

# treasurytoday

research | insight | analysis

November/December 2016



## 2016: the year in review

The past 12 months have been nothing if not eventful. But what has the impact of this year's events been on corporate treasury departments and how might these shape what is to come in 2017?



### The Corporate View

**Matt Cornwall**

Deputy Treasurer  
Capita

### Regional Treasury

Nordic and Baltic regions in focus

### Regulation

A spotlight on the key developments



### Women in Treasury

London Forum 2016

Gender stereotypes and the progression of women in the workplace were just two of the topics on the agenda at this year's forum. Discover what our inspiring speakers had to say.

### What If...

You are forced to move banks?

### Back to Basics

Developing an RFP

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# The end of the madness?

As we reach the end of 2016 few would say that it has been a boring year. It may, in fact, go down as one of the most volatile years on record.

Most notably 2016 was the year the UK public voted to leave the European Union. The fallout of this has sent shockwaves around the world and significantly impacted the financial markets. Uncertainty around the UK and the European Union more broadly has become the order of the day and this looks set to continue in 2017 as Article 50 may or may not be triggered by the UK's Conservative government. There will be challenges ahead, but for now, the prevailing advice for corporates is to 'keep calm and carry on'.

Away from Europe, the US, whilst perhaps doing better economically, is going through its own crisis of identity. The battle between Clinton and Trump has been one of the most polarising and divisive presidential campaigns in recent times. Whether the aftershock impacts the US, its business environment and its place in the world more broadly remains to be seen.

For corporate treasury departments around the world, these and other issues have created a lot of headaches. But in a year that will probably be judged as volatile by history, there have been some bright spots. The wave of digitisation sweeping across the industry at present has gained momentum and there are promising signs that treasurers may be benefitting from some of these developments.

In this issue, we take an in-depth look at 2016 and the events that have shaped the year for corporate treasurers. We also review the negative (and positive) impacts that financial regulation is having on corporate treasury departments and speak to some industry experts about how to deal with this. In the last "what if" of this year, we speak to a number of corporates about what to do if and when a bank's strategy no longer includes you.

## Season's greetings

Treasury Today would like to thank you again for your continued support throughout the year. Next year we will continue to deliver independent research, insight, and analysis as well as introducing some new features that are designed to highlight the latest trends impacting the profession.

2017 also marks the ten-year anniversary of the Adam Smith Awards, a tremendous milestone that you might want to celebrate with us. Why not start preparing your nomination now.

We wish all of our readers a most enjoyable festive period.



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Looking back on a dynamic year

The past 12 months have been nothing if not eventful. From Brexit to the Bangladesh Bank heist, 2016 has seen some significant world events which have repercussions for companies around the world. This article reviews some of the most significant milestones, innovations, and challenges of the last year.

WOMEN IN TREASURY 8

A celebration of diversity



Now in its fourth year, Treasury Today's Women in Treasury initiative continues to receive overwhelming support from the industry and beyond. This was highlighted at our recent forum in London where 180 senior financial professionals gathered to network and learn from each other's experiences. Here are the highlights from the day.



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Your bank's strategy no longer includes you?

In today's banking landscape, nothing is certain and a bank's strategy can change quickly and treasurers must be prepared for the possibility of losing a key relationship bank. Here, two treasurers who have recently had to change transaction banks as a result of a shift in their existing provider's strategy share their experiences.

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Managing financial regulation

The changing face of regulation around the world has been a major concern for treasurers over the last few years – and this is likely to continue for the foreseeable future. But what are the most significant changes of late and how is the regulatory environment affecting the treasurer's role and required skillset? Treasury Today speaks to a number of industry experts to find out.



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**Nordic and Baltic regions in focus**

The Nordics and Baltics is a region linked by common cultural, historical, political and economic ties and while it may push into the furthest reaches of Northern Europe it is also very much in touch with the rest of the world. We investigate what this means for corporate treasurers operating in the region.



**TREASURY PRACTICE 29**

**Challenges on the way to KYC standardisation**

Complying with know your customer (KYC) regulation is costing banks a fortune and giving corporations a serious headache. In this article, we explore the role of third-party providers in easing the KYC burden and the reasons why progress towards the standardisation and automation of KYC they offer, remains slow.



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**Matt Cornwall**  
Deputy Treasurer  
**CAPITA**

The need to constantly be learning new skills and taking on challenges is something that is hardwired into Matt Cornwall, Deputy Treasurer at Capita's DNA. In fact, it is this desire to constantly be moving forward that led him into the treasury profession in the first place. In this in-depth interview, he outlines why he selected a career in treasury and how his role has evolved over time.

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**In a decent proposal...**

In this article, Treasury Today offers some practical advice and guidance on how to prepare a request for proposal to give you the best chance of achieving your goals. We also include a checklist to help you through the process.



# Looking back on a dynamic year

*From Brexit to the Bangladesh Bank heist, 2016 has seen some significant world events which have repercussions for companies around the world. At the same time, the evolving challenges faced by corporate treasurers have been accompanied by some significant technological innovations.*

The past 12 months have been nothing if not eventful. Against a challenging macroeconomic backdrop, treasurers have faced numerous challenges, from cybercrime to continuing low interest rates. Meanwhile, technological developments including blockchain-related milestones and the rise of outsourced applications are providing new opportunities for treasurers to operate more efficiently. This article reviews some of the most significant milestones, innovations and challenges of the last year.

## Cybercrime and fraud

Concerns about cybercrime have been mounting in the last couple of years. In February, the scale of potential breaches became apparent with the theft of \$81m from Bangladesh Bank – an event which has made corporate treasurers far more conscious of the risks.

Andrew Bateman, President of Treasury Software Solutions at FIS, notes that cyber security is increasingly becoming a greater concern for corporate treasurers. “We are seeing more and more focus on this topic, following several breaches in the marketplace this year,” he comments. “It is interesting to see how people are beginning to understand where the risks are in more detail. Making your environment secure is one thing, but making your application secure – both externally facing and also within your firewall – is becoming increasingly important.”

Meanwhile, other types of cyber threat are also becoming more sophisticated – such as Business Email Compromise (BEC) scams, whereby fraudsters send emails to finance staff, attempting to convince them to make urgent payments to overseas accounts. Fraudsters may go to great lengths to make their emails sound authentic and many such attacks are successful. In June, the FBI reported that BEC scams had cumulatively resulted in losses of over \$3bn since 2013.

The rising threat of fraud was also highlighted by Kyriba's 2016 Treasury Survey, which found that the number of companies which had been the target of attempted fraud had increased by 20% since the previous year. The largest reported loss was \$2.5m from a single incident.

## Brexit and beyond

The outcome of the UK's Brexit referendum on 23<sup>rd</sup> June sent shockwaves around the world, but with the terms of the exit yet to be decided, the impact for corporations remains unclear.

Nevertheless, there is certainly concern about the impact of Brexit. Research published by Greenwich Associates in August found that over a quarter of European companies intend to move away from UK banks once Britain leaves the EU.

These concerns relate to the possibility that banks' passporting rights will be withdrawn following Brexit. Currently, British banks can use passporting rights to offer financial services across the EU and European Economic Area (EEA) without requiring authorisation in individual countries. Concerns have been raised that if these passporting rights are withdrawn as part of the Brexit negotiations, some financial institutions would move their headquarters to another country within the EEA.

Aside from this issue, Brexit has had wide ranging implications for treasurers. “The implications of Brexit haven't yet fully unfolded in a legal sense, but there has been quite a profound effect to the capital markets from a UK perspective,” says Chris King, Group Treasurer at Vita Group. “The currency, gilts and swaps movements have certainly tested and validated downside sensitivities in business and covenant scenario modelling. UK defined pension schemes have had a large impact, and the investment approach has been strongly challenged.”

## Tackling the risk of fraud

George Dassing, SVP, Treasury and Risk at Wolters Kluwer, notes that the company has intensified its focus on cyber risks and incident management as the company's business model has evolved into digital.

“Our company is becoming more and more digital – 86% of total revenues are digital and services – so you can imagine that the issue of cyber fraud is a relevant risk for us to manage,” he explains. “In the old days, our main risks related to the warehouses which contained all of our print books. Our global risk management and insurance programmes have necessarily evolved to meet traditional and emerging risks, including cyber.”

Where reacting to incidents is concerned, Dassing notes that this may include external as well as internal incidents. “We have locations in New York, so when the bombing took place recently we needed to react and inform our employees as this happened relatively close to our office – the more you inform them, the more you engage them. As the world becomes more interconnected, treasurers, who have long been closely linked to market risks, are now getting more involved in operational risks as well.”

King adds, “whilst the uncertainty will need to be considered in more detail and managed accordingly, particularly in light of ongoing liquidity in ever more febrile markets, it does offer scope for some lateral thinking and reassessment of how best to manage the risks.” He notes that the opportunities are just as significant as the risks, given that most of the downside market impact has – seemingly – now been felt.

Beyond Brexit, other geopolitical events have featured prominently in 2016. “Political instability in the Middle East and Africa has led to the largest involuntary migration since the Second World War,” says Mitko Iankov, Head of Market Development – GTM Europe, Thomson Reuters. “This has unwittingly fuelled the populist politics within developed Europe, further exacerbating the protectionist attitude and popularity of extreme politics. This is not isolated to Europe, but indeed contributed to an anti-globalisation, anti-free trade business environment in which most MNCs thrive.”

## Making the most of cash

Aside from these challenges, treasurers have continued to grapple with perennial concerns such as effective cash management and good forecasting. This is particularly pressing in the continuing low interest rate environment. Despite the Fed’s decision to increase interest rates at the end of 2015, other monetary authorities have not moved from the low rates introduced following the financial crisis. Interest rates remain at 0.25% in the UK, while Europe’s deposit rate was cut further to a record low of -0.4% in March.

Meanwhile, many companies continue to hold high cash balances. In May, Moody’s reported that non-financial companies in the US were holding \$1.7trn on their balance sheets. With interest rates on bank deposits still low, companies with significant excess balances are looking for other uses for their cash.

“We have a lot of surplus cash,” explains George Dessing, SVP, Treasury and Risk at Wolters Kluwer. “Capital allocation has

been a high priority for us in 2016. We recently announced our intention to do an acquisition as we are continuously looking for opportunities to support our organic growth strategy, so we are keeping active on this front. In February, we also announced a three-year plan to buy back up to €600m of shares.”

In other cases, the focus is on extracting as much excess cash as possible by optimising working capital management processes. “Companies are not getting the returns on their deposits that they used to, so there’s a real need to try to squeeze cash out anywhere you can,” comments Jennifer Bousuge, Managing Director, Head of Global Transaction Services EMEA at Bank of America Merrill Lynch. “This has been accompanied by advances in technology which are allowing companies to unlock previously inaccessible working capital. This can have very real benefits: I know one treasurer who has been able to finance some smaller acquisitions by putting in place more efficient working capital management practices.”

Bousuge says that interest in managing working capital more effectively is on the rise, noting that some companies have appointed working capital management executives who report to the CFO and are at the same level as the treasurer. “These executives will look at all of the supply chains across the company, with the goal of squeezing cash out of the balance sheet,” she explains.

## Innovation

While treasurers have been facing considerable challenges this year, from the increased threat of fraud to choppy political waters, the technology available to meet their needs continues to develop and present new opportunities.

Some treasurers have been watching the arrival of enhanced solutions and improved functionalities with interest. “At the beginning of the year, we were planning to adopt a new treasury management system, but we haven’t yet managed to get all the necessary approvals internally,” says Marianna Polykrati, Group

## Political pressures

Marianna Polykrati, Group Treasurer of Greek food company Chipita, explains that the company has not been significantly affected by the political and macroeconomic pressures which have characterised 2016.

“Our headquarters is based in Greece, so we are conscious that the crisis is continuing to affect the Greek market,” says Polykrati. “But due to the global presence of the Group we haven’t seen any decrease in terms of sales. On the contrary, we have double digit increases in both sales and profitability, being mainly generated by the CEFTA/CEE region. The truth is that our core products – confectionary and croissants – are considered also as an “antidepressant” and even in the crisis it is a product that people always buy even when they are short of money, so we’ve actually seen a slight increase in our sales in the Greek market.”

Meanwhile, Polykrati has been paying close attention to developments further afield, such as the Brexit referendum and the upcoming elections in the United States. In the past, the company has only had a minor presence in the UK market, which has accounted for only a small percentage of total sales. More recently, however, Chipita opted to open a commercial company in the UK.

“We opened the new company just before the Brexit referendum took place,” Polykrati explains. “We haven’t seen any difference following the referendum – we sell our products from a market that is very competitive in terms of price, so even with the slight devaluation in GBP, the cost was internally absorbed, thus still being well positioned in the UK market.”

Where the US elections are concerned, Polykrati says she expects the outcome to be significant – but at this stage it is difficult to predict what the consequences will be. “We have a co-operation with a commercial company in the United States and we don’t really know what to expect,” she comments, “but we do continue with business as usual.”



## Managing plastic money

For Italian tourism company Alpitour, 2016 has seen a major focus on reviewing the technology used for the company's receivables. With hotel bookings, plane tickets and vacation packages increasingly being sold on the internet, the company has been working to develop a new selling channel which can be used by all of the group's divisions – namely a tour operating company, an airline charter company and a hotels division.

“Each business unit has its own selling target (B2C/B2B) and different ticket prices,” explains Enrico Rao, Alpitour's Group Treasurer. “The payment instruments available on the site, the credit card acquirers and the infrastructure have been decided by the central treasury. Because we have different business units and different internet sites, we did not want to use different banking solutions – so the main idea is to manage plastic money in the same manner we manage the central treasury.”

Alpitour Group has therefore adopted an independent Payment Gateway to be used by all the relevant business units, linking group websites to the Payment Gateway for payments. Each company is able to view its real time transactions, upload data for accounting purposes and manage refunds.

“On the other side of the Payment Gateway, we can connect different credit card acquirers chosen by pricing conditions or alternative payment methods, such as MyBank or PayPal,” Rao adds.

Advantages of the solution include having a unique database of all group transactions, as well as a real-time view of the situation for each company. “We can also set a fraud prevention strategy customised by the needs of each entity – for example, specifying how many attempts for each card is fine for our risk standards,” says Rao.

“Finally, for managing plastic money we have sourced from concepts and instruments typically taken from treasury management – such as cash pooling, central payment factory and central treasury systems – in order to get the same advantages and centralisation we have already achieved in treasury.”

Treasurer of Chipita. “The delay has turned out to be a good thing though – I've noticed that there are new systems coming out offering better solutions and lower costs, so I have been reviewing all the systems that are now available.”

Where specific developments are concerned, FIS' Bateman says that the last couple of years have seen a move to outsourcing the operation of applications. “The software as a service (SaaS) model has become very prevalent at the mid to low end of the market,” he explains. “Customers just want to consume functionality – they don't want to have to worry about installing it and running it. That works well where you have a more standardised workflow and processes. Meanwhile, larger corporates are saying they want vendors not only to host applications, but also provide application management and managed upgrade services.”

Another topic which has developed over the last year relates to the rise of fintechs and the impact on banks. In the past, the focus of this topic has tended to be on the prospect of competition between banks and fintechs. However, there is some evidence that this has begun to shift, with the focus moving to collaboration.

“I think the discussion has moved on from disruption to how we partner,” comments Bousuge. “Fintechs are not regulated financial institutions and many of them don't want to be. They realise that if we're going after the same client sets, the banks already have the clients; they already have the rails, if you will, and they have complied with the regulatory environment. What these guys bring is the innovation. So we're now figuring out how we come together, and that will increasingly be done through banks investing in this area and acquiring these digital capabilities.”

## Virtual account management

Another area of development is virtual account management (VAM). “VAM tools enable the reconciliation of multiple accounts,” explains Bousuge. “Companies have a header

account, which is the 'actual' bank account, with multiple layers of virtual accounts underneath. Different banks approach this in different ways – in our case we use IBANs as unique identifiers, so people can make payments into and out of their accounts.”

The benefit of this approach is that each vendor can pay into a separate virtual account, making reconciliation much easier. Bousuge notes, “this was a new concept three years ago, but it's really taken off – now every RFP that we see includes VAM.”

## Blockchain

Meanwhile, talk around the possibilities of blockchain has begun to translate into action. While most of the possible applications of blockchain remain unrealised at this point, some progress is starting to happen. Microsoft and Bank of America Merrill Lynch announced in September that they are collaborating on a trade finance blockchain initiative designed to standardise processes relating to standby letters of credit. The same month, Barclays and technology start-up Wave also announced that they had become the first organisations to execute a global trade transaction using blockchain technology.

## Conclusion

The last year has certainly had its share of difficulties: choppy political waters continue to make for an uncertain environment, while treasurers are increasingly focused on managing risks relating to cybercrime. In addition to these challenges, the pressure of complying with new and existing regulations continues to be a major focus for treasurers around the world. The scope of this issue is explored in more detail on pages 16-18.

Alongside these issues, innovation and development continue across a range of treasury activities, providing new ways for treasurers to manage cash more efficiently. As we move into 2017, treasurers will be keeping a close eye on these opportunities – as well as remaining cognisant of the challenges.



# Women in Treasury

a celebration of diversity

*Over the past few years, there has been a loud and inspiring push for gender equality around the world. Almost every industry, profession, and major company now operates their own diversity initiative or programme. These are joined by a variety of high-profile global campaigns, such as the recent UN Women's HeForShe campaign, supported by public figures and global leaders alike.*

Aside from raising awareness of the issues and promoting a change for the better, these initiatives are having a wider impact on how society views the debate. Gender equality is now a serious global issue that is gaining traction among governments, industry bodies, employers and employees alike.

As part of this shift, there has been a noticeable change in outlook to an open-minded – and less divided – view that individuals should be recognised on their own merits (rather than on fixed stereotypes). There are tangible indicators of this happening as well; more women are on corporate boards than ever before and the gender pay gap is at its lowest, according to the UK Institute of Fiscal Studies. For many businesses, creating a gender-equal workforce has moved from being a 'nice to have', to an economically beneficial priority.

Despite this progress, women are still hugely underrepresented in the upper echelons of companies around the world. The Treasury Today 2016 Women in Treasury Global Study highlighted that 29% of women believe that they still earn less than their male counterparts. It is clear from this perception alone that there is still much more to be done.

## Driving the debate forward

Ensuring that the momentum behind the gender equality movement continues to build is one of the key objectives of Treasury Today's pioneering Women in Treasury initiative. Established in 2013, the initiative exists to support, inspire and raise the profile of women and address larger issues of diversity in our industry. Comprised of an annual global study, profiles of senior female corporates and bankers, community social networks and forums held around the world, the initiative has received overwhelming support since its inception and continues to do so.

The latest European Women in Treasury Forum, held in the historic surrounds of Gibson Hall in the heart of the City of London highlighted this. The event saw over 180 senior financial professionals, including a healthy number of men, from Europe, the Americas and Asia gather to network and learn from each other's experiences.

It was interesting to hear the thoughts of the many senior professionals in attendance during the pre-lunch networking reception and it was clear that change is occurring. This was most notable by the fact that the conversations no longer





centred around the usual female-focused topics of childcare and flexible working – although these remain important issues – and instead focused on the practical steps taken to create a more diverse and inclusive environment.

This theme continued in the dynamic and lively panel debate facilitated by Sophie Jackson, Associate Group Publisher at Treasury Today Group. The discussion was defined by the open and honest views of those involved. The panellists offered many personal and thoughtful insights into diversity, the progress that is being made and what more needs to be done.

This year's panel comprised:

- **Rana Fayed El-Hajjar**, Treasurer, Qatargas.
- **Lucie Harwood**, Head of Treasury and Investor Relations, Laird plc.
- **Ebru Pakcan**, Head of Global Payments and Receivables, Treasury and Trade Solutions, Citi.
- **Julia Persson**, Head of Cash Management, GTS, Large Corporates and Institutions, Swedbank.

## A diverse team

The session kicked off with an informative discussion around how to best build a diverse team, something which the panel agreed transcended the gender debate. Rana Fayed El-Hajjar, Treasurer, Qatargas, led this topic and suggested that race, religion, nationality, socio-economic background,

personality type and learning style were just a few of the other considerations that must be included in order to form a truly diverse team. By doing so the company is more likely to achieve greater customer engagement, innovation and productivity, all of which will positively impact profitability, she says.

But how to get there? Rana advised that diversity can be encouraged in several ways. "First, business leaders must develop their own cultural competence, uncovering and reducing their own unconscious biases," she says. "From this base, actively soliciting input from the various members of your diverse teams helps to foster inclusivity and ensures that differing opinions and thoughts are considered when solving complex problems or making important decisions. Encourage the introvert, the extrovert, even the pessimist to share their thoughts."

Other practical steps can also be taken. Rana, for instance, recommends that a diverse range of candidates as well as a diverse interviewing panel is present when hiring. "You must make sure you don't simply employ people who are a mirror image of yourself, however," she warns. "The best teams are those that comprise people with a wide range of personalities and skills."

However, in her view, it is great leadership that is most important to realise the benefits of diversity. She closed by saying: "To build a great team you need to have great leadership. If you care about building a diverse and high-performing team, then you have to think about what the practical steps are that you can take to prevent unconscious

bias creeping in and how you can foster an environment in which your team complements each other and can thrive through active collaboration, not peaceful co-existence.”

## Coming together

Next on the agenda was finding ‘male allies’, an increasingly important topic at our global forums in 2016, which is actively seeking to bring men and women together in the discussion. Ebru Pakcan, Global Head of Payments and Receivables at Citi spoke at length on this subject and the debate ebbed and flowed between the assessment of how the different individuals perform and behave in the workplace and how women have historically not been valued as much as they should have been.

Unconscious bias was again a key component of the debate with combatting it seeming to be imperative for progress. Ebru stated that bringing more men into the discussion could be the key to moving the discussion and general progress forward. “The only way for a minority to succeed is to interact with the majority and involve them in the debate,” says Ebru. “In doing so we can find out what their thoughts are on the subject and why they act as they do. By doing this you can make them aware of their bias and begin to enact change.”

Ebru highlighted, however, that by including men in the debate women are not looking for “male saviours and for men to come in and solve women’s problems”. Instead what is being sought is “male allies” and men and women coming together for mutual benefit. “If we make men aware that gender bias is an issue for both men and women,” Ebru adds, “and if men recognise that we have a common goal then we can all galvanise around it.”

Ebru sees progress on the horizon. “There is a whole group of millennials entering the workforce at present,” she says. “What their expectations are and how they think and act when it comes to topics such as diversity are very different from what has been the norm. I see this then being a great opportunity for organisations to harness their way of thinking and drive this throughout the business.”

## Seeking transparency

Further solutions to removing gender bias were offered in the next stage of the discussion, the focus at this point being how to drive transparency and accountability throughout businesses. Given her position at the top of one of Scandinavia’s largest banks, Julia Persson, Head of Cash Management, GTS, Large

Corporates and Institutions at Swedbank provided some enlightening examples from the region, which is arguably leading the way regarding gender diversity.

Julia noted that generous parental leave, first-class state-led child care, and equal opportunities are all promoted across the region. She further highlighted how countries such as Sweden actively legislate on diversity issues. Such measures include tax reductions for couples that equally split their parental leave. Given that Iceland, Finland, Norway, Sweden and Denmark are the top five countries in the World Economic Forum’s Global Gender Gap Report, the statistics would seem to demonstrate the success of this approach.

For businesses, this has practical implications. Julia explained how these measures help drive parity with respect to the ‘risk’ of employees taking parental leave when hiring men or women, as both are equally involved in childcare. “Also, gender pay gaps are reviewed and reported on annually reducing the risk of males being paid more than females,” she said.

Julia was keen to point out, however, that whilst the Nordic approach is successful, issues still exist. Quoting a Wall Street Journal article from 2014, Julia noted that: “Only 3% of the largest 145 big Nordic companies have a female CEO and more than every second woman thinks that an unfair sharing of housework is hindering her ability to run her own business.” In her view, the reason for this is because, despite all the good work, gender bias still exists and is very hard to remove completely. She provided a riddle to highlight this and it seemed to be an eye-opener to many in the room.

*A father and son are in an accident and the father is killed. The son is rushed to the hospital and taken into emergency surgery. However, just as he’s about to go under the knife, the surgeon upon seeing the patient says, “I can’t operate – that boy is my son!”*

*How is that possible?*

## A bright future

Rounding off the debate was Lucie Harwood, Head of Treasury and Investor Relations at Laird plc who provided insight into what the future might hold for gender parity. Lucie noted that she typically approaches this topic with some







degree of cynicism. “Today has proved me very wrong,” she said. “It has been fantastic.” For Lucie, the key reason for this was because of the tangible signs that the debate is moving beyond the normal conversations around working mothers and flexible working. “Whilst this remains incredibly important it is just a symptom of the broader gender bias that appears in numerous guises,” she said.

In her view, despite the positive steps that have been taken and the progression of the debate, there are still some major obstacles to achieving gender diversity soon. Lucie cites how the ‘old boy network’ remains a big hurdle, “it is just that, old,” she says. “It means though that many of those old attitudes are very entrenched making it harder to fight against,” Lucie mentions, however, that in the treasury and finance world this network is not as apparent as in other areas, such as investor relations.

And there is a positive future. “The people that comprise these networks will retire and it is then I believe all the work that has been done to push diversity over recent years will come to the fore,” she says. “There will be a groundswell of opportunities for people, both male and female to assume senior roles and I believe in doing so those old attitudes will eventually erode away.”

Lucie added: “There are several cultural and demographic factors that will contribute to the step change in how we work and where we work, which will be of benefit to all but will also help to bridge the gender gap, but we will all still need to continue to contribute to the discussion and challenge the status quo to make sure of this.”

## Food for thought

After the panel discussion, there was a clear desire from those in the room to take the opportunity to hear more from the experienced women on the panel, demonstrated by the variety of questions asked during the lively question and answer session. The questions ranged from how to carve out personal time in the working week, to asking about what were the most unusual or risky hires that the panel had made.

From these conversations, it was clear that the panel’s anecdotes and advice resonated with those in the room and provided plenty of food for thought. “Events such as this are very important because they provide a good chance to step back and think about the issues that are impacting women in our industry,” says Han Ling, Deputy General Manager at Siemens Financial Service Limited, based in Beijing. “Because of the sheer amount of work that treasury has to do on a daily basis sometimes these issues can be forgotten, so it is important to be reminded and learn from each other.”

This point was echoed by Lesley Rogers, Director, Treasury, Banking & Cash at AT&T Istel who said: “All women, even the most senior, have insecurities and challenges so to be able to network and learn from each other’s experiences is



It has been proven that companies that have a good number of female leaders perform better. Companies now are approaching the topic of diversity with conviction, perhaps for selfish reasons, and want more women at the top. This is a healthy development.

Séverine Le Blévennec, Director Treasury Europe, Middle East & Africa, Honeywell

exceptionally important and a unique opportunity. It is also clear from these discussions that there is still a lot more that companies can be doing to support women, especially in areas such as offering flexible working.”

Annemarie Moore, Group Treasurer at Plan International agrees that the Women in Treasury initiative provides an important platform to make other women aware that they should be pushing themselves further in the treasury field. “There is a lot more prominence of women, especially in finance,” she says.

A reason for this is offered by Séverine Le Blévennec, Director Treasury Europe, Middle East & Africa at Honeywell. “It has been proven that companies that have a good number of female leaders perform better,” she says. “Companies now are approaching the topic of diversity with conviction, perhaps for selfish reasons, and want more women at the top. This is a healthy development.”

Whatever the reasons, it is clear, from the number of senior women in attendance at our forums alone, that the treasury profession is in an improving state with respect to gender diversity. But it is vital that the industry doesn’t rest on its laurels, as there is much more that can, and should be done to highlight the success and empower women in our industry to achieve all that they want.

This point was nicely summed up by Karen Toh, Treasurer at Grosvenor Group. “The path towards greater diversity is a journey. It is great to have forums like this to increase awareness and to discuss how to engage with and get the buy-in of the majority in order to move the debate forward.”

# Your key relationships bank's strategy no longer includes you?

*The global financial crisis brought an unprecedented shift in the global transaction banking landscape and an end to the era of the 'global bank'. For some corporates, this has resulted in the need to find a new banking partner. Here, two treasurers who have recently had to change transaction banks share their experiences.*





Ten years ago, transaction banking was going through a period of expansion. Banks around the world were extending their footprints and product suites to support the requirements of a wider array more business.

For the corporate treasurer, these were good times. Banks were queuing up to provide services that covered the full gamut of corporate activity, leaving treasurers well positioned to obtain the best solutions at a competitive price.

Today the landscape looks very different. Banks have reversed their expansionist policies, focusing their attention on geographies and products that remain profitable. This has been demonstrated by some of the world's largest financial institutions pulling out of certain markets and products in both the corporate and retail space in recent years. For the corporate treasurer this has made finding a bank with the necessary product suite and footprint increasingly difficult.

Perhaps most challenging, however, is that in this environment nothing is certain. A bank's strategy can change and treasurers must be prepared for the possibility of losing a key relationship bank – and should have a strategy in place for such an event. Here two corporate treasurers recently impacted by RBS' decision to withdraw from transaction banking outside of the UK and Ireland – as part of its strategy to create a simpler, stronger and more sustainable bank – share their experiences.

## An unwelcome surprise

"It is not something that you can ever fully prepare for," says Han Hoestra, Director Cash Management Europe and Capital Markets at Prologis, when reflecting on the day that he was told by RBS that the bank would be pulling out of European transaction banking. "It was certainly a surprise to the corporate community."

Like many in the market, the Prologis team had heard the rumblings of change at the UK lender – the company's sole European cash management bank at the time. In fact, the bank had already exited from some European markets, such as Slovakia and Romania, in the months beforehand. However, it was not anticipated that the bank would exit more major markets. "We had no contingency plan in place for such an event," Hoestra adds.

Multinational publishing and events company, Informa, was also impacted by the bank's decision. Again, the company was aware of the issues at the bank, but the decision still came as a surprise. "There was no indication beforehand that the bank would be heading down this path," notes Charley Edwards, Assistant Treasurer at Informa.

Both organisations had long-standing cash management relationships with RBS – and the bank's decision was to have a significant impact on their operations.

## Initial impressions

Changing cash management bank can be a complex and onerous undertaking. The impacts of such a move ripple far beyond the treasury department, forcing other areas of the business to make adjustments.

"Having been informed of the decision, our first thoughts were that this was going to be a big job and require a lot of work

## Why are banks retrenching?

"Banks around the world are facing regulatory reforms and capital and profitability pressures in their home markets," says Jan Bellens, Asia Pacific Banking & Capital Markets Leader and Global Emerging Markets Leader at EY. The result is that banks are looking to unwind investments and re-define what is most important to their future business.

"Compliance, anti-money laundering, know your customer and sanction requirements are further pushing banks operating on a global scale to consider reputational issues when evaluating which business lines, territories and customer groups are core to the business," Bellens adds.

The macroeconomic environment is also piling pressure onto the banks. "Consequently, fewer international brand banks are now aspiring to be truly global and more are re-evaluating where to continue to operate internationally and why," concludes Bellens.

across the organisation," notes Edwards. "We weren't oblivious to the fact that this would dominate our schedule and require us to put many other projects on hold. What was especially frustrating was that initially we couldn't see much value that it could add – it was just something that we were being forced to do. We also have a fairly new team at Informa, which made the prospect of the task ahead that more daunting."

In the Prologis treasury department, Hoestra and his team were facing their own challenges. This was mainly due to the company having over 1,000 legal entities in 14 countries – all of which had one or two bank accounts, depending on the currencies used. Moreover, the legal structure of the company is not static and bank accounts are frequently opened and closed.

"Aside from having a vast number of accounts, there were lots of nuanced historical exceptions that had developed in our banking arrangements over time," Hoestra explains. "Switching banks would not be a simple job and we needed to do this as quickly and seamlessly as possible, while maintaining business-as-usual processes for the organisation."

## Identifying the opportunities

While the situation presented considerable challenges, treasurers often thrive on turning challenges into opportunities. This was certainly the case at Prologis.

"While this unexpected change created significant challenges for treasury, it also presented a tremendous opportunity to re-examine the company's banking relationships and think about what we would like this to look like in the future," says Hoestra. "We quickly began to outline a banking strategy that would help drive greater treasury efficiency."

The view that this was an opportunity more than a challenge was also adopted at Informa. "Our banking arrangements were quite fragmented, with numerous local cash management structures in place across Europe; it worked but



“Make sure that you know how busy the bank you are switching to is and then take a step back and extend your timelines accordingly,” she says. “Also, it would be prudent to talk to peers going through a similar process to hear about their experiences of switching to the banks that you are considering. This can help to build a clear picture of what to expect.”

Charley Edwards, Assistant Treasurer, Informa.

it wasn't ideal,” says Edwards. She explains that Informa had two options: either to shift accounts to another bank, or to review the existing banking arrangements and build a regional banking strategy that better matched the company's needs.

The treasury decided on the latter approach and leveraged awareness of the bank's decision across the company to build support for the project. As Edwards explains: “The public nature of the RBS withdrawal meant that we were able to obtain buy-in for our project because people understood the urgency of the situation. If we were to launch such a big project under any other circumstances I am not sure how easy it would have been to get the same level of support.”

## Issuing an RFP

With a plan in place not only to switch banks but also to drive numerous process efficiencies, it was time for the hard work to begin. For both organisations, this included mapping out their current banking arrangements, deciding what was required from their new partners and reviewing a host of other factors such as banks fees.

A request for proposal (RFP) then had to be drafted outlining these requirements by both organisations (see the Back to Basics article on page 32 for more detail on how to draft an RFP). This was then sent out to a shortlist of banks.

“Five of the seven banks that were issued an RFP could meet our requirements,” says Hoestra. “After scoring their responses, we could not decide between them. We therefore decided that the best way to proceed would be to meet them all in person.” Rather than having the banks visit the Prologis office, Hoestra and his team visited them in order to “get a feel for the bank, rather than simply be pitched to.” Following this

process, the banks were scored again and, after some negotiation around pricing, a final selection was made.

A similar process took place at Informa. “Given that we wanted to do more than simply lift and shift banks, we constructed a new RFP that incorporated all the elements of the efficient structure that we wanted to build and issued that to the banks,” says Edwards, adding that the subsequent decision was quite straightforward based on the responses received.

## Decisions, decisions

Perhaps unsurprisingly, counterparty risk was a significant factor in the final decision for both companies.

“We wanted to use a bank whom we did not have a cash management relationship with in the US to ensure that we have a diverse banking arrangement,” notes Hoestra. “It was therefore decided that Deutsche Bank and J.P. Morgan would win a 50/50 share our European business given the product suite, footprint and commitment to the market of both banks.”

ING would also hold management accounts in all the countries in which Prologis operates. “A large part of the thinking behind this structure was to enable us to have flexibility,” explains Hoestra. “In today's banking landscape nothing is certain, so while we hope that our new banks will remain committed to the market, if they do decide to pull out we would be able to switch fairly effortlessly to another bank.”

Informa, while opting for a less complex banking structure, also put counterparty risk at the centre of its decision making process. “We chose BNP Paribas as our core regional cash management bank,” says Edwards. “They best matched our geographical footprint and because Europe is their home market we don't believe that they will retrench. The other bank in contention was American and we couldn't be as sure about their future plans. And even if the worst did happen, we have found with the RBS experience that we have sufficient time to move. There was no need to reduce efficacy by using more than one banking provider.”

It is worth noting that Informa's decision was made independently of the much publicised referral agreement between RBS and BNP Paribas. The arrangement was put in place to provide support to those RBS customer seeking a new bank and was reported to create streamlined migration process. However, Edwards reports that this was not her experience. “There was no difference using the process outlined by the referral agreement, nothing was directly handed over,” she says. “The only impact I saw this having was that it made BNP Paribas very busy as they were dealing with lots of implementations at once.”

## Taking the time

At the time of writing Informa is in the middle of its migration – a process that Edwards says has not been as quick as she would have liked due to numerous factors, including needing to provide a host of new KYC information. “As well as this, we are also having to make sure that all of our customers are aware of the change,” she says. “This process can be quite slow and it is just a case of continuous education.”

Prologis, meanwhile, has completed its migration, but this also took longer than was first anticipated. “We made the



move ahead of the market, but there are always unanticipated delays due to KYC and so forth,” Hoestra explains. “My advice to anybody in a similar position would be to make sure that you give yourself enough time to account for these delays without creating any unnecessary risk.”

Edwards likewise advises that extra time should be taken throughout the process. “Make sure that you know how busy the bank you are switching to is and then take a step back and extend your timelines accordingly,” she says. “Also, it would be prudent to talk to peers going through a similar process to hear about their experiences of switching to the banks that you are considering. This can help to build a clear picture of what to expect.”

## Looking to the future

Given the pressures on the banking industry at present it would be optimistic to assume that others will not follow the move taken by RBS to withdraw from transaction banking outside of its core markets at some stage. It will therefore be vital for corporate treasurers to keep abreast of what is happening in the banking industry to ensure they are not caught off guard.

Treasurers may wish to maintain constant dialogue with key banking counterparties to get a better idea of their long-term strategies. Treasurers should also be honest and open around their own strategy to ensure that their bankers fully understand what is expected of them and to ensure they can continue to support their operations moving forward.

In the short term treasurers should also expect banks to become increasingly unwilling to accept non-operating deposits and to lower the rate of return. Planning for such

changes should now be something that all corporate treasury departments have in place.

To do this Bob Stark, VP of Strategy at Kyriba advises that treasurers be proactive in their approach and begin by understanding their cash balances. “Separating cash balances into operating and non-operating tranches is a must,” he says. Following this, he advises that treasurers speak to banks to understand what is important to them. “Banks care about two time periods: 30 days (for the liquidity coverage ratio requirements) and one year (for the net stable funding ratio). Corporates need to think of these timeframes when planning how to manage their cash,” he adds.

A prudent next step is to improve cash flow forecasting. “The old excuse that I’m cash rich so I don’t need to forecast goes out the window,” notes Stark. “If you are cash rich then you have excess non-operational cash and the banks value it differently than before, so it is important to know how much cash you will have on the books at any particular point in time.”

The final step is to consider other investment options. “Money market funds, tri-party repos, separately managed accounts all generally stay within existing investment policies,” says Stark. “In addition, some treasurers will look at more creative options such as collaborating with A/P and procurement to take advantage of higher yielding supplier discounts.”

Whether it is a bank withdrawing from transaction banking, reducing its presence in certain geographies, or simply being unwilling to accept non-operating cash deposits, it is clear that these are challenging times for the corporate treasury. Indeed, when speaking about banking relationships the questions that were typically hypothetical and prefixed with “what if” have now become real issues that have to be dealt with today.

## The future of RBS



### Jerry Pearce, Head of Global Transaction Services

*As part of our strategy to create a bank firmly focussed on the needs of its customers in the UK and Ireland, we announced in February 2015 that we would be closing all Transactional Services operations outside of these jurisdictions.*

*This has been an unprecedented exercise and, once completed, approximately 7,000 customers across 32 countries will have moved to a new bank.*

*Our focus has been to ensure that we treat all our customers fairly. We have taken steps to ease the transition to new providers, including signing a referral agreement with BNP Paribas and exceeding contractual notice periods.*

*We have clearly communicated the exit throughout the process and encouraged customers to move well ahead of their final termination date. They understand that our operations are scaling back and why.*

*As we approach the end of 2016 – the point at which all cash management, payments and trade-related services will cease – the bank continues to make every effort to ensure that remaining affected clients have transitioned away.*

*We strongly encourage our remaining customers to prioritise any final actions required to ensure that they have uninterrupted banking services as they switch to their new provider.*



## Pushing forward

**Matt Cornwall**  
Deputy Treasurer

### CAPITA

The desire to constantly be learning new skills and taking on challenges is something that is hardwired into Matt Cornwall, Deputy Treasurer at Capita's DNA. In fact, it is this desire to constantly be pushing forward that led him into the treasury profession in the first place. He has not looked back since.

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*Capita is a leading UK provider of business process management and integrated professional support service solutions. The company operates across the private and public sectors, helping organisations deliver modern services efficiently, effectively and to a high standard. Capita employs 75,000 dedicated staff across the UK, Europe, South Africa and India.*

For Matt Cornwall, Deputy Treasurer at Capita, the role of a treasury professional is never static. "There has to be a willingness to learn and drive continuous improvement," he says. "We can do this by focusing on how we can do things efficiently and more effectively to support the growth of the organisation."

It is a statement that neatly summarises Cornwall's perspective on the role of the modern treasury department – and it also gives an insight into the mind of somebody who is inspired by driving change and facilitating progress.

Cornwall openly admits that he is not one for standing still – and this doesn't only refer to his passion for running. Indeed, the drive to learn new skills and meet challenges head-on is something that has defined his career.

### A path well taken

Cornwall's career began in a similar fashion to many treasury professionals. "For a decade I was an accountant for a number of multinational organisations," he explains.



"I obtained the Chartered Institute of Management Accountants qualification along the way. I think this is a phenomenal starting point for anybody who wants to pursue a career in finance as it really provides you with the knowledge base that is required to move into other areas."

Accountancy, however, was merely a springboard for Cornwall: the cyclical nature of the profession didn't match his desire to move forward and learn new skills. "I found after some years that while the role remained interesting, it was quite repetitive," he says. "I was using the same skills time and time again and not being challenged in the way I would have liked."

A change was in order. After reviewing the options available, Cornwall decided to follow the well-trodden path to the corporate treasury profession. In doing so he assumed managerial roles at Mecom Group, Virgin Atlantic and Carphone Warehouse, before joining Capita in 2011 where he has since ascended to the role of Deputy Treasurer. The forward thinking nature of the profession and its strong commercial elements, he says, were key to his decision.

## Constant evolution

Cornwall certainly hasn't been left disappointed by his choice. Indeed, few could have predicted quite how progressive and commercial the role of corporate treasury would become in the years following the global financial crisis.

"Treasury, through its intimate relationship with the cash that flows through the company, has always had a unique perspective on how a business operates," he notes. "But I believe that before the crisis this wasn't largely recognised beyond the walls of the department itself, and the treasury was simply seen as a cash management and banking function. Today, though, treasury has gained greater prominence within the organisation and has become much more involved across the business. I believe it is valued that much more as a result." While this visibility is, of course, good news for the profession as a whole, treasurers have had their work cut out in recent years to make sure that they can deliver on their increasingly strategic mandate. "I think the crisis provided a wake-up call to many treasury departments which perhaps were not as effective or efficient as they could be," Cornwall says. "As a result, there has been a need for the profession to mature quickly."

This is something that Cornwall has noted within his own organisation. In fact, the need to mature, and quickly, has been made even more acute by the growth of Capita in recent years, which has seen its workforce double and its reach extend to a number of additional countries. "The organisation has, naturally, become that more complex because of this," he says. As a result, the treasury team's focus in recent years has been to come of age and be in a position to support the continued growth of the organisation.

In the meantime, Cornwall has been involved in enough projects to last some treasury professionals a lifetime. These include, but are by no means limited to, the implementation of a treasury management system, the development of a highly efficient straight through payment process using SWIFT, the building of multiple cash pools and the roll-out of a corporate card programme. The hard work has been worth it, though, and Cornwall notes how treasury is now perceived as one of the key finance departments within the organisation.

## The hub of the business

The growth of the Capita treasury department has provided the type of challenge that Cornwall sought when moving away from accountancy. Cornwall's current role within the organisation, which can be roughly split between internal consultancy, bank relationship management and M&A, almost perfectly matches the commercial challenge that he was looking for when making the switch.

At present, most of Cornwall's time is spent performing the role of internal consultant. "We provide financial support to over 200 companies within the group and I can take a call from any of these asking for advice at any time and on all manner of topics," he explains. "It is this variety that brings a constant challenge and in my view is the best part of the job."

His role has also required him to learn new skills, especially soft skills. Indeed, he believes that these are now a key tool for any modern treasurer because of how the department has evolved within the organisation. "We are now talking to a wider range of people, not just financial professionals. Empathy is therefore key, and it is important to understand your audience, their knowledge base, their drivers and their needs. It is then incumbent on treasury to explain complex issues in a simple and succinct fashion." Without being able to do this, Cornwall doesn't believe he couldn't perform his role effectively.

Cornwall also notes how he has learnt to prioritise – a necessary skill given that he can be juggling over ten issues at one time. "It is then that you have to ascertain what is the most important, what can add value and finally who should be dealing with what," he says. "Treasury can't handle everything."

To ensure that treasury doesn't have to handle everything in isolation, Cornwall has built strong relationships with departments across the organisation. "In big companies it is often the case that you know what the question is, but not who you should ask," says Cornwall. "I am finding in my current role that treasury can be that hub – most questions have some cash aspect to them, after all. From there we can direct the question to the most suitable person, either inside or outside of the treasury."

Cornwall sometimes jokes that he is a Capita tour guide, pointing people in the right direction within the company. But joking aside, Cornwall has worked hard to form a deep understanding of the company and very strong relationships – as demonstrated by people turning to him as their guide.

## Bolt on after bolt on

Capita is increasingly becoming a more complex organisation to navigate, however. The Group has grown considerably in recent years, primarily through continual merger and acquisition (M&A) activity – around ten to 15 a year, on average. And Cornwall and the treasury team are a focal point of this growth strategy.

For one thing, it is the role of treasury to find the cash to make these purchases. As such, Cornwall and the team have worked to develop a variety of different funding channels to satisfy this need. Core to this has been the US Private Placement Market (USPP). "This is quite an unusual funding source for a company of our size, but for the last 12 years we have found it to be very reliable," says Cornwall.

It is once an M&A transaction is complete, however, that the real work for the treasury begins. "The challenge for the team comes from the sheer number of companies that we are



For me, the most successful banks are the ones that take the time to understand our business and where we want to go. This is especially vital given our M&A activity as we are a fast moving organisation.

buying,” says Cornwall. “Although these are typically small purchases (between £1m and £100m) they all have banking arrangements to review, at a minimum. In addition, they might have bonds, guarantees, supply chain finance programmes, FX exposures and so forth. No two companies that we buy are the same.”

The Capita treasury team has therefore put a premium on standardisation and making sure that the core integration is completed as soon as possible. But for Cornwall, the biggest challenge comes in deciding what is most critical to the integration. “It can be easy to get bogged down in the noise, and as I have learnt in other areas of my role, the key is to prioritise,” he notes.

This is something that gets easier with time. “The more of these we do the better we get,” he adds. “Since I have worked here we have acquired around 70 businesses, and treasury has become a pretty slick machine when integrating these.” Touching on those soft skills again, Cornwall notes that communication is the foundation of the treasury team’s success in its M&A activity.

## Pushing for more

Looking after the group’s banking relationships is the last pillar of Cornwall’s role. And in similar vein to his roles in consultancy and M&A, this area tests both his operational and soft skills.

“I have developed some great relationships with our banks,” he says. “For me, the most successful banks are the ones that take the time to understand our business and where we want to go. This is especially vital given our M&A activity as we are a fast moving organisation.”

However, there are plenty of areas where Cornwall sees room for improvement, particularly around the banks’ technology offerings. In his view, basic tools that would really help a treasury department, such as electronic bank account management (eBAM) and some automated know your customer (KYC) tools, are lacking. “For Capita these would be very beneficial because we are frequently opening and closing bank accounts and a lot of unnecessary work is required to do this,” he says.

Cornwall is noticing a change in the way that banks approach technological innovation though, as fintech companies are prompting them to up their game. It is the fintech community – with its agility and progressive thinking that allows it to react

quickly to customer needs – that he believes will have the biggest impact on the corporate banking landscape.

“Fintech firms in isolation cannot help corporate treasury departments, I believe – they are too small and lack access to the necessary infrastructure,” he notes. “What I do believe, however, is that these companies will eventually overlay the banks and provide the large majority of their digital customer facing platforms. It will be interesting to see how these developments, and the growing need for partnerships formed between banks and fintech, will work in favour of the corporate treasury profession in the years to come.”

## A skilled profession

Despite Cornwall’s hope that technology can continue to help treasury deliver on its strategic mandate, he has a warning for those who believe that technology is a panacea. Indeed, he believes there is a danger that future generations may become over-reliant on technology and forget the fundamentals of the role.

“There have already been huge changes in the profession brought on by technology,” he says. “Take FX dealing as an example: a decade ago this was completed over the phone and required some technical understanding. Today, this can be completed automatically through an online platform without the need for specialist skills.”

To avoid a decline in the ‘fundamental’ treasury skills at Capita, junior members of the team are sometimes asked to do some FX dealing over the phone so that they can better understand the complexities of the buy and sell side. “Technology is great to improve things, but it is important not to lose sight of the fundamentals,” comments Cornwall.

## Finding the time

Since making the move to treasury, Cornwall has not only helped the Capita treasury department support the dramatic growth of the company – he has also fulfilled many of his own personal growth ambitions by challenging himself and learning new skills. “I have thoroughly enjoyed my time in the profession and certainly haven’t looked back,” he reflects.

But as most treasury professionals will confirm, while the job is rewarding, it can also be all-encompassing. As such, it is important to carve time for yourself outside of the office. “Creating a work-life balance that works for you is vital,” says Cornwall. “If you are constantly switched on, even when at home, then you will become less efficient.”

For Cornwall, time at home is precious: with a long commute to and from the office he makes sure that he leaves work at a reasonable time. He then uses the commute effectively to catch up on emails and other similar tasks. “I am lucky that I have built a great relationship with the Group Treasurer,” Cornwall notes. “He understands my circumstances and is happy for me to leave on time when required as long as the job is done.”

So what does the future hold? For now, Cornwall is very content in his current role and certainly sees treasury as the right career for him. But his desire to seek new challenges cannot be quelled for long and he admits that one day he would like to run his own charity: “If I can find another ten hours in the day, perhaps I will get around to doing this!”



# Managing financial regulation

*Regulatory change continues to present considerable challenges for corporate treasurers around the world. From Basel III to KYC obligations, what are the most significant changes currently faced by treasurers – and how is the regulatory environment affecting the treasurer's role and required skillset?*





“Many of the regulatory developments will mean enhanced compliance cost and administrative burdens but could also reduce business flexibility as well as approaches to tax, location and overall business organisation. It will continue to be a challenge to keep all these different developments in sight as well as to assess their impacts, both individually and in conjunction.”

Ruth Wandhöfer, Global Head of Regulatory and Market Strategy, Citi

The changing face of regulation around the world has been a major concern for treasurers over the last few years – and this is likely to continue for the foreseeable future. “One could think that the slew of regulatory reform post-crisis is now coming to an end, given the sheer amount of laws that have been adopted and implemented in recent years,” comments Ruth Wandhöfer, Global Head of Regulatory and Market Strategy at Citi. “However, one would be wrong.”

Wandhöfer points out that while key pieces of regulation affecting banks – such as Basel III – have largely been implemented in recent years, other changes are expected for the future. “Elements of Basel III, such as the NSFR (net stable funding ratio) and TLAC (total loss-absorbing capacity), are still to come,” she notes. Meanwhile, other regulations coming into effect may have a more direct impact on corporate treasurers – such as the new money market fund regulations being introduced in the US and Europe.

## Basel III

In some cases, regulation can have a significant impact on the products and services that banks can offer, or on their pricing structure. One such regulation is Basel III, which is currently in the process of being implemented. The regulation has significant consequences for banks around the world, as well as on their corporate customers.

“The most significant regulatory change impacting treasurers is Basel III, as this has impacted many long-standing liquidity management techniques, such as notional pooling, and substantially affected the way that bank deposits are compensated,” notes Jennifer Doherty, Global Head of Commercialisation, Liquidity and Investment Products, HSBC. “Under Basel III, certain deposits can be costly and inefficient for banks to hold on their balance sheets, which has reduced appetite for accepting such deposits.”

Doherty says that Basel III is leading some cash-rich treasuries to re-evaluate their investment approach, including the liquidity methods used as well as their broader bank

relationship strategy. “Today’s environment means that it is increasingly difficult to generate returns on cash holdings and fully optimise their liquidity,” she explains. “A good example is notional pooling, which has been widely used by treasurers to improve visibility of cash and consolidate it. Basel III has considerably impacted the efficiency of notional pooling.”

## KYC/AML

Another area which is the focus of considerable regulatory attention is that of know your customer (KYC) and anti-money laundering (AML) regulations. With regulatory authorities cracking down on terrorist funding and other illicit uses of funds, banks are having to comply with increasingly onerous KYC and AML obligations. This, in turn, is having a significant impact on their corporate customers, who are often required to provide the same types of information to a number of different banks.

“In more than just a few jurisdictions, part of the client due diligence that I have to do on a regular basis includes collecting a passport from someone who is authorised to sign on a demand deposit account,” comments Stephanie Wolf, Head of Global Financial Institutions, public sector banking and Canada sales at Bank of America Merrill Lynch.

Wolf points out that these challenges are not just a one-off issue, since requirements are not static and any change to them usually results in having to ask for new or more information from clients. The exact requirements vary from country to country: in some countries banks may need to carry out KYC checks on every single card holder within a commercial card programme. No such checks would be needed for the same programme in the UK or the US.

“I do think financial institutions are well positioned to guard against misuse of our financial system – but unfortunately this can mean a higher burden for clients,” Wolf says. “We certainly try to manage that.”

The impact of these obligations is considerable. Research published by Thomson Reuters in May found that 89% of corporate respondents had not had a good KYC experience. For 13%, this had resulted in a change in their financial institution relationships. When it came to specific challenges, a third of respondents reported that they had received inconsistent requests for information and documents, while 22% said that the delays and paperwork associated with the KYC process had cost them time and resources.

While banks are doing everything they can to make these processes as user friendly as possible, Wolf believes that more collaboration is needed in order to reduce the burden on corporates. “We are looking at how we can work together to

## Regulations old and new

Both recent and more established regulations can present challenges for treasurers. KPMG’s 2015 Global Corporate Treasury Survey found that Basel III and EMIR were seen as the regulations with the greatest impact on corporate treasury, both cited by 92% of respondents. Other significant regulations included Dodd-Frank and Sarbanes-Oxley, as well as the more recent Base Erosion and Profit Sharing (BEPS) measures.

standardise our requests and help clients understand what information is needed,” she says. “Conversations are taking place across the industry to discuss how information can be shared within regulatory guidelines and privacy considerations.” She argues that greater levels of information sharing would not only reduce the regulatory burden for companies, but may also enable banks to help tackle financial crime more effectively.

Wolf adds, “banks are working hard to collaborate, which is good news for the treasurers – it just can’t come quickly enough.”

*To read more about dealing with KYC see page 29.*

## Money market funds

Another area which is undergoing a considerable shift is that of money market funds (MMFs). Historically, most funds have run on a constant net asset value (CNAV) basis, whereby the price of a share is \$1 (or £1/€1). Following the collapse of the Reserve Primary Fund in 2008, however, regulators have focused on bolstering the way in which money market funds operate.

In the US, new rules came into effect on 14<sup>th</sup> October which require prime funds and tax-exempt funds to operate on a variable NAV (VNAV) basis. The new rules also stipulate that funds can charge a 2% redemption fee or prevent redemptions altogether if liquid assets fall between a certain

threshold. Over \$1trn has already left the relevant funds since the beginning of the year in light of these changes.

“Most clients are just flipping from prime funds into treasury funds and waiting to see what happens,” says Mark Smith, Head of Global Liquidity, Global Transaction Services at Bank of America Merrill Lynch. “But those treasurers are flipping into an asset that is lower yielding, so the yield enhancement that treasurers can get from a money market fund versus a deposit is probably at a historic low.”

It’s not all bad news, however. Smith notes that the decline in prime fund investments has meant that prime funds are buying less of assets such as commercial paper, variable deposit notes and certificates of deposit (CDs). As a result, these assets are currently yielding at higher levels – presenting some interesting opportunities for treasurers.

Smith notes, “If you are a treasurer with a flexible, sophisticated investment policy, and if you have got the systems and the team needed to take advantage of this, there are some really good short-term opportunities.” As a result, he says that some companies are re-examining their investment policies to see whether it makes sense to review their policies in order to take advantage of the situation.

The situation is somewhat different in Europe, where negative interest rates mean that companies using prime funds are

## The age of regulation

While not an exhaustive list, recent and upcoming regulatory changes include the following:

**Basel III.** The introduction of Basel III has had wide ranging implications for the way in which liquidity is viewed by financial institutions – and consequently on the pricing and services offered to corporate customers. Implementation began in 2013 and is due to be completed by 1<sup>st</sup> January 2019.

**BEPS.** The final Base Erosion and Profit Sharing (BEPS) Action Points were published in 2015. The objectives of the rules include preventing companies from moving profits to different jurisdictions for tax purposes. The action points include several areas which may have implications for topics such as transfer pricing, country-by-country reporting, intercompany loans and in-house banking.

**Dodd-Frank.** Passed in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was intended to address risks in the US financial system.

**EMIR.** The European Market Infrastructure Regulation (EMIR) came into effect in August 2012, although the final stages of implementation will not take place until December 2018. The focus of the regulation is over-the-counter derivatives.

**IFRS 9.** The new hedge accounting standard was published in 2014 and becomes mandatory for annual periods beginning on or after 1<sup>st</sup> January 2018.

**Money market fund regulation.** The US has recently introduced a number of changes, including the move from a constant net asset value (CNAV) to a variable net asset value (VNAV) model. Redemption fees and restrictions can also be imposed in certain circumstances. In Europe, proposed new rules are still in the pipeline.

**PSD2.** One of the most significant implications of the second payment services directive (PSD2) is the move towards open banking. This paves the way for the use of application programming interfaces (APIs) to give third party providers access to clients’ bank data in order to provide related services.

**Sarbanes-Oxley.** The Sarbanes-Oxley Act – also known as Sarbox or SOX – was introduced in 2002 to reduce the risk of accounting fraud following a series of accounting scandals.

**SCT Inst.** The proposed SEPA Instant Credit Transfer (SCT Inst) scheme is intended to enable instant euro payments across the SEPA area. The European Payments Council arranged a public consultation on the draft SCT Inst Rulebook earlier this year, with the proposed business and technical rules expected soon.

**Section 385.** In the US, regulations proposed in April by the US Treasury Department and the Internal Revenue Service (IRS) may result in internal debt instruments being reclassified as equity for tax purposes. This may have implications for companies with cash management structures such as cash pooling and intercompany loans.



currently paying the funds to hold their money. Meanwhile, Europe's money market funds are also tabled for regulatory change, although the money market fund regulation (MMFR) proposed by the European Commission in 2013 has yet to be realised.

## Implications for treasurers

In this climate, treasurers have to be aware of many types of regulation, although different companies are inevitably affected in different ways depending on the nature of their businesses. David Stebbings, Director, Head of Treasury Advisory at PwC, points out that the extent to which a company is affected by regulation depends very much on which sector the company is in. "The closer you are to the financial services sector, the more you are affected by regulation," he notes. The impact of regulatory change will also vary considerably depending on a company's geographical footprint.

Some industries may be subject to their own diverse and challenging regulations. "I was working with a company that is opening a new facility in China," says Stebbings. "They have a special team that goes around whenever the company opens a new operation. This team includes a treasury person who makes sure that the company is complying with all of the regulations relating to collecting cash, getting money out and understanding central bank reporting."

## Understanding the challenges

What particular challenges should treasurers be aware of? "Many of the regulatory developments will mean enhanced compliance cost and administrative burdens but could also reduce business flexibility as well as approaches to tax, location and overall business organisation," explains Wandhöfer. "It will continue to be a challenge to keep all these different developments in sight as well as to assess their impacts, both individually and in conjunction."

Meanwhile, Doherty notes that the need for safety in the context of their security, liquidity and yield is a key priority for treasurers today. "Treasurers have to manage a greater range of risks, while also demonstrating compliance with their investment mandate, so there is a greater risk management element to the role."

## Bank-related risks

Wandhöfer adds that because of the challenging economic and regulatory landscape for banks, "corporates will need to maintain a close watch on their banking partners in order to avoid any surprises that could challenge their operations."

Such surprises could be significant. In recent months, a number of banks have pulled out of certain markets in a phenomenon known as de-risking. In the world of transaction banking, the decision taken by RBS to step back from offering cash management and trade finance services in most of its European markets has been particularly significant.

## Technology challenges

Doherty points out that technology-related liquidity challenges have increased, and that certain markets and payment platforms are now migrating their infrastructure from batch-based processing to a real-time environment. "This means that treasurers increasingly need to manage cash and liquidity in or near real-time, rather than on an end-of-day basis," she notes.



With so much critical knowledge being concentrated in the treasury function, treasurers are increasingly becoming seen as key advisors and are getting more board level exposure

Mark Smith, Head of Global Liquidity, Global Transaction Services at Bank of America Merrill Lynch

"While the technology solutions to achieve this may be available, it means that treasury functions need to be much more technologically adept than they have been in the past."

## A master of all trades

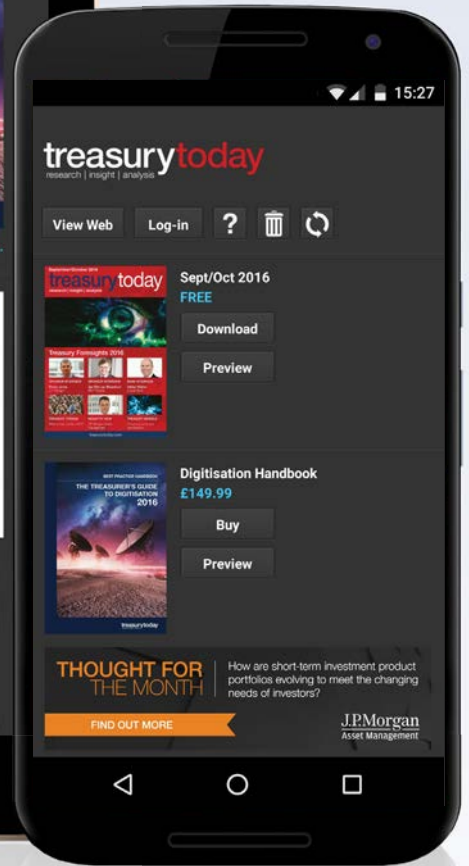
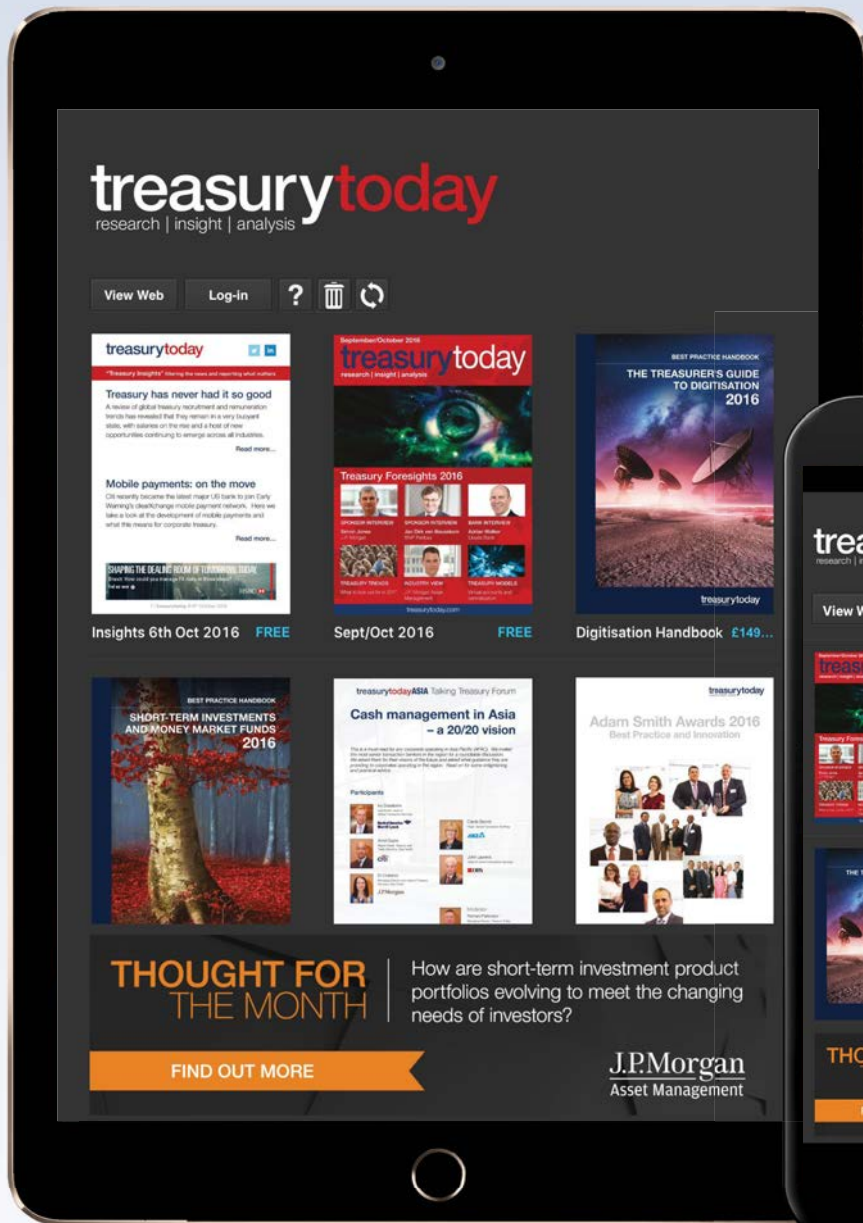
In this increasingly challenging regulatory environment, treasurers have also had to acquire additional skills and gain a greater level of knowledge on regulatory topics than in the past.

"They are expected to be treasury experts, but they also increasingly have to be regulatory experts," says Smith. "This means understanding what is going on in the regulatory landscape and how this will affect not only the company itself, but also the company's banks. They are expected to be tax experts, as illustrated by the arrival of Section 385, which has a huge potential impact on how treasury functions are organised. And they have to be accounting experts."

While being an expert in all of these areas is certainly challenging, Smith says that it also brings certain benefits when it comes to raising the profile of the treasurer within the organisation. "With so much critical knowledge being concentrated in the treasury function, treasurers are increasingly becoming seen as key advisors and are getting more board level exposure," he says. "Treasurers are no longer seen as being just the guys who move the money around and get the bills paid – they are having far more strategic input into the strategy and the financial planning of the company."

Meanwhile, the growing demands of the role are making it harder for companies to find the right person for the job. "Good treasurers are hard to come by and are in considerable demand," says Smith. "I worked with a couple of clients in Ireland who were trying to get treasurers with any experience. They concluded that they would have to get somebody with much less experience and train them up."

The challenges may be considerable – but for corporate treasurers the importance of keeping up with regulatory change should not be underestimated. "As a company we always follow the rules ourselves," concludes George Dassing, SVP, Treasury and Risk at information services company Wolters Kluwer. "If the environment asks us to make changes, we follow immediately. At the end of the day, we want to be a good corporate citizen, so this is something that we follow quite closely from a business perspective as well as from a company perspective."



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# Nordic and Baltic regions in focus

*“We come from the land of the ice and snow, from the midnight sun where the hot springs flow. Hammer of the gods, will drive our ships to new land.” Rock group Led Zeppelin’s fascination with ancient Nordic culture may have provided it with a rich source of lyrical inspiration but it also serves as a reminder that, although out on a geographical limb, the region is far from isolated. We investigate the treasury implications of northern exposure.*

The Nordic region consists of Norway, Sweden, Finland, Denmark and Iceland and the autonomous territories of Greenland, the Faroe Islands and Åland. If we then add from the northern part of central Europe the three states of Estonia, Latvia and Lithuania, known collectively as the Baltics, we have a wider region of study that is both closely bound by history and yet individually distinct in culture. For the corporate treasurer, this can take some understanding.

First and foremost, one of the major challenges to efficient cash management in the Nordics and Baltics is the variety of currencies in use among the different countries. Until very recently, the majority of the Nordic and Baltic states remained outside of the single European currency. Now, following the accession of Latvia and Lithuania to the Eurozone, there is an equal split. These countries, however, look likely to be last from the Nordic and Baltic region to join the euro, for the foreseeable future at least. In this respect, the recent histories of these countries can be summarised as following:

- Denmark held a referendum in 2000, the Danes rejected the European single currency by a vote of 53.2% to 46.8%. In 2007, the country declared its intention to hold a new referendum on joining the euro by 2011. However, following the uncertainty that resulted from the sovereign debt crisis in Europe, these plans were postponed indefinitely and thus it remains today.
- Finland has been a member of the euro since its inception in 1999.
- Iceland is ineligible to join the euro because it is not a member of the EU. The country applied to become a member of the union in July 2009 and was granted candidate status in 2010. However, in September 2013, the country decided to suspend its application to join the EU until a referendum could be held on the question. A date for the referendum has yet to be confirmed.
- Norway is also ineligible to join the euro because it is not a member of the EU and it is not expected to become one in the near future. The country has twice held a referendum on membership – in 1972 and in 1994. On both occasions the proposal was defeated. The country is however part of the European Economic Area (EEA) and is a member of the European Free Trade Association (EFTA).
- Sweden is obliged to adopt the euro at some point in the future, under the terms of the Maastricht Treaty. However,

the country has so far resisted and the currency is not yet within the Exchange Rate Mechanism (ERM II), which is a precursor to euro adoption. In 2003, Sweden held a referendum on joining the euro, which was defeated. Since then, public sentiment has largely been against adopting the euro for fear that businesses will be adversely affected. The country has no official target date for euro adoption.

- Estonia has been part of the EU since 2004 and became the first Baltic state to join the single currency, on 1<sup>st</sup> January 2011.
- Latvia joined the EU alongside Estonia. It had planned to adopt the euro in 2008, but, as a result of the financial crisis, was forced to revise its expectations as inflation rose. Despite a series of additional setbacks, Latvia was able to retain its ERM II peg post-financial crisis and finally joined the euro in January 2014.
- Lithuania’s EU membership (also 2004) had originally seen it plan to adopt the single currency in 2007, but like Latvia, inflationary pressures delayed this. At the beginning of 2015, the country finally realised its ambition, becoming the 19<sup>th</sup> member of the currency union.

## Meeting SEPA

As more Nordic and Baltic states become members of the euro, the cash management landscape in the regions will become somewhat easier and cheaper. Likewise, the introduction of SEPA has had a significant effect on cash management in the region, simplifying payments and collections. Many domestic card schemes have also been replaced with SEPA-compliant cards.

Banks in all of the Nordic and Baltic countries were early adopters of SEPA and the ISO 20022 XML standard. Although Norway and Iceland do not belong to the EU, they belong to the European Economic Area (EEA) and have likewise moved to adopt SEPA and the payment services directive (PSD) and will presumably move to PSD2 when that is finally transposed by all into national law no later than January 2018. Of all the SEPA countries, Finland is the most advanced. In fact, Finland was one of the first countries to boast full SEPA compliance, becoming 100% SEPA-ready in 2011.

Indeed, given the generally advanced digital status of countries in the region, SEPA is largely viewed by the Nordic



and Baltic banks as a stepping-stone to further innovation in the transaction banking space. Consolidation in the payments space has also been driven by the introduction of SEPA, with the Nordic payments group, Nets, launched in September 2010, acting as a means of connecting banks, businesses, the public sector, merchants and consumers via its network. Its corporate services activity provides a payment platform and real-time clearing for recurring bills and credit transfers, mainly in Denmark and Norway.

From a wider corporate treasury point of view, as in other regions, SEPA has facilitated central treasury management and enabled companies to consider payment factories and/or shared service centres more readily. Companies have also been able to consolidate euro bank accounts, centralising accounting and simplifying processes, thereby realising significant cost savings.

Harmonisation between the payments infrastructures of euro and non-euro countries across the Nordic region has been on the agenda in recent years. One initiative which has focused on this objective is the Nordic Payments Area (NPA), a scheme that would have involved the harmonisation of payments standards and infrastructures across Denmark, Sweden, Norway and Finland using ISO 20022 XML. The ultimate vision was to create an area, like SEPA, in which businesses and consumers could connect and make payments to one another across any NPA country, regardless of currency. To date, very little progress has been made on this initiative. However, discussions between countries around payments infrastructure standardisation and harmonisation are nevertheless continuing.

## Cash pooling and concentration

Cash pooling is well-established among the larger and more sophisticated companies of the Nordic region but is not quite as common among smaller companies, or in the Baltic states. With all three Baltic states now members of the Eurozone, uptake of cash pooling is expected to accelerate amongst corporates in the years ahead.

In general, the types of pooling structure available mirror those elsewhere, with one exception, single legal account pooling, described below. Otherwise, the standard physical cash concentration structures of zero balancing, sweeping and topping are available, as well as notional pooling.

However, while notional pooling is permissible in all Nordic and Baltic countries, it is not widely offered because local restrictions prevent the banks from offsetting credit and debit balances for capital adequacy purposes. Notional pooling is therefore relatively expensive in the region because banks charge a spread on the balances offset to compensate for the cost of capital.

Due to the cost and restricted nature of notional pooling in the Nordic and Baltic regions, physical cash pooling is often a more attractive option. It is important to note however that the pooling solutions on offer will vary between banks and between corporates (depending on needs and legal set-up) the following information only provides an indication of the type of solutions available. When considering cash pooling options in the region, it is vital to research each bank's offering thoroughly.

Be aware that the terminology surrounding cash pooling will also alter between countries and between banks. In Sweden for example, single legal account pooling is sometimes

referred to as 'KoncernKonto'. In Estonia, a cross-border cash pool is often called a 'Group Account'. Professional advice should also be sought regarding the legal and tax implications of any cash pooling structure.

Once the company's cash has been effectively pooled, any surplus can either be reinvested into the company to minimise external borrowing, or invested for profit.

## Nordic pooling

Also known as 'balance netting' or 'Nordic cash pooling,' single legal account pooling is the solution most commonly used by Nordic companies and their subsidiaries in the region (the subsidiaries of MNCs from outside the region may prefer to use conventional zero-balancing).

In this form of cash pooling, a company opens a single master account with its bank. It also maintains 'mirror' accounts for the different entities within the pool, in order for them to keep their separate balances. These are not physical bank accounts with a legal existence, they are simply entries in a virtual ledger. The only legal account held by the company is the master account.

No physical transfer of funds occurs between the master and the mirror accounts. The company's divisions use the mirror accounts as normal accounts, as if they were not part of a cash pool. The cash flows into and out of the mirror accounts which are then adjusted and recorded in the balance of the master account. Both overdrafts and interest can only apply to the master account.

Nordic cash pooling by and large remains the dominant form of cash pooling since its inception in the 1980s. However, with more and more of the large corporates using sophisticated ERP systems to do in-house reconciliations, many have implemented a zero-balancing cash pool as they can keep track of their internal debts and claims in those systems, rather than in the Nordic cash pool.

This type of pooling arrangement has its advantages. For example, since it is compatible with the payment factory concept, corporates who use a Nordic pooling solution can reduce the need to execute complex payment/collection-on-behalf-of (POBO/COBO) procedures.

## Cross-border pooling

It is usual to pool a company's cash in each country by currency initially. Once local pools have been set up, cash can then be further concentrated using a regional cash pool. Solutions across the Nordic-Baltic region are also available, usually on a case-by-case basis.

## Cross-border interest compensation

As an alternative to a physical cross-border pool, companies can ask their banks to set up a cross-border interest compensation structure in order to enjoy the benefits of a cash pool without actually creating one. This is a limited form of notional pooling which allows for a partial offset of interest for balances in different countries and currencies, despite the capital adequacy rules.

In this type of arrangement, the bank takes into account the balance of all the domestic cash pools and then pays interest

as if the accounts were pooled. This avoids any need to translate cash balances into a common currency, which can be very useful given the number of currencies in the Nordic and Baltic region.

Although similar to notional pooling, interest compensation differs in that a different approach is taken in calculating the interest due. The bank applies improved interest rates – higher credit rates and lower debit rates – to the participating account balances, based on the offset between the credit and debit balances of the participating accounts.

Interest compensation set-ups are generally more popular in the Baltic countries than physical cross-border pooling arrangements. Again, this may change as Latvia and Lithuania join Estonia in adopting the euro.

## Cash management banks

Aside from the practicalities of cash management in the region, choosing the right bank or banks to work with is of course a major consideration. Many so-called 'global' banks do not have significant on-the-ground presence in the Nordics and Baltics, where local and regional banking groups (predominantly Nordic) dominate. In the early 2000s, there was a lot of focus from global banks on building a presence in the region, but their efforts diminished following the onset of the financial crisis. For this reason, companies looking to do business in the region may find that their needs are best answered through establishing a local relationship.

The major cash management banks in the region include, in alphabetical order:

- Danske Bank.
- DNB.
- Nordea.
- SEB.
- Swedbank.

## Residency restrictions for cash pooling

When considering setting up a cash pool in the Nordic-Baltic region, note that the ownership of bank accounts can have an effect on the company's cash pooling structure, for example:

- **Denmark.** Both residents and non-residents are allowed to participate in cash pooling. However, restrictions apply to intercompany lending to parent companies outside the EEA.
- **Estonia.** Both residents and non-residents are allowed to participate in cash pooling.
- **Finland.** Finland allows both resident and non-resident accounts to participate in cash concentration but some restrictions apply when setting up arrangements that include non-resident companies. Legal advice should be sought regarding these restrictions.
- **Iceland.** All transactions between resident and non-resident accounts need to be reported on a monthly basis to the central bank. Further information should be sought.
- **Latvia.** Both residents and non-residents are allowed to participate in cash pooling. However, since Latvian banks

are not permitted to offset net credit and debit balances on their balance sheets, notional pools can be expensive to operate.

- **Lithuania.** Both residents and non-residents are allowed to participate in cash pooling. For the same reasons as cited for Latvia, notional pools can be expensive to operate.
- **Norway.** The combination of resident and non-resident accounts in a domestic cash concentration structure is subject to lending rules. Restrictions apply on intercompany lending in cross-border cash concentration structures, so including non-resident accounts can be challenging.
- **Sweden.** Cash pooling can involve both resident and non-resident accounts, with the approval of the central bank. There are however restrictions on intercompany lending to non-EEA parent companies.

Of course, aside from residency restrictions, close attention should be paid to each country's thin capitalisation and transfer pricing rules.

## Innovation and co-operation

Given that the market is dominated by a handful of large banking groups, there is a high degree of uniformity in the cash management products and services on offer across the region. Nevertheless, the Nordic banks are always looking for new ways to assist their clients in achieving greater cash management efficiencies. For example, since the introduction of SEPA, a growing number of Nordic banks have been phasing out their current direct debit solutions in favour of an automatic e-invoice standing order, a recurring e-invoice process.

The treasury technology vendors in the Nordic and Baltic regions are largely the same vendors that capture the market across Europe and, in the case of the top two TMS vendors (SunGard and Wall Street Systems), most of the rest of the world. However, some focus on regional delivery, such as Swedish TMS provider, CRM, and Finnish IT services company, Tieto (although both of these companies do venture beyond their home markets).

The nuances of the region mean some vendors have created country-specific services – Euroclear, for example, has established national Central Securities Depositories (CSDs) in Sweden and Finland to meet domestic post-trade handling requirements.

Co-operation is a recurring theme in the Nordic and Baltic markets. This attitude is reflected in the pro-business environment that the countries embrace. According to the Doing Business 2016 ranking compiled by the World Bank, all the countries of the Nordic-Baltic region are ranked in the top 25 globally, with Denmark third and Norway, Finland and Sweden in the top ten.

In short, the Nordic and Baltic countries are linked by common cultural, historical, political and economic ties, together with common interests to ensure stability, security and welfare in the region and further afield. It is a region that may push into the furthest reaches of Northern Europe but it is clearly very much in touch with the rest of the world.

# Alternative funding

“ What do corporates need to know about asset based lending and why might the solution work for them? ”



**Edward Sunderland**  
Partner  
Pinsent Masons

Asset based lending (ABL), was previously viewed as a last resort for troubled businesses needing a quick cash injection. The last few years have seen this perception change with ABL now growing in popularity, and being used more and more by healthy and successful businesses looking to secure lending against its “borrowing base” rather than on a cash flow basis.

A business’ borrowing base can be very broad, which opens up opportunities for businesses to secure lending across a large scope of assets. The assets included in a borrowing base are deal specific, but lenders usually include some or all of working capital (accounts receivable and inventory), machinery and equipment, property and other intangible assets. The broad range of assets that can be incorporated means that there are various forms of ABL, with the type of facility being tailored to fit the needs of each particular business. Typically, funding is made against receivables and inventory, and thus ABL is seen very much as a working capital solution.

Invoice discounting is the most common form of ABL in use and involves the funder acquiring, at discount, a business’ receivables. It can be implemented on either a confidential (so the end debtor does not get notified) or disclosed (where the end debtor is) basis. Confidential invoice discounting is invisible to the customer with the business still managing its client relationships. Alternatively, the business could be happy to outsource all the debt collection to the funder as well – with this solution more commonly known as factoring. This approach is more typically focussed on SMEs, who don’t have the resources to run significant finance collection teams.

As well as addressing working capital, ABL can assist businesses in acquisitive behaviour, refinancing and restructuring or simply as a “safe” method of lending more. For a bank lender, the asset-backed nature of the lend makes it, absent fraud, less likely to produce a loss upon default; this leads to a lower internal capital cost and, accordingly, more attractive pricing to a corporate. The potential downside to a corporate is that there is more administration in running such a facility. However, having suitable controls and monitoring over the working capital and assets is never a bad thing, and a number of corporates have subsequently commented that their internal financial visibility has increased. The documentation required when setting up an

invoice discounting facility is quite simple, as there are bank standard forms which can be signed very quickly. However, where there is a more bespoke ABL solution being put in place, the documentation process can be quite long and intensive.

How does it work? The ABL funder applies a static advance rate against a class of assets (ranging from 50% on inventory, to 90% against receivables). This provides a flexible credit line that expands and contracts in line with a business’ borrowing base, and is particularly suited to asset-rich businesses that are also growing, cyclical, seasonal, volatile and/or low margin. A huge draw to ABL is its ability to close the funding gap between a business issuing an invoice and being paid. After the business issues a client invoice, the funder will advance the business a percentage of the invoice value. This provides the business with an immediate injection of capital, instead of the business encountering a gap between issuing and payment.



**Tom Weedall**  
Director of Loan Originations  
Wells Fargo Capital Finance

Undoubtedly asset-based lending (ABL) has evolved into a more widely used debt product. In the UK, for instance, more companies are turning to ABL to support their working capital needs and overall growth, whether organic or through acquisition.

In fact, the Asset-based Finance Association (ABFA) reported earlier this year that the amount of asset-based financing secured by UK businesses against stock increased 22% from 2014 to 2015, with an uptick in the number of large businesses taking advantage of ABL.

From a sector perspective, at Wells Fargo Capital Finance we continue to see strong interest in ABL within retail, distribution, equipment rental, and manufacturing. We’ve also found opportunities to deliver flexible senior secured funding options to businesses in less traditional sectors, such as professional services and technology. Additionally, we’ve had great success working with private equity firms to support their acquisitions and the ongoing working capital needs of their portfolio companies.

However, despite a steady rise in the use of ABL, there still remains some lack of awareness and a historic reputation as lender of last resort.




Furthermore, while ABL has traditionally been viewed as an alternative to traditional financing, many companies that would qualify for traditional bank financing may prefer ABL based on a number of factors:


- **Flexibility.**
- **Improved liquidity.**
- **Strong relationship.**
- **Creditworthiness.**
- **Structure.**
- **Syndication.**
- **Complementary.**
- **Price.**
- **Speed of decision.**
- **Covenants.**

Whether the future business requirement is short-term working capital funding or acquisition debt to support long-term growth, ABL is a viable and flexible option that can help companies of varying sizes.

ABL is therefore a funding solution that is often overlooked by businesses due to dated negative connotations, when it can in fact provide flexible financing more suited to the needs of a business than that of a cash flow based facility.



**Keith Softly**  
Head of Asset and Invoice Finance Product  
Lloyds Bank  
Commercial Banking



**John Weeden**  
Head of ABL Transactions,  
Global Transaction Banking  
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Commercial Banking

Asset based lending (ABL) is a bespoke and flexible funding solution which allows a borrower to release fully secured debt funding against a variety of assets in its balance sheet. Typically, an ABL facility will comprise of revolving credit facilities secured against a borrower's eligible receivables and inventory, together with repaying term loan facilities provided against property and plant and machinery.

Given the fully asset-secured nature of the facilities, lenders are often able to maximise a borrower's debt capacity beyond

other forms of debt structures, and allow for greater degrees of leverage, all at reduced lending margins.

Mainstream ABL lenders are able to enhance the core ABL debt structure with additional trade and ancillary facilities, thus providing end-to-end working capital solutions with associated interest rate and currency hedging instruments in support.

Asset-based lending can be a much-needed source of capital for companies that face a range of needs including:

- **Growth.**
- **Refinancing.**
- **Restructure.**
- **Mergers and acquisitions.**
- **Management buyouts.**

ABL protects equity in the business by leveraging assets more effectively, allowing firms to raise significant funds without sacrificing equity. It offers a lot of flexibility as it can increase or decrease with changes in the funding base and can be useful for businesses that face seasonal peaks or industry cycles where other sources of funding may be too inflexible to meet spikes in working capital.

It can be used as part of a wider funding package to improve working capital and support growth plans and is also popular because it can offer lower funding costs than traditional funding methods, whilst releasing significantly more capital.

There are very few downsides. ABL borrowers are likely to be required to provide more comprehensive management information to lenders in order to evidence the collateral securing the facility. However, this tends to become largely routine for ABL borrowers and, given the lender's focus on the performance of working capital assets, these reporting obligations can frequently represent an opportunity for borrowers to understand the shortcomings and opportunities in better-managing their working capital cycle.

ABL is therefore an extremely effective tool which unlocks the capital tied up in a business' balance sheet and is a product that helps support its working capital. It is best suited to businesses that have asset-heavy balance sheets and is typically popular amongst businesses involved in the manufacturing, services, wholesale and distribution sectors. It can accommodate any level of debt requirement, with facilities provided to relatively modest SMEs through to larger, more complex structures including syndicated, multi-national, multi-currency and multi-asset facilities.

Today, it is being used by businesses to support a range of circumstances in order to support their business ambitions. Used alongside other working capital products, including trade, receivables, purchase and asset finance, ABL can open the door to new opportunities for businesses and help them prosper.

### Next question:

"We have recently witnessed negotiations between Unilever and Tesco on price increases as a result of the fall in the value of the pound following the UK's Brexit decision. How are companies being impacted by the currency market volatility and what steps are treasurers taking to mitigate the risks?"

Please send your comments and responses to [qa@treasurytoday.com](mailto:qa@treasurytoday.com)

# Challenges on the way to KYC standardisation

*Complying with 'know your customer' (KYC) regulation is costing banks a fortune and giving corporations a serious headache. In this article, we explore the role of third-party providers in easing the KYC burden, and the reasons why progress towards the standardisation and automation of KYC they offer, remains slow.*

It didn't take long for third party providers to spot opportunities in the KYC regulatory burden faced by banks and their corporate clients. In recent years, financial service providers have sprung into action to support bank compliance with regulation on money laundering, terrorism finance and the hundreds of other demands for more transparency in the wake of the financial crisis. KYC registries provide centrally stored data, easing multiple KYC requests, while more in-depth managed services, tailored to the needs of corporates and their banking partners, are bringing order to the chaos of KYC. For treasurers brave enough to jump on board, the new platforms promise a light at the end of the tunnel.

"A year ago I was drowning under KYC, but one of our banks persuaded me to sign up with a KYC service provider. Now all the other major banks we have relationships with accept the documents that are on the platform. It is no longer a burden," enthuses Singapore-based Michael Sack, Head of Treasury and Financing at hearing aid manufacturer Sivantos Group. His comments stand out from the resounding moans and groans around KYC.

## Alphabet soup

The complexity and volume of KYC-related regulation coming down the line for banks and businesses is certainly daunting in its reach. It ranges from the increased scope of the European Union's Fourth Anti Money Laundering Directive and the Foreign Account Tax Compliance Act, designed to detect US tax evaders concealing their assets, to rules around Ultimate Beneficial Owners, new Common Reporting Standards and the pending European-wide Markets in Financial Instruments Directive, MiFID II. The days when compliance was confined to the back office are over, says Virginie O'Shea, an analyst at Aite Group, the capital markets consultancy. "There is a lot more regulation affecting the KYC universe and banks have so many more aspects to consider when on-boarding a client."

## Passport paranoia

To open a bank account a company needs passports of all signatories, names and addresses of all directors, certified articles of association, board authorisations and confirmation of Dodd Frank exemption – and that's just for starters. KYC rigour varies in different jurisdictions, and also within jurisdictions, leaving global businesses to navigate challenges

like supplying proof of residence in countries where there are no street addresses. In another development, executives are growing increasingly anxious about identity theft because of the amount of their own personal data now held with banks. Anecdotal evidence even points to a trend of more senior managers refusing to offer up their personal details for the umpteenth time, passing the authorisation responsibility down to clerical levels instead.

KYC takes resources away from core business at a time of macro uncertainty and slowing growth. Demands on corporate treasurers to provide separate information to their different banks – and different departments within the same bank – takes up precious time. According to a survey by Thomson Reuters, home to KYC managed service Org ID, approximately 30% of corporates questioned said on-boarding took over two months, and 10% said it took over six months.

"The lack of an ability to utilise information already in the financial system from trusted and verified sources is a missed opportunity," argues Simon Pearse, Head of Compliance at the UK's peer to peer lender RateSetter which has lent £250m to UK businesses over the last two years. "The impact of this is that customers provide information multiple times, ineffective customer journeys, and lost revenue for firms when customers are dissuaded from continuing with applications due to KYC processes."

## De-risking dilemma

As banks grow wary of the financial penalty and reputational cost of breaking the rules, so they have pulled out of riskier parts of their business. HSBC was fined \$1.9bn in 2012 for violating sanctions and money laundering rules in its Mexican operations. The US regulator stung BNP Paribas with an \$8.9bn penalty in 2014 after it broke sanction rules, temporarily banning the French bank from clearing dollars and acting as a correspondent bank for third-party banks.

These banks, and many others besides, worried about working across jurisdictions and successfully negotiating the complex and multiple interpretations of different rules, have slashed their correspondent banking activities. Dollar clearing and remittance handling in countries in Africa, Latin America and the Caribbean have shrunk, impacting cross border payments and collections across all currencies. It's restricting the lifeblood of companies with complex supply chains that depend on making and receiving international payments.

## Utilities to the rescue

Financial service provider SWIFT was one of the first to spot the opening. Its KYC Registry, launched in 2014 and now with 2,700 members, provides banks with information on their correspondent and downstream relationships in a shared platform that manages and exchanges standardised KYC data. Specialising in inter-bank KYC, standardisation comes via specific information SWIFT gathers on banks. It ranges from basic identification of the owners behind the institutions and the types of products and services provided, to details of the organisation's own compliance. "We currently have a defined baseline of data that we require comprising around 150 elements that will evolve as KYC requirements change," says Bart Claeys, Head of KYC Compliance Services at SWIFT. "Despite the challenge of working with different jurisdictions we are as ambitious as possible in what we ask for," he says.

Other managed service providers offer more than a repository, tailoring in-depth due diligence for banks, investment managers – and corporates. Thomson Reuters provides KYC services for 18 financial institutions, most recently adding South African banks Rand Merchant Bank, Barclays Africa and Standard Bank to its roster. The details of every one of the trio's institutional and corporate customers will be placed on a shared database, explains Steve Pulley, Global Managing Director at Thomson Reuters's Risk Managed Services. "These banks have committed all their customers and are putting real volume through. Their customers are in complete control of their own data and they like not having to deal with so many requests for information." It's the kind of standardisation and alignment of interest between banks and businesses that will increasingly emerge as financial institutions and companies seek to take the cost out of KYC, says Pulley. "This is a model we will see in other areas."

## Not so fast

SWIFT's KYC Registry has eased the crisis in the inter-bank market and the likes of Org ID, and others, offer a solution to stressed corporate treasury teams. So why is the Holy Grail of standardised, automated KYC, still a way off?

One reason is that banks still have their own on-boarding methods. These can vary from digital-only banks' use of biometrics like thumb prints and facial recognition, to others requiring the time-consuming collection and collation of hard copy documentation from their corporate clients. A "one stop shop", argues Aite Group's O'Shea, is difficult because of each bank's own particular due diligence. "Every bank has their own checklist, and needs to ask different questions to on-board clients. It is a good idea to have a central place where information is stored and refreshed, but banks will still have to engage with third parties and ensure that clients are contributing the data they need to." David Fleet, Managing Director, Client On-boarding and Management at Standard Chartered Bank in Singapore concurs. "In reality because there are still differences between policies and standards at various financial institutions, there are still requirements for additional data over and above what the utility collects."

It begs the next question: why do banks cling to their own practices? The answer lies in the fact that ultimate KYC responsibility remains with banks – they are still accountable for knowing their customers and making final decisions regarding customer acceptance. "SWIFT is not a financial institution and we are not regulated as such," says Claeys.



Every bank has their own checklist, and needs to ask different questions to on-board clients. It is a good idea to have a central place where information is stored and refreshed, but banks will still have to engage with third parties and ensure that clients are contributing the data they need to.

David Fleet, Managing Director, Client On-boarding and Management, Standard Chartered Bank

Tom Devlin, Partner at law firm Stephen Platt & Associates and behind the development of KYC360, a community of anti-money laundering and financial crime professionals, adds. "These services are appealing because they reduce the workload and compliance headcount for banks, but the danger is that if the provider gets it wrong, the bank remains on the hook. Banks can't outsource their responsibility."

Competition amongst banks is also a factor impeding collaboration. "There is a cultural mentality amongst banks that if they do KYC well, and others do it badly, they will have an edge. How fast a bank can on-board a client affects how quickly they can win business," says O'Shea. Similarly, the proliferation of competitive KYC services chasing the same segment reduces the chance of industry-wide standards. "Seven is too many. One or two would be plenty," says David Blair, seasoned treasury expert and Managing Director of Singapore-based Acarate Consulting, in reference to the number of third-party providers competing for market share. He believes that the sector is likely to consolidate and special providers emerge for particular markets, like KYC for SMEs, just as SWIFT has cornered the inter-bank market.

## More leadership

It has left some experts to reason that only when regulators deliberately specify clear KYC parameters and requirements, will shared platforms or 'one-stop-shops' really work. "Regulators refuse to tell banks what constitutes adequate KYC and banks continue to dream up more and more ridiculous KYC criteria for their clients," says Blair. "One alternative would be for national governments to take on policing KYC. They already provide passport and tax identification services, and hold details on corporate earnings. This is a good basis for KYC."

He argues that corporates themselves should also work harder to create uniformity, taking a more proactive stance on submitting their information to shared platforms and updating



outdated records that put the compliance process at risk. “This would make it much harder for banks to insist on their own in-house compliance requirements. A strong corporate stand will also make the banks’ position with the regulators stronger,” he says.

Bank acquiescence was certainly something Sack noticed. When Sivantos signed up with managed service provider kyc.com, a platform developed by HIS Markit and Genpact in collaboration with four of the big banks, he was immediately able to take a tougher stance with the company’s 30-odd banking partners over KYC and on-boarding. “By using a tool I know is acceptable to major banks, I can tell my banks to take it or leave it. From our experience they quickly come round to accepting the documents on the platform.”

Similarly, banks also need to encourage their corporate clients to get on platforms, ensuring treasurers understand the proposition and reassuring them that their data is protected. The concept of sharing and pooling information behind the platforms will only work when adoption rates grow, creating in Reuters’ Pulley’s words, “volume”.

## Local laws

Progress is also stalled by the lack of joined up regulation between regions. Local laws and restrictions, such as whether customer data can be stored outside the country, blight progress. Selvan Lehmann, a project manager at the not-for-profit Basel Institute of Governance explains. “You can’t violate privacy regulations and this also affects reporting obligations. There are still no clear regulations on what banks can, and cannot, disclose to regulatory authorities across jurisdictions.” In an unprecedented attempt to provide AML uniformity across jurisdictions, Basel launched the Basel AML Index in 2012, an annual global ranking of country risk regarding money laundering and terrorism financing. “There was no such tool available before and what we’ve achieved with the AML Index is still only a very small part of the compliance issue,” he says.

Yet these challenges are surmountable, counters Sack. “Our KYC requirements were a nightmare because of the different requirements in Singapore and Hong Kong, but you can find a tool that works for you,” he says. “We benefited from being a small company and having the freedom to make decisions ourselves. As the treasurer, I am responsible for on-boarding and I was happy to give it a go.”

## Crime prevention

For financial crime experts, shared platforms also have other worrying unknowns. Utilities, and even tailored managed services, struggle to provide the event-driven data that tracks the everyday financial habits of financial institutions and businesses. It is this information that builds the complete customer profile that is the real alarm bell to financial crime. “We don’t monitor clients; this is not our role,” admits SWIFT’s Claeys. “If information is updated we send a note to banks, but our role is objective and factual, not judgemental.”

Devlin argues that rather than “on-boarding the customer and then leaving them alone for five years,” KYC needs a more holistic approach that brings banks closer to their customers’ behaviour. It should include tracking client spending habits, social media activity and internet search histories to build an in-depth social profile: it is no longer just about who you are,

but about what you do. “There is a limited value in extensively proving who someone is,” he says.

## Digital solutions

Technical innovation offers a solution on the one hand – but adds to the problem on the other. It puts KYC tools from biometrics to running searches for criminal convictions and compiling negative news data feeds at service providers and banks’ disposal. Yet more data means more information to submit and manage, more overheads, and the danger of losing what is truly valuable in the quantity of information. Regulators, and corporates already wary of identity theft, still need to engage with technology. Much KYC regulation was written in the pre-digital age and doesn’t readily facilitate the use of digital techniques, although regulators including the UK’s Financial Conduct Authority and the Monetary Authority of Singapore, are beginning to adapt.

And of course the relentless demand for data holds more worrying consequences altogether. It could push financial crime – and respected, frustrated businesses – away from conventional lenders to alternative financial intermediaries that are not subject to the same regulatory oversight. “Some people will begin to question whether to engage with mainstream financial services because of all the data requirements,” warns Devlin.

## Blockchain breakthrough

One solution could be Blockchain, the shared database technology shaped around a network of computers which approve a transaction recorded in a chain of computer code. It is increasingly touted as an answer to safely storing validated KYC details on individuals or companies. Details are recorded on a public ledger that anyone on the network can see. The more people that have the ledger and participate in the approval process, the more secure it becomes. Proponents of the technology, like consultancy PwC which is currently assessing the blockchain’s adaptation for KYC, argue it could help with data security around repositories holding large amounts of sensitive data, and greater standardisation.

A recent report by Spanish bank Santander, management consultancy Oliver Wyman and venture capital investor Anthemis, argues that the technology could cut banks’ infrastructure costs for cross-border payments, securities trading and regulatory compliance by \$15-\$20bn a year from 2022. “Greater innovation around how the information is collected from the clients can improve the overall client experience. Digital solutions are key to this and so are security technologies that improve and ensure data protection. While we are looking at Blockchain and its potential, it is still too early to determine what lasting impact this will have,” says Fleet. Others are more cautious, concerned that the future technology detracts from today’s pressing issues around compliance. “I understand why people are looking at Blockchain but I am still sceptical. I believe it would complicate KYC further, holding it back rather than encouraging it,” says O’Shea.

Whatever the future holds, easing the current regulatory burden of KYC depends on banks and their customers signing up to new platforms. “The end-game that third-party utilities can help drive a single and validated golden source is something that is going to be very valuable for the entire industry,” says Fleet. Far-sighted corporates have got to lead the way.

# In a decent proposal...

*When the time is right to introduce or replace a key part of your treasury technology or to establish a major new banking or service relationship, the selection process can be demanding. Treasury Today considers a key part of any major project: the Request for Proposal.*

Regardless of the driver for change, sometimes the choices available to treasurers when selecting new technology or service relationships can be bewildering, particularly when considering a complex proposition such as a treasury management system (TMS) or a multi-country banking partner. The difficulty often lies in the fact that the differences between offerings may be subtle but nonetheless important to the success or otherwise of the outcome.

In such a case, a well-managed request for proposal (RFP) can be a valuable tool in helping to ease the selection process whilst the drafting process can potentially alert treasury to any other issues that should now also be addressed. A good choice at this stage may well obviate the need for yet another project down the line.

In essence, a RFP is the governing document that contains all the key business requirements based around the new solution that treasury is looking to implement. The importance of developing a document that will allow treasury to obtain the information it needs to make an informed decision cannot be overstated.

## Requirements definition

No matter where a RFP is carried out in the world, a coherent and managed requirements definition is essential beforehand. This is the foundation stone of the entire project and may call upon input from other functions within the business to highlight some of their specific requirements and to give an indication as to how any new system or process will affect others up and downstream.

However, it should be understood from the outset that a degree of flexibility on the part of both client and vendor (used in this context to mean technology vendor, bank or other service provider) is desirable as to the means of arrival at the final destination because as the project progresses new ideas are often revealed. In a complex treasury setup, a fully-scoped project may not even be possible until the core functions have been implemented and the ancillary requirements become apparent. There may also be the need for a discretionary trade-off where the lack of a certain aspect may be outweighed by the presence of another more important one. A suitably researched and worded RFP may go some way to revealing the preparedness of the vendor to accommodate the client in this respect.

## Project manage

The consultation process, though hugely beneficial in the long term, will run the risk of developing 'scope creep' (continuously

adding to it) unless from the outset there is a coherent and simple project definition, a means of deflecting unnecessary diversions, and of taking firm and intelligent decisions. Scope creep can confuse and confound the end-result and add substantially to the final cost. For this reason, the backing of a project sponsor (in the form of an executive with higher status than anyone else involved with the project) and a strong project manager (PM) are essential.

The importance of developing a document that will allow treasury to obtain the information it needs to make an informed decision cannot be overstated.

However, scope creep should not be confused with the controlled and planned modification of the project in the light of acquiring more detailed understanding of the capabilities of the technology. This can add new benefits that had not been previously thought of – but even here the change process must be managed.

## Consider your initial options

Deciding which vendors to approach will involve some background research. Using publications such as Treasury Today, talking to other treasurers and having preliminary discussions with vendors at conferences and exhibitions will all provide valuable initial insight. It may even be prudent to send out your basic requirements definition to a wider panel of vendors, in the form of a request for information (RFI) first. A RFI is a high-level call for product information that can at least put you in the right ball-park regarding which vendors have suitable offerings.

Having created a long-list of potential candidates (and this may include half a dozen or more), building a RFP can provide structure to the selection process, enabling you to focus only on the most appropriate offerings.

## Building a RFP

It is vital from the treasurer's point of view to ensure that the same document is issued to each prospective supplier and that it conveys precisely and clearly what is required, according to the circumstances underpinning the project. A complex treasury will probably generate a larger RFP

document and this should be broken down into manageable sections for the benefit of the vendors and for your own team when it comes to assessing the responses.

The actual layout of the RFP can vary but be aware of the importance of laying it out clearly, with a logical progression between each section, and giving sufficient space for suppliers to respond if it is intended to be a physical document. And just as it is possible to fail to explain your needs clearly, or to provide too little information for the vendors to be able to respond in depth, it is also possible to

over-burden suppliers with information; providing an in-depth view of the group's entire business operations may not be required if it is only relevant to the project to offer a view of the structure of treasury and where it sits within that operation.

## Incorporating functionality

A major part of building the RFP concerns functionality. This is where the work that went into creating the requirements definition comes into play: the requirements definition states what you want so that when translated into the RFP it enables

### Checklist of RFP processes

Before starting on a major project, secure the support of a senior executive sponsor.

Appoint a strong project manager. Consider a third party for the role if no suitable internal candidate is available.

Always establish a requirements definition.

If an internal appointment is made, ensure they can remain objective. Consider having them dedicated to the role for the duration.

Factor in all resources likely to be required for the duration of the project.

Think carefully about which functions and individuals within the group should be involved in the consultation process. Document any agreements in advance.

Establish 'rules of engagement', allowing vendor-contact only with this liaison person (probably the project manager). Log all interaction. A single point of contact avoids confusion and conflicting information. This rule should be extended to cover the implementation process.

Ensure you clearly understand and have documented what your main issues are, why you are doing this and what you expect to achieve. Refer to this document often.

Be flexible regarding your plans and add a contingency allowance (for cost, time etc) for project expansion as awareness of the chosen solution increases.

Do not confuse beneficial project additions with unwanted scope creep.

Don't change anything in the project plan without managing and documenting it.

Consider issuing a request for information (RFI).

When building a RFP keep asking if it conveys precisely and clearly what it is you require.

Ensure questions are clear, understandable and have been tested and proven as such.

Do not ask unnecessary or unreasonable questions.

If multiple departments are involved proper coordination and documentation is required at all times.

Ask open questions where detail is necessary and closed questions where a simple yes or no is sufficient. Remember that open questions are more difficult to compare.

Lay out the RFP clearly, in logical order and with sufficient room for a full response.

Complex requirements should be broken down into logical, manageable sections.

It is in your interest to provide sufficient information to enable the vendor to give the fullest answer possible.

Do not over-burden the supplier with unnecessary background information.

Read the final document before sending it to vendors to ensure it is fit for purpose.

Weight each question according to your own values and agree upon weightings before sending the RFP to suppliers. Resist the temptation to adjust weightings to get the answer you want.

Clear your mind of any bias for or against suppliers.

Don't send it to too many vendors: it makes analysis difficult.

Read all responses carefully.

Look for added-value in vendor responses eg raising new but useful points.

Learn to distinguish between fact and sales talk.



the treasurer to assess which vendor is best placed to deliver. But whilst some RFP responses may call for a simple 'yes' or 'no' answer, others may need more in-depth explanations of how certain functions are supported and processed and, if it is a technology project, how this relates to the way in which your treasury operates (including its connectivity with third parties, such as banks and/or SWIFT).

Certainly any integration and reporting requirements should be defined in sufficient detail to avoid ambiguity, to enable vendors to have a sufficient understanding of the implementation scope to propose the implementation effort accurately.

In addition to pure functionality, a key objective for a technology project is to configure sets of functionalities into workflows that fulfil the project's business process objectives. This is where 'how' questions can help, as the buyer needs to understand how effectively the solution can automate a specific treasury activity. Be aware that open questions may be necessary to unearth how a supplier intends to meet some complex, potentially deal-breaking issues, but too many open questions will push the analysis phase into overdrive, making it difficult to draw accurate and fair comparisons between vendors.

In all cases, the questions set out in the RFP have to be considered – and tested – carefully, to see if they are understandable, unambiguous, and likely to yield the answers sought. You are, after all, asking for and should expect more than just a cut-and-paste response from the vendor.

When asking about the implementation process it is necessary not just to pose questions but also to state a host of facts to assist the vendor. The fact list may include points relating to the intended timescale, how many users, locations, functionality required in each location, how satellite units are structured within the company, the existing system configuration (listing current systems and what needs to be integrated up and downstream), and any manual interventions.

It may be appropriate to provide a proposed technical integration plan for the new solution. Certainly any integration and reporting requirements should be defined in sufficient detail to avoid ambiguity, to enable vendors to have a sufficient understanding of the implementation scope to propose the implementation effort accurately.

In seeking a vendor's thoughts on these matters it is necessary to secure from it a raft of reciprocal information such as how it intends to piece together an implementation team (size and structure and who will be involved, for example), what it proposes in terms of ongoing support (technical and staff training) and maintenance (with details and sample copies of SLAs and so on). In essence, you need to embrace the whole service of the product in one document.

It may be that treasury knows what it wants but does not know how to achieve it; the level of detail in the RFP can be

used to provide vendors with the opportunity to deliver a creative response, mindful that it is not good form for companies to use it as a free consultancy service. It is also worth noting that unless the RFP conveys precisely what is required, the pricing is likely to be inaccurate; resist adding elements merely out of curiosity or as a demonstration of your depth of knowledge (it does happen) as these will frustrate a genuine comparison.

Whilst some aspects of treasury may be commercially sensitive, it should be borne in mind that conveying sufficient detail for a vendor to be able to provide the most appropriate response is beneficial to all parties, both in terms of getting the best solution and in getting the job done in the most efficient manner. It is important to realise too that RFPs that are the product of multiple departments are prone to duplication of questions. Care should be taken to remove any such instances from the final document. Read the whole document before sending it: a final sanity check will ensure it is fit for purpose.

When it comes to distributing the RFP, by all means send it to all those vendors that closely meet your requirements, but always bear in mind that the more vendors the RFP is sent to, the more analysis you will have to do when the responses come back. Typically a shortlist of three or four will be called upon to respond (and be aware that some vendors may fail to respond: it is unprofessional but it happens).

## Making a judgement

A RFP response should give a clear demonstration of a vendor's capacity to add value and differentiate itself from the others. Over and above what is sought by treasury, a good RFP response may also provide relevant supplementary answers. In any case, read all submissions carefully and if something is not clear ask the vendor to clarify.

The information you receive will have to be compared on an equal footing. Depending upon factors such as project complexity and the number of vendors approached, a well-crafted set of questions should enable the project team to consolidate answers on a single spreadsheet set up to allow a quick view of scores for each aspect. However, before scoring responses, it is common practice to 'weight' each section and component according to the relative value the team places on it. This ensures that the overall score reflects those values, and that the outcome is not unduly influenced by an aspect of lesser importance.

The weighting process must be discussed beforehand. The process is arbitrary and therefore must have direction from the project manager to avoid endless re-working. Resist the temptation to adjust weightings until you get the answer you want as this voids the entire exercise.

The degree to which scoring is broken down within each component will depend upon time available and the relative importance of that component. Deep questioning and subsequent scoring of the minutiae of a certain function will in theory better reflect the view of that function. Whilst this may be appropriate for some aspects, doing this for every component will generate unnecessary extra work. In the end, the decision may come down to which vendor team you feel most in tune with, or even the best price, but a good RFP will provide most of the technical and service information to be able to take such a decision comfortably.

# Large-scale fiscal stimulus will end low volatility period in financial markets

*It is very interesting from a European or a US perspective to follow what the Bank of Japan does with regard to monetary policy, because the Japanese central bank is often a 'testing ground' for the Fed and the ECB. This is mainly because Japan has been battling low growth and the risk of deflation for much longer than the US and Europe.*

In September, the Bank of Japan reversed its strategy with regard to monetary policy. There was every reason for this, because after the last time interest rates were reduced and the central bank had started purchasing more bonds and shares, the yen exchange rate increased and share prices declined. This is exactly the opposite of what the central bank intended to achieve. In addition, this easing of monetary policy has not led to far higher growth and/or inflation.

## Change in Bank of Japan policy

On 21<sup>st</sup> September, the Bank of Japan adjusted its policy as follows:

- Instead of a fixed amount of bond purchases every month, purchases will now be coordinated in such a way that interest rates on ten-year Japanese government bonds will remain around 0% (bonds with a longer maturity should have positive interest rates). The central bank furthermore intends to get the yield curve as steep as possible. This means that the Bank of Japan will allow itself to be entirely led by market circumstances in its decision regarding how many bonds and with what maturity it will purchase. It does foresee that, for the time being, this will mean the total of bonds that will be purchased will not differ significantly from what has been the case so far. In addition, short-term interest rates will remain at -0.1%.
- The inflation target has been increased from 2% to above 2%.

To start with the latter, the Bank of Japan aims to push down real long-term interest rates by lifting inflation. Indeed, this

should basically be favourable for asset prices and, moreover, negative interest rates ensure that there is a shift in purchasing power from creditors to debtors. In other words, this is a means of reducing the weight of the debt burden for people who have borrowed money. The only problem is that, despite the fact it is a good plan to increase the inflation target, inflation has remained below the 2% target for years on end. Why would it suddenly exceed this level?

The question is also to what extent it helps the Bank of Japan to keep ten-year interest rates around 0% and keep those with an even longer maturity above this level. One can hardly speak of a steep yield curve now, with short-term interest rates at -0.1% and ten-year interest rates at approximately 0%. The central bank could therefore at least have reduced short-term interest rates further. Indeed, the intention of the steeper yield curve is to make it easier for banks to be profitable, resulting in more credit supply. However, the problem is of course that the further short-term interest rates are reduced, the more difficult it will be to keep interest rates with a maturity above ten years above 0%. This is necessary to ensure matters are not made too difficult for pension funds and insurers.

## Ineffective monetary policy needs help from governments

So at first sight the change in policy does not seem to amount to much. This will change drastically once the government applied further fiscal stimulus on a large scale. The government would then have to issue far more bonds to fund this, which would normally push up all interest rates. However, the central bank currently promises it will keep

short-term interest rates negative and ten-year interest rates at approximately 0%. This would then require far more extensive purchases by the central bank. Moreover, increasing the public deficit means that the additional money creation ends up almost directly with consumers. It is not a pure form of 'helicopter money', but it does come close. Hence, it would also become realistic in this case to assume higher inflation (expectations). The economy would then immediately also receive an extra boost in the form of lower real interest rates.

It is nevertheless only a short while ago that the government presented a fiscal stimulus package. At first sight, this seemed to involve massive amounts, but further inspection of the details revealed the package was actually very disappointing. This is why the financial markets only reacted to this briefly, subsequently dismissing it. Upon the announcement of this package, it was already known that monetary stimulus had lost a great deal of its strength. It was hoped at the time the government would present a robust programme in order to finally drag the economy out of the doldrums. But this ultimately turned out to be very disappointing. This is why the markets are now wondering to what extent the situation has changed in the meantime. That fiscal stimulus was disappointing last time because there was insufficient support to do more (in Japan there are great concerns about public finances spinning out of control, and many economist would prefer to see structural reforms). Are things different now? So far there are only few signs policymakers who have a different view in this regard. So as long as this remains the case, the change in strategy by the Bank of Japan does not exactly represent a sea change.

It is therefore understandable that, for example, USD/JPY initially increased significantly but at the same day fell back even faster. This immediately demonstrates that the initiative should now lie with policymakers. The central bank has made it clear that the old route of monetary stimulus can no longer be used to stimulate the economy. However, if substantial fiscal stimulus were to be applied, monetary policy would be able to add to this. This would enable the central bank to prevent interest rates from increasing, with inflation actually

increasing. The resulting lower real interest rates would give the economy an additional boost. So it remains to be seen for the time being whether Japanese policymakers 'pick up the ball and score'.

## End of low volatility period?

In other words, central banks show they remain determined to push up inflation and pressure down real interest rates. However, they need the help of fiscal policy to succeed and central banks do everything to convince governments to do more fiscally. Until now, interest rates and currency markets have been very stable in the past year as most central banks applied a close to zero percent interest rate policy and quantitative easing. But we expect more volatility once governments increase fiscal stimulus measures, as we foresee that the timing and the scale of fiscal stimulus will vary greatly from country to country.

We expect that the new US president (Trump more so than Hillary) will be the first to increase fiscal stimulus substantially. European governments will struggle, as there are great differences in opinion about the best way to stimulate the economy. Germany and other stronger European Monetary Union (EMU) countries favour structural reforms and more fiscal stimulus in countries which, according to the Growth and Stability Pact, have latitude to do so.

The weaker EMU countries prefer much more fiscal policy, either at the national level or at the European level. But Germany will likely oppose this, as more fiscal stimulus at the national level will increase the already high debt levels in the weaker countries, leading to another euro-crisis, while large-scale and debt financed fiscal stimulus at the European level amount to a de facto fiscal union. Without some guarantees that German taxpayers will not be liable for losses on the debt, Germany will likely not approve this. This is negative for the euro and positive for the US dollar. Furthermore, if indeed the new US government is the first to enact large-scale fiscal stimulus, this would have upward pressure on US interest rates and on US economic growth, further increasing the attractiveness of the US dollar.

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## INSIGHT &amp; ANALYSIS

## 2017: the year ahead

After a rather turbulent 2016, corporate treasurers may be hoping for stability to return as we move into 2017. Will this be the case, however? Treasury Today speaks to a number of experts from the world of finance to discover what the future holds.



## BACK TO BASICS

## Syndicated loans

A syndicated loan is often part of a wider financing strategy and unlike bilateral loans, they allow a company direct access to both banks and institutional investors. But how are syndicated loans arranged and managed? Treasury Today goes back to basics to find out.



## REGULATION

## Overcoming compliance challenges

The glut of regulatory changes that have occurred since the 2007/8 crisis have not only put a strain on the banks, corporates have also been impacted. Indeed, numerous studies show that compliance is becoming an increasingly pressing issue for corporate treasurers around the world. Here we look at how treasury departments can overcome these challenges.

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

Andrew Bateman, President of Treasury Software Solutions, FIS; Annemarie Moore, Group Treasurer, Plan International; Bart Claeys, Head of KYC Compliance Services, SWIFT; Bob Stark, VP of Strategy, Kyriba; Charley Edwards, Assistant Treasurer, Informa; Chris King, Group Treasurer, Vita Group; David Blair, Managing Director, Acarate Consulting; David Fleet, Managing Director, Client On-boarding and Management, Standard Chartered Bank; David Stebbings, Director, Head of Treasury Advisory, PwC; Ebru Pakcan, Head of Global Payments and Receivables, Treasury and Trade Solutions, Citi; Edward Sunderland, Partner, Pinsent Masons; Enrico Rao, Group Treasurer, Alpitour; George Dessing, SVP, Treasury and Risk, Wolters Kluwer; Han Hoestra, Director Cash Management Europe and Capital Markets, Prologis; Han Ling, Deputy General Manager, Siemens Financial Service Limited; Jan Bellens, Asia Pacific Banking & Capital Markets Leader and Global Emerging Markets Leader, EY; Jennifer Bousuge, Managing Director, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch; Jennifer Doherty, Global Head of Commercialisation, Liquidity and Investment Products, HSBC; Jerry Pearce, Head of Global Transaction Services, RBS; John Weeden, Head of ABL Transactions, Global Transaction Banking, Lloyds Bank Commercial Banking; Julia Persson, Head of Cash Management, GTS, Large Corporates and Institutions, Swedbank; Karen Toh, Treasurer, Grosvenor Group; Keith Softly, Head of Asset and Invoice Finance Product, Lloyds Bank Commercial Banking; Khurram Malik, Treasury Manager, Virgin Atlantic; Lesley Rogers, Director, Treasury, Banking & Cash, AT&T Istel; Lucie Harwood, Head of Treasury and Investor Relations, Laird plc; Marianna Polykrati, Group Treasurer, Chipita; Mark Smith, Head of Global Liquidity, Global Transaction Services, Bank of America Merrill Lynch; Matt Cornwall, Deputy Treasurer, Capita; Michael Sack, Head of Treasury and Financing, Sivantos Group; Mitko Iankov, Head of Market Development – GTM Europe, Thomson Reuters; Rana Fayed El-Hajjar, Treasurer, Qatargas; Ruth Wandhöfer, Global Head of Regulatory and Market Strategy, Citi; Selvan Lehmann, Project Manager, Basel Institute of Governance; Simon Pearse, Head of Compliance, RateSetter; Stephanie Wolf, Head of Global Financial Institutions, Public Sector Banking and Canada Sales, Bank of America Merrill Lynch; Steve Pulley, Global Managing Director, Thomson Reuters's Risk Managed Services; Séverine Le Blévennec, Director Treasury Europe, Middle East & Africa, Honeywell; Tom Devlin, Partner, Stephen Platt & Associates; Tom Weedall, Director of Loan Originations, Wells Fargo Capital Finance; Virginie O'Shea, Analyst, Aite Group.

An aerial view of the ocean showing a massive whale's tail and body just below the surface. The water is a deep, textured blue. In the bottom right corner, a small yellow kayak with a person inside is visible, providing a sense of scale to the enormous whale.

WHEN  
THE BIG  
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