tax department or the external tax advisor at the earliest opportunity so that they in turn can present treasury with the appropriate options."

This is today's ideal. A decade or so ago, Golden says treasury and tax simply didn't "play nicely" with each other. "The dynamic was that when the treasury function needs to do something, it usually needs or wants to do it rapidly. Tax on the other hand is usually much more deliberate." Whilst the fundamental difference in approach to planning had caused something of a "disconnect" between the two functions, which to an extent still exists, Golden happily reports that today this is more the exception than the rule. The relationship between the two roles "is getting better".

Catalysts for change include recognition by the CFO, and even the board, that both treasury and tax have a much higher profile today. This is largely due to the increasing complexity of the markets and regulatory regimes.
The reasons for the observable union of these functions are readily apparent, says Golden. Current FX volatility, for example, has resulted in financial statement consequences that have gained the attention of the boardroom, the concern cascading down the line to CFOs and henceforth to treasury and tax, amongst others.

The argument for co-operation is strong. Treasury transactions potentially have a significant impact on a group's overall tax liabilities, particularly in jurisdictions where debt financing is raised or there is inter-group financing flow. In addition, different jurisdictions often have very different tax rules. For example, interest payments may be subject to a withholding tax.
In addition, FX can be treated on a realised or unrealised basis.

For Lara Okukenu, Financing and Treasury Tax Director at Deloitte, the aim is not so much about minimising tax costs as it is to ensure as far as possible that treasury transactions are not causing any inefficiencies. "It has been well publicised that one of the ways some multinational groups have historically been able to manage their effective tax rate is through inter-group cross border financing," she notes. "But BEPS and other changes in the global tax environment are setting new boundaries to focus on commercial lending." She believes that the focus has now evolved into an overarching risk management approach, including navigating the "complex global web of tax legislation" that treasury transactions are now exposed to.

Teamwork thus really is the order of the day in this respect and Dino Nicolaides, Director in Corporate Treasury Services at Deloitte, notes a trend to bring tax and treasury into the same office (along with other functions such as pensions and insurance) to allow greater co-ordination and co-operation. Commonly in the US and increasingly in Europe, the Tax Director and the Treasurer are one and the same. By bringing both under the remit of a single role, the most effective level of communication and oversight is enabled at group level.

Getting connected

Where the functions remain discrete, an ad hoc association is unlikely to yield a sufficiently strong transfer of information in either direction; a closer formal tie will be more beneficial. In this instance, technology can be a performance aid, especially around the timely sharing of data. "Again, with increasing complexity in both functions, real-time information is becoming more important," notes Golden.

Where treasury-related data naturally tends to be in a TMS or ERP it will typically be uniform across an organisation, giving one type of information for all operations, regardless of location. "This is an issue because jurisdictional boundaries, while not usually so important for treasury activities are in fact critical for the tax function," explains Golden. Having the ability to capture data more granularly is very important for tax purposes.

In many cases, the tax department needs bespoke functionality to capture and manipulate data but most enterprise-wide systems – such as an ERP or TMS – require manual intervention in order to achieve this. As new systems are being purchased and as add-ons are being deployed, he states that the tax department "would appreciate that treasury consults with it to see, without too much additional cost and effort, whether or not tax-specific information can be made more readily available". With the business case for new technology often difficult to build but the desire for shared information clearly apparent (and the will for increased efficiencies more so), the sharing of internal budget allocations to acquire the right system may even be on the cards, suggests Golden.

Learning to survive

Areas of tax legislation that impact treasurers are many and include withholding tax, stamp duty, thin capitalisation and other limitations on interest expense deductibility, transfer pricing, and rules on Permanent Establishment and Controlled Foreign Companies, as well as the impact of double taxation treaties on local law rules. Each will have its own characterisation and thus will require its own data set. If the tax department has some advance notice of treasury's intention to, for example, hedge FX, it can advise on the most efficient techniques or instruments to use and what kind of designations or identifications to make. But Golden believes that it is incumbent upon the treasurer to at least have a general knowledge of these matters. If treasury does consult with the tax function "early and often" – which in today's complex dynamic environment he argues really ought to be the case – then a general grasp of principles can kick-start more detailed discussions with the tax function on regimes where advantageous or disadvantageous treatments are applied. This can prove to be a valuable conversation, especially where treasury is contemplating doing something new and different that could raise a tax issue.

The raised level of dialogue between functions may be complemented by deeper discussions at an advisory level with banking partners. A conversation should also take place with incumbent systems providers (and certainly with any prospective vendors) to ensure each has the capability to deliver timely and accurate reporting of relevant data, and to explore whether core systems need to be updated or replaced to deliver that required flexibility. For treasurers, being able to support the tax function (and other departments) in this way may add to the business case for a move to straight through processing (STP).

Current concerns

It is worth at this point considering in more detail a few areas that are currently attracting particular attention in terms of determining the right approach to taxation. A cash pooling and sweeping structure, for example, can be a means of optimising cross-border cash management, helping to fund cash-negative operations through the cash-positive, to manage cyclical cash flows or assist in jurisdictions where high finance costs exist. Generally, cash pooling structures will result in third-party or intercompany lending, dependent on whether it is a notional or physical structure.

The tax consideration here focuses on inter-company lending and will, for example, look at whether the interest applied is going to be deductible or whether there will be withholding tax on payments of interest, explains Okukenu. "Given that cash pooling is becoming more prevalent in global treasury management, we have also seen that there has been an increase in scrutiny from tax authorities." This attention, she adds, is particularly acute as the emphasis shifts to transfer pricing (where two companies within the same group transact) and how pool participants are remunerated or charged. It is a common misconception that transfer pricing only applies to physical cash pools; it applies to notional cash pools too, she warns. "There have been recent case law developments for both physical and notional cash pools which have rejected bank deposit rate comparables, resulting in adverse interest rate adjustments for tax purposes to reflect an arms-length rate."

Another area where regular and continuous tax and treasury dialogue is important is around FX. Whilst the group may be hedged from an FX perspective at a consolidated accounts level, this does not necessarily mean it is always hedged from a tax perspective. The problem, Okukenu explains, is that in many countries, such as in the UK, companies are taxed on an entity-by-entity basis. Unless there are certain hedge accounting options or tax rules that apply, this can lead to cash tax volatility. "It is worthwhile for the treasurer and the tax department to discuss, for example, group hedging policy," she says. "This should include consideration of inter-group transactions which might otherwise be ignored at a group level but which are still relevant from a tax perspective."

BEPS is after your job

Perhaps the most interesting new tax development in current contemplation is the OECD's BEPS initiative. As countries implement some or all of the 15 recommendations into their domestic legislation, there will inevitably be shifts in tax policy, in addition to the transfer of resources and operations, noted Robert Sledz of Thomson Reuters' Tax & Accounting business in a recent BEPS impact report issued by the firm. More as a general warning, MNCs, he stated, "risk reputational damage and tax adjustments that can affect their future earnings if they do not heed this changing tax landscape".

Certainly the guidance provided on taxation for MNCs has potential to affect a broad range of activities, with many of the points covered by BEPS having some impact on corporate treasury. "A number of the action items potentially limit the deductibility of group interest expense; obviously this directly impacts treasury because it may, on an after-tax basis, increase the cost of funding certain activities with debt," notes Golden. A broader area of impact for treasury will be the increased reporting requirement, he notes.

As part of the 'Guidance on Transfer Pricing Documentation and Country-by-Country Reporting', a new standardised disclosure form, which has already been implemented by a number of jurisdictions, will require companies to file, along with their annual tax returns, additional quantitative and qualitative tax-related information for each jurisdiction in which they do business. This obliges them to identify the legal entities and 'Permanent Establishments' within the group (in most countries, income tax is only levied on foreign entities once a permanent establishment exists), where they are incorporated, tax residencies, principle business activities, even the number and location of key personnel (which would of course include treasury and finance).

Further BEPS actions will change the way transfer pricing is viewed from a treasury perspective. As groups move to embed tax risk management policy into treasury policy, increased scrutiny internally of the tax implications of how and where the treasury function is managed is inevitable, says Nicolaides. This should certainly be the case if treasury is looking to set up treasury functions or a shared services centre in another geography. Indeed, in organisations where treasury is intended to be a profit centre, paying attention to the tax implications is vital, he says.

> "Given that cash pooling is becoming more prevalent in global treasury management, we have also seen that there has been an increase in scrutiny from tax authorities."
>
> Lara Okukenu, Financing and Treasury Tax Director, Deloitte

Historically, this set-up has been viewed as a capital provider from a transfer pricing perspective. This means that as long as the capital provider is adequately capitalised, and returns on that capital are based on 'arms-length' rates (based on what would typically be attainable in a normal relationship between a company and its bank), it would be respected under existing taxation rulings.

Under BEPS recommendations, Golden notes that the fundamental concept of arms-length pricing of intra-group services is seeing the focus shift away from the return on capital, and heading instead towards a return on the function of personnel; the focus here being on the pricing of the real intellect being provided to other group members, and ensuring that profits align to the economic reality of that value creation.

For Golden, this section in part translates as an enquiry as to the physical location of, for example, the cash manager or treasurer. "In the medium term, if and when local countries begin implementing the various BEPS action items, it may require the treasurer to shift the location of personnel," he warns. As a worst-case scenario, a cash manager or perhaps even a treasurer working from the head office may need to relocate to wherever the in-house cash centre entity is situated. Relocating to a low-cost labour location may not be popular and it may therefore see the low-cost cash centre shifting back to the headquarters, with all the cost implications that this has.

"How far the principles discussed in BEPS Action 8-10, for example around cash boxes, can be applied to intra-group financing more widely is an evolving question. In particular, given the OECD Action 4 guidance on the transfer pricing of financing transactions is not now expected till 2017," comments Okukenu. "We are already seeing instances where groups are reviewing their group structure and looking to where value is being created to make sure that it is in line with transfer pricing rules on where profit is being allocated."

Treasury's companion

A treasury policy allows the treasury team to conduct activities with the level of flexibility needed, defined by accepted parameters. At least, that is what's meant to happen. In this article, we look at the importance of exception handling and regular reviews to ensure harmonisation with market and business developments, amongst other priorities, to explore the fundamentals of what a good treasury policy should cover.

No treasury department should be without a treasury policy. The document is typically divided into a body (including the overall approach to treasury management in terms of scope, objectives, roles and responsibilities, the management of transactions, balance sheet and liquidity, and risk) and annexes detailing specific execution minutiae.

Having a well-defined treasury policy ensures treasury staff have written guidelines on their responsibilities and, more importantly, how to fulfil these. It will also detail their boundaries and how the department's performance will be measured, minimising the risk of internal fraudulent activity due to the failure of suitable policy. "The most important part of the policy is the fact it needs to be adhered to at all times," says Aashish Pitale, Group Treasurer, Essar Services India.

Making the right call

The processes treasury carries out are not areas in which to be vague; the value of a policy is largely dependent on the extent to which detail is provided. It is insufficient, for example, for a policy to simply state 'forwards should be used to manage FX risk'. Rather, it is important that the treasury policy sets out what strategy should be used, and why, relevant to the particular business. The eventuality to avoid, according to Dana Laidhold, Treasurer of The Carlyle Group, is a "policy for the sake of policy mentality without a clear link back to the business".

A Chinese manufacturer will have different priorities to the electronics company in Europe that buys parts from them, for instance. As a hypothetical example, in regards to currency transaction exposure, the latter's policy might state something such as: 'We import electric components from China (priced in US dollars), to sell in France (priced in euro). We pay the Chinese manufacturer 30 days after invoice date. We typically get paid within 14 days of shipment. From the point at which the obligation to make a payment from the Chinese company arises to the point at which the supplier is paid for those goods (in US dollars), the euro equivalent of the payment will fluctuate in accordance with movements in the USD/EUR exchange rate. Treasury's aim is to hedge this risk to ensure the products can be sold at the profit margin forecast when the goods were purchased.'

The acceptable hedging instruments, exposure limits, approval process and use of any natural hedge will then be set out, based on this initial justification. It should have a fair amount of flexibility. As Pitale says: "When decisions are made by the treasury's risk management committee on how to execute the policy, they respond to market conditions – but crucially within the framework of their policy. The policy document itself is not meant to change habitually in response to market conditions."

Key considerations when establishing a good treasury policy are, therefore, to focus on the document's compliance with local and international regulations as well as conforming to the objectives of the organisation. Taking a reactive approach, or deviating from policy because of volatility, Pitale says, can lead to treasurers "burning their fingers badly". He highlights the current oil price volatility as one area which has caught out some international treasuries in this regard. It is worth emphasising that treasury is there to achieve its objectives, not to 'win' (or 'lose') on a particular hedge. Therefore, Pitale advises: "Stick to your policy during all times of market volatility."

Risks to address:

- Market risks: interest rate risk, FX risk, commodity price risk.
- Credit risks: counterparty and settlement risk.
- Liquidity risks: cash flow risk, market liquidity and funding risk.
- Operations risks: human resources risk, fraud risk, business continuity risk.
- Legal risks: covenant risk and other legal risks in the mandates a company has with banks and other financial suppliers.
- Systems risks.
- Appetite for risk should also be addressed.

The first (and ongoing) steps

For this to be possible – and to avoid the occurrence of poor market-based decisions – policies should be tailored to the individual company's business model. The starting points are largely the same, however, and the creation of a treasury policy can be split into three key stages:

1. The identification of all the activities which routinely take place in the treasury – and all of the risks which the company faces from a treasury perspective (see box above). This is an aspect where the finance director and the other departments which regularly work with the treasury (eg tax, accounting, and internal audit) should be involved.
2. Developing the set of procedures and strategies for managing the risks identified in the first step. This analysis and decision-making should be the responsibility of the treasurer and finance director.
3. Approval from the board. This approval process will vary from company to company, of course, depending on who was responsible for drafting the policy. Ideally, this approval should take the form of a formal vote of confidence at a full board meeting.

As Laidhold says: "What's most important is to balance risk management with effective business operations. Policies should be underpinned with effective and executable processes." To ensure this, her treasury team alongside writing the policy also drafts the operating procedures in narrative form and often use visio charts to ensure they will be efficient and "to plug any gaps".

After which comes approval – but by no means is this the last step. "Every business is organic," says Laidhold. Periodic reviews are a necessary part of ensuring a treasury policy matches developments within the business and in the industry – and therefore guarantees the department can operate in the relevant manner, without the constraint of an outdated policy. Reviews are typically annual but "to the extent that something material happens in the market or business, we may look at them more frequently than that", Laidhold explains.

Factors that should be addressed in any policy review include: changes to regulations, changes in key personnel, and changes in the company's business due to mergers and

What if… policy isn't adhered to?

The policy should outline sufficient checks along the way "so something damaging can't reach a point of material impact late in the game", says Laidhold. Proper segregation of duties, levels of review and checklists, therefore, are essential "so that you minimise the risk a policy won't be adhered to because you have a lot of cooks in the kitchen managing that process".

She continues to say that to the extent which a treasury department writes a policy, implements it but doesn't provide "training, ability for input or guidance for all affected stakeholders," problems are bound to be encountered.

acquisitions, divestments, any relocation of operations, adding new business lines or products and major changes in the operating/reporting currency(s).

There are also external factors to consider, which are equally as driving. Laidhold provides the current example of changing factors in the short-term investment landscape – Basel III, Fed moves, prime Securities Exchange Commission (SEC) money market reform, for instance. "That influences treasurers to go back, look at their policies and make sure the department is equipped to effectively operate in that new environment."

Having an up-to-date policy is not only vital for control, consistency and the assessment of new risks, but also the assessment of new opportunities. Reviews can ensure the department is utilising current best practice. This is particularly relevant to technology enhancements, says Laidhold. "It is important to stay abreast of technological developments, as new tools can make your operations more efficient and/or add controls."

Do note, however, that not every area of a policy changes year-on-year. "It doesn't have to be a monumental exercise and you don't need to reinvent the wheel," advises Laidhold.

Beyond the basics

Most departments will have these basics covered, but there are areas worth emphasising. Exceptions to the procedures set out in the policy, for instance, are bound to occur and therefore warrant inclusion. A comprehensive policy will contain guidance on exception handling with resolution methodology – but from the start, it clearly cannot contain every exception. With each new exception, new knowledge can be included in the policy to ensure resolution can be achieved quicker should it happen again.

Whilst being an overarching document then, a balance needs to be struck between a policy containing necessary and comprehensive restrictions and one that is practical enough for the day-to-day operations of an individual treasury department. "This too shouldn't be seen as daunting, however," says Laidhold. It's about bringing together stakeholders from within and outside of the treasury department that will be impacted by policy and the supporting operating procedures. "By doing so upfront, you get that buy-in and make sure you are striking the right balance between governance and risk management, and allowing procedures to remain efficient in impacted operations," she says. "Turn over every rock together."

A focus on risk

As the need to manage liquidity and risk has become more pressing during recent times, the importance of clearly defined conditions for some operations should not be overlooked – limits for market-related transactions, for instance. Again, this is an aspect which will not achieve equilibrium from the outset, emphasising for another time the importance of regular reviews. Limits set maximum and minimum levels of exposure for market factors. Examples include: no more than $8m of crude oil exposure to remain unhedged, no more than 1% of spare cash to be retained in RMB and no less than €5m of investment in money market funds.

When review time comes around, cause for change on limits could be, for instance, extremely large unutilised limits or regular limit breaches (from the perspective of operational and/or trader discipline and the adequacy of the limits in that market factor). Scandals in recent years reveal that it is these basic controls which are typically breached.

In addition to complying with limits, some of these (larger) transactions may require approval from senior members of the company. These people, however, are frequently travelling for meetings and conferences and are unlikely to be immediately available in all instances – consequently requiring the policy to cover the procedure in these cases (markets cannot wait for CFOs to return to address pending transactions). For most companies it will be pertinent to have pre-approved ranges so, should those people be out of the office, transactions can still go through on a case-by-case basis.

A matter of detail

Treasury policies need to reflect the risk appetite of the company. But, as alluded to, it is a fine line to tread when trying to establish a policy with sufficient detail to be a document relevant for serious use, but one without an overbearing amount of different elements to fulfil. For example, a statement such as "our objective is to maximise our return on liquid investments at minimum risk" is of little value as a policy on the treatment of cash deposits. At the other extreme, however, a treasury policy which lists the names of appropriate counterparties for cash deposits provides too much detail. Whilst the policy should specify the criteria for an appropriate counterparty, this would be too inflexible.

The key concept to bear in mind is parameters. If a policy doesn't provide clarity of the acceptable margins in which to respond to such questions as 'what conditions on borrowings is the company prepared to accept?', 'how is data held and stored on the systems and for how long?', 'what is the ideal maturity profile of the company's borrowings?' and 'how will the company measure exposure to interest rate risk?', then it's time to revisit.

It is worth noting that the aspects covered here – such as appetite for risk, frequency of review, market limits – will be influenced by company-specific factors such as corporate philosophy, extent of natural hedges, volatility in cash flows, volatility of the business sector, what competitors are doing and what advisors say, for instance. That is why it's important when answering questions like those above to not rely on a one-size-fits-all approach, but to focus on your specific operating model. What's more, individual treasurers will bring their own beliefs, standards and expertise to the table.

Payments innovation

What are the drivers of change in the payments landscape? There is a lot of talk about innovation, but what does it mean for corporate treasury?

Natalie Willems-Rosman

Head of Payments, GTS EMEA, Bank of America Merrill Lynch

For decades, the way in which cross-border payments are made has barely changed, yet over recent years, there has been a wave of innovations across the payments landscape. We see three key drivers: globalisation, changing user needs and increased competition.

Globalisation is boosting the number of consumers with buying power. This increases global commerce and therefore cross-border payments, which in turn creates a demand for faster, less expensive and more reliable cross-currency payment options. Between 2010 and 2013, annual cross-border payments increased by 14%; yet between 2008 and 2013, the average value of cross border payments dropped by 25%*. As the world becomes increasingly interconnected, this is a trend we expect to continue.

User needs are changing, particularly amongst the millennial generation, who, it is predicted, will comprise 75% of the global workforce by 2025. This generation has grown up with mobile devices and a willingness to try new technologies. They are also an 'immediate' group, demanding that things be arranged instantly and at a reasonable cost. This is directly driving the adoption of new technologies such as blockchain and creating a demand for greater transparency of cross-border payments.

Lastly, the rise of fintechs has led to increased competition in the payments space, and today we see banks under pressure to invest in new technologies and partner in innovative ways to remain competitive. Yet while technology is developing faster today than at any time in history, we're still not seeing rapid adoption by the corporate world, despite the many benefits, including those listed below, on offer:

- As payments continue to migrate to instant schemes, corporates gain more flexibility and better optimisation of their working capital.
- Payments which currently go from bank account to bank account, will be able to use e- or mobile wallets, and this creates further opportunities to reach new customers.
- New payment mechanisms such as blockchain and XML have the ability to carry more data which will improve reconciliation.

With today's rapid pace of technological change, none of this is far away – but to get there, much work still has to be done by the wider industry to ensure that the changing needs of corporate treasury can be achieved. That is where most of the conversation is now taking place. There's no doubt that we are in exciting times, and one thing is certain – the next five years will bring with it more capabilities than we have seen in the past decade.

**Source: Aite Report – Cross-Border Payments: Challenges and Trends; BCG Global Payments 2014 Report*

Ireti Samuel-Ogbu

EMEA Head of Payments and Receivables, TTS
Citi

While much of the payment innovation hitting the headlines largely focuses on intermediating consumer flows and transforming end user experience, corporate treasurers face a balancing act to capitalise on the opportunities arising from the changing landscape and emerging technologies, whilst managing counterparty risk, productivity and scalability.

1. **New commerce and trading models.** The exponential growth in e-commerce requires digitally native and traditional companies alike to scale up rapidly to access new customers in new markets and support payments and collections in more currencies and in more countries. Consequently, treasurers need to assess their cash management models (account structures, collection instruments etc.) and their robustness to continually deliver on the business' growth agenda and effectively manage changes in the organisation's FX risk profile.

   Procurement practices are evolving with the uptake in dynamic discounting platforms providing opportunities to optimise supplier financing programs, creating new avenues for corporates to effectively deploy excess liquidity.

2. **Payments – faster, simpler, interconnected.** The advent of real-time payments is enabling treasurers to make greater use of cash balances and accelerate cash conversion cycles with just-in-time payments.

   Furthermore, as banks and fintechs explore the potential of blockchain and other distributed ledger protocols to enhance payments, trade and other financial services, there will be downstream benefits for corporate treasurers to manage payments and exchange currencies more efficiently and cost effectively over traditional banking models.

3. **Smarter data, smarter decisions.** As payment offerings become increasingly standardised, treasurers have realised

that, just as critical as the payment itself, is the data that accompanies these flows. Innovations in data management and API tools are allowing treasurers to effectively accept, consume and interpret data about their cash and working capital flows. This drives treasury efficiency, smarter decision making and creates deeper and more insightful analytics that have a direct positive impact on the business.

PSD2 and the advent of API-enabled controlled access to accounts by third-party service providers can improve visibility of liquidity positions and cash exposures and better leverage data to drive effective liquidity deployment and cash forecasting.

Meanwhile, the internet of things (IoT) has increasing potential to connect and revolutionise supply and distribution ecosystems which, in turn, should enable more effective working capital allocation globally.

4. **Optimise liquidity, mobilise working capital.** Industry initiatives and regulations such as SEPA, combined with the market adoption of ISO XML 20022, are enabling treasurers to further centralise treasury and operating models, mobilise working capital and create the business case for in-house bank (IHB) type structures as a natural evolution towards enhanced liquidity and risk management – combining centralisation of funding, liquidity, settlement and payment processes. The advent of virtual account ledgers and pay or receive on behalf of models is enabling the centralisation of liquidity with intercompany liquidity being managed internally within the IHB.
5. **Managing payment risk and digital security.** As the rapid pace of digitisation continues and the volume of online payments continues to increase, corporates find themselves exposed to a changing risk profile where cyber security and fraud prevention is now high on the corporate treasury agenda. To implement effective programs, treasurers must address the full spectrum of internal training, communication and leveraging emerging fraud prevention technology.

Sonya Crites

Head of Product Management,
Cash Management
D+H

On the retail side, an all-out war on cash has been declared as the payments industry witnesses the traditional wallet being replaced by the mobile device. The financial services industry is now focusing on getting digital wallet share driven by app usage and integrated client experience. The ease, speed, and convenience of consumer electronic payments is driving the change for similar experiences across all payment and transaction infrastructures, including treasury. In fact, the ease of use on the retail side is highlighting the inefficiencies and stagnation that have been accepted for decades in the corporate payment space. And as corporate practitioners grow accustomed to easy and fast payments in their personal lives, they demand the same in the workplace.

From the business perspective, corporate treasurers are managing the day-to-day tasks of the department, and it can be a 'multi-portal' experience to get the job done. They typically aren't as concerned about innovation as with being able to get the job done as quickly and efficiently as possible. When a corporate treasurer handles the full payments lifecycle, including reconciliation, the payment process becomes much more complicated compared to what the average consumer experiences with the digital wallet.

But innovation on the corporate treasury side is starting to address the needs and demands of corporate treasurers. With the ubiquity of digital transactions, treasurers have to have the proper mechanisms in place to account for and manage added volume and various types of transactions. In the last few years, we have gone from ACH, cheque, and cash, to fully integrating card and digital payments into the mix. At the same time, the security mechanisms need to be in place to validate the transactions and integrate them into the corporate's treasury management system. Cross-border payments are an increasing reality for corporate treasurers, and they need the best mechanisms with which to cross those borders.

Financial institutions are struggling to keep up with corporate treasurers' increasing and rapidly evolving needs. Banks face competition from new market entrants, and revenues for banks are decreasing as the cost of payments transactions goes down. Smaller merchants and even consumers can now accept payments and not incur the hefty costs associated with merchant terminals. Market behaviours are breaking down the traditional silos and lines of business in financial institutions. To succeed in the new era of corporate treasury, financial institutions will need to achieve transparency from consumer-initiated payments to integrated reconcilement on the corporate's books with ease, security, and accuracy. The appetite for corporates to take on a large-scale migration to a new treasury management system is waning. Corporates are looking for the same aggregated user experience consumers are receiving with the same ease of implementation and use consumers get from cloud-based applications.

More than ever, it will be true that banks should look to their retail customers' demands to know what trends lay ahead for corporates. As millennials begin taking on senior roles within corporates, the demand for leading-edge payments technology will be expected.

The next question:

"What advice are you giving/being given in the wake of June's decision by the UK to leave the European Union? Whilst the clock is yet to start ticking for real, what does this momentous decision mean for corporate treasury?"

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

Brexit advice needed?

The global economy faces an uphill struggle in the months, and years, to come. But, in the words of the late, great Muhammad Ali: "It isn't the mountains ahead to climb that wear you out; it's the pebble in your shoe."

Muhammad Ali

The greatest champion of all times passed away in June, following an exhausting fight against Parkinson's. Considering the recent developments and the obstacles on the road ahead, it looks as if the global economy also faces an epic struggle to keep growth going, let alone boost it. On the long and winding road up the mountain, many countries are not so much hampered by pebbles in their shoes as by huge debt and populist burdens on their backs.

In the US it became clear that Donald Trump will be the presidential candidate representing the Republican party. His opponent will go by the name of Hillary Clinton. Neither candidate is universally popular but we think the prospect of a Trump victory will unnerve the markets more. Now we know the outcome of the EU referendum in Britain, chances of a Trump win will be taken more seriously.

I shook up the world

Although we are not sure if the eulogy for the EU can already be written, Brexit is not just a big blow to the UK and the EU but to the whole concept of globalisation and to mainstream politicians everywhere in the West.

The British have shown the world that no matter how many politicians, economists, historians and other experts warn for apocalyptic results of a decision, many voters don't care about the experts' opinion anymore. They have made very clear that if anything, a very large part of the electorate views experts not as wise, educated men and women whose advice and insights should be heeded, but as hacks who are part of a cosy establishment just trying to keep in place the order that has given them the opportunity to become to be seen as experts in the first place.

In other words, the so-called experts were painted as self-serving elites who were just trying to scaremonger people into voting Remain. After the world suffered the biggest daily loss of global equity markets ever, the British leave voter could justifiably and rightly repeat Ali's words: "I shook up the world. I shook up the world."

Disunited Kingdom

How the divorce will be handled remains to be seen but it will undoubtedly be a tortuous process as the UK is divided to the bone. There are gaping gaps between young and old, poor and rich, London and the rest of the UK. England/Wales and Northern Ireland/Scotland are in opposing camps while voters are increasingly estranged from politics. For example, the generational cleavage is blindingly obvious: 75% of the 18-24 year olds voted Remain while 61% of the 65-year-olds and over opted for Leave. And don't forget the ocean dividing politicians and the population: two-thirds of the British MPs were in favour of staying inside the EU. Representative democracy has clearly taken a great hit.

The first big casualty of the vote result was Prime Minister David Cameron, who will resign. This doesn't automatically mean that the British will have to go to the voting booths again to vote for a new government. The Tories will have a leadership election and could continue to govern until the next elections in 2020 if they would like to do so after having named a new PM.

There's one caveat: elections can be held early if a supermajority (two-thirds) of British Parliament supports a vote of no

ecr research

confidence and parliamentarians don't succeed in forming a new government. The takeaway here is that there won't just be lots of uncertainty pertaining to the relation between the UK and the EU, the UK itself will be in for a long period of insecurity too.

European dominos?

This splintering process will not be reversed any time soon. Moreover, the conventional wisdom that people vote with their wallets has been turned upside down. Most people admitted that they believe that a vote to leave would hurt them financially, but they went on to choose the exit anyway. This will make sitting politicians in other countries very nervous. Economics isn't the only game in town anymore when it comes to political success. But it still is a very important game. The most worrying is that compared to many other EU states, the UK economy has been doing quite well. So if British voters are already angry, it must be even worse in many other parts of the EU. Those political and economic frustrations will translate into pressure on other EU states to hold a referendum.

Although we do not think these will take place in the near term, political discord and uncertainty are rife. In Spain, two elections in the space of six months have shown that the old two-party system is dead and it remains to be seen if the new government can offer stable and coherent guidance through these insecure times. Over in Italy, Prime Minister Matteo Renzi's position is at risk following disastrous local elections while a referendum will be held in October on changes to the electoral system. Renzi has thrown in his lot with the outcome.

Glimmers of hope in sea of darkness

How about other parts of the global economy? Will they compensate for Europe's troubles and the danger of a Trump presidency in the US? At the time you are reading this article, Japanese Prime Minister Shinzō Abe's Liberal Democratic Party has probably succeeded in winning the elections for half of the seats in the Japanese Upper House.

However, this does not mean to say that Abe will run a tight economic ship. His party may gradually unwind the monetary component of the famed three-arrow-policy (Abenomics) due to growing criticism of the Bank of Japan and there is the continuing risk of Abe shifting his attention to his nationalist agenda.

There are some political glimmers of hope in Latin America where 'super populism' appears to be making way for 'normal populism'. Developments in countries such as Argentina, Brazil, and Cuba could be beneficial to the markets. Yet, we do not see the continent making quick progress on reforming their political and economic systems, which means that economic growth could pick up as confidence in Brazil, Argentina and others gradually return, but it will not be enough to compensate for troubles elsewhere.

What does not kill you...

Coming back to Europe, the response to the Brexit vote will probably not be of one Europe pulling itself together and strengthening Europe in areas that can only be tackled jointly. For such a united approach, divisions within Europe are simply too large and there remain too many unknowns.

From a political point of view this means more headwinds for the Eurozone and thus a weaker euro and probably larger spreads between the interest rate spreads between German bonds and those of the euro periphery countries. The other side of this coin is that we can continue to expect a flight to traditional safe haven currencies, particularly the US dollar (notwithstanding the Trump threat) and to a lesser extent the Japanese yen and Swiss franc.

The global economy has been through a lot of change in recent years and grey clouds continue to hang over the markets. Let us take heart from Ali's words to end with an upbeat perspective: "Only a man who knows what it is like to be defeated can reach down to the bottom of his soul and come up with the extra ounce of power it takes to win."

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