

treasurytoday

research | insight | analysis

January/February 2017



2017: expecting the unexpected

Last year was something of a rollercoaster ride for treasurers around the world. Will 2017 be more of the same? Treasury Today looks into the crystal ball to see what challenges and opportunities may lie ahead.



The Corporate View

Fred Schacknies

SVP & Treasurer
Hilton Worldwide

Cash Management

Keeping the liquidity flowing

Regulation

Managing the regulatory burden



Women in Treasury

New York Forum 2016

For the first time, Treasury Today took its pioneering Women in Treasury Forum to the United States. Read what our inspiring panel had to say.

Back to Basics

Syndicated loans

Financing

A closer look at Panda bonds



Voice of Corporate Treasury

in association with

Bank of America
Merrill Lynch



GLOBAL STUDY 2017

Opens 1st February

treasurytoday
group

Advertising

media@treasurytoday.com
+44 (0)13 0462 9018

Editorial

editorial@treasurytoday.com
+44 (0)13 0462 9003

Memberships

memberservices@treasurytoday.com
+44 (0)13 0462 9013

Production

production@treasurytoday.com
+44 (0)13 0462 9019

Website

website@treasurytoday.com
+44 (0)13 0462 9008

Publisher

+44 (0)13 0462 9017

Switchboard

+44 (0)13 0462 9000

For all other enquiries please contact

Samantha Collings, Head of Operations
sam.collings@treasurytoday.com
+44 (0)13 0462 9018

Annual Membership Rate £285

© Treasury Today ISSN 1466-4224

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

The entire content of this publication is protected by copyright. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means mechanical, electronic, photocopying, recording or otherwise, without the prior written consent of the copyright holders. Every effort has been made to ensure the accuracy of the information contained in this publication. Treasury Today Limited cannot accept liability for inaccuracies that may occur. Where opinion is expressed it is that of the authors and does not necessarily coincide with the editorial views of the publisher or Treasury Today. All information in this magazine is verified to the best of the author's and the publisher's ability. However, Treasury Today does not accept responsibility for any loss arising from reliance on it. No statement is to be considered as a recommendation or solicitation to buy or sell securities or other instruments, or to provide investment, tax or legal advice. Readers should be aware that this publication is not intended to replace the need to obtain professional advice in relation to any topic discussed. Printed by Buckland Media Group Ltd.

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

The 2015 US annual subscription price is \$588.00. Airfreight and mailing in the USA by agent named Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Periodicals postage paid at Jamaica NY 11431.

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

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

Air Business Ltd is acting as our mailing agent.

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

Adam Smith Awards, ten years on...

We have certainly come a long way since our Adam Smith Awards for Best Practice and Innovation was launched in 2008. Not only is this awards programme acknowledged as the industry benchmark for corporate treasury achievement, it is also now synonymous with best practice and innovation.

2017 is a major milestone for the Adam Smith Awards – it is the tenth anniversary. We are expecting record-breaking participation and nominations open on 31st January. Breaking records will not be easy given the number of entries we have received year-on-year from companies of all shapes, sizes, treasury structure and location but, so far, we have seen more nominations every year. Our judging panel each year faces the almost impossible task of selecting the winning corporates.

Over the past ten years, the Adam Smith Awards has survived, indeed flourished, during a period of dramatic change on the political, regulatory, economic and technological fronts. Can you imagine thinking about something called blockchain, considering the UK not being in the European Union, a businessman called Trump being the US President and investors being charged to deposit funds ten years ago?

That said, the companies which have participated, and there have been hundreds, really have demonstrated some incredible dedication, resilience, intuition, teamwork and innovation. From Antalis, our inaugural Top Treasury Team winner in 2008 to Etihad Airways who were awarded this accolade last year, it has been a truly remarkable journey.

The categories in which nominations are submitted have also kept abreast of the changing times. The core treasury disciplines of cash, liquidity, risk, finance and foreign exchange management have been supplemented with additional categories to recognise the introduction of SEPA, working capital moving up the agenda, the growing importance of SWIFT amongst the corporate universe and the growing focus on diversity and emerging talent with our Woman of the Year and Rising Star categories respectively. Best in Class Treasury Solutions in Africa and the Middle East gave us regional focus, whilst Harnessing the Power of Technology captured the many solutions where technology is the key enabler. One to Watch and Judges' Choice complete the landscape today.

So, turning to our tenth anniversary programme, we are extremely excited and want it to be our best yet but we can only achieve this with your continued support. Nominating your projects is a simple process. All you need to do is submit your entry via the online nomination forms which are available at treasurytoday.com/adamsmith. Further details can be found on page 6.

Finally, if you are feeling confident why not pencil in a diary date of Thursday 22nd June at Plaisterers' Hall in the City of London – that's where our celebratory Gala Presentation Lunch will be held.

INSIGHT & ANALYSIS 7



2017: expecting the unexpected

Following last year’s dramatic events, treasurers will be monitoring the impact of recent and upcoming changes on everything from funding to investments. Meanwhile, developments in technology may present new opportunities to increase the efficiency and effectiveness of treasury operations.

CASH MANAGEMENT 10



Building a best in class liquidity management structure

The effectiveness of a company’s liquidity management structure can be affected by everything from M&A activity to regulatory change. Treasurers should regularly review the structures they have in place to make sure the company’s needs continue to be met – but what does a best in class liquidity structure look like?

WEBINAR REPORT 13

Key steps to improved foreign currency management



WEBINAR REPORT 17

FX decision making reimagined: the Ericsson story



WOMEN IN TREASURY FORUM 21



Driving diversity

For the first time, Treasury Today took its pioneering Women in Treasury Forum to the United States and hosted over 130 senior financial professionals from across the country to celebrate and champion diversity. Here are the highlights from the day.



FINANCING 18

Panda bonds come to life

The first Panda bonds were issued in October 2005 to much fanfare, but since then there has been little progress. Last year, however, the Chinese onshore bond market began to show early signs that it may soon live up to its potential. We take a close look at the history of the Panda bond market and its growing appeal to corporate borrowers.



REGULATION 26

Overcoming compliance challenges

From KYC to tax compliance, changing regulatory requirements continue to be a major concern for treasurers around the world. What compliance challenges should treasurers be focusing on, and what steps can they take to address these challenges more effectively?

TREASURY ESSENTIALS

Treasury Insights	4
Adam Smith Awards 2017	6
Question Answered	32
Market View	34

FINTECH FOCUS 24

Invoice financing reimaged

In the first of our new series profiling some of the world's most exciting fintech companies we speak to Kush Patel, CEO and Co-Founder at Tallysticks to hear how the company is looking to transform the trade finance space with blockchain and smart contacts.



14 The Corporate View

Fred Schacknies
SVP & Treasurer



Building a treasury function that can stand the test of time is something that Fred Schacknies, SVP & Treasurer at Hilton Worldwide has focused on throughout his career. But he is not just interested in the result – he is fascinated by the process of getting there and the combination of art and science that underpins this.

BACK TO BASICS 29

Welcome to the syndicate

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 why might a corporate use a syndicated loan and how are these arranged and managed? We go back to basics to find out.



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

A breakthrough in bank fee management?

No corporate treasurer wants to be paying too much for its banking services. But, according to Dan Gill, Senior Director at Redbridge Debt & Treasury Advisory, a large number of corporates around the world are doing exactly that.

Gill is well placed to provide this assessment. He has spent the last 20 years of his life dedicated to helping corporate treasurers gain control over their bank fees and manage their banking relationships.

But he has some good news for the corporate treasury community. “We have reached an inflection point where there is now the possibility for corporates to get full visibility over bank fees globally,” he says.

Profit pressure

This could not have come at a better time, according to Gill. He highlights some of the recent cases of banks in the US opening and charging consumers for accounts and services that they didn’t ask for, nor need, as being a prime example of why this is the case.

“Banks are under immense pressure to increase revenues at present,” says Gill. “The corporate bank fee statement can be an easy place for banks to find that revenue.”

Indeed, Gill notes that the only reason these cases have come to light in the US is because there are watchdogs protecting the consumer. These don’t exist in the corporate space, however, and the onus is well and truly on the corporate treasury department to make sure that they are being charged correctly by their banking partners.

New standards

Until recently, however, this was a near impossible job for most companies. “Historically, it has been very challenging for corporates to get any visibility over what they were paying,” says Gill. “Even obtaining a paper statement was sometimes very difficult in some countries.” Treasury therefore just typically “paid the bill without question”.

There has been progress in this space, however. Gill highlights the importance of the Bank Service Billing (BSB) standard, which is an ISO 20022 standard and allows the banks to digitally report to their clients exactly what they are paying for their banking services. “Many of the large banks are currently using this and the treasury community is putting pressure on those banks who do not,” he adds.

Whilst this is positive progress for the corporate treasury community, Gill notes that many corporates lack the software that is required to consume these data files. And when they do, the solutions often do not provide the analytical capabilities required.

Hawkeye

It is this final hurdle that Gill is hoping to help corporates overcome with the recent deployment of Redbridge’s Hawkeye BSB solution. “Hawkeye is designed to automate the process of collecting bank fee information, monitoring these fees, and ensuring no billing violations are occurring,” says Gill.

To do this, the solution, which is deployed in the cloud, consumes the banks’ statements in whichever form they are provided – Gill notes that Redbridge are even able to upload paper statements into the system. From here the data is ordered, allowing for direct comparison of banks and their costs. “For our large corporate customers, this may be thousands of line items across thousands of accounts,” says Gill. “But because it is all categorised and ordered it can be cut and sliced into manageable chunks and provide the treasury team with the opportunity to obtain all the information that it needs.”

Taking charge

As is always the case, technology is not a panacea and Gill highlights how it is important for corporates to view their bank fees in the context of their wider banking arrangement. “One of the biggest errors that corporate treasury departments tend to make is that they focus on bank fees without considering the impact that debt arrangements have on these,” he explains.

“Banks will be evaluating the corporate relationship as a whole and how the debt is structured will impact the price of cash management services,” he says. Gill goes on to advise that corporates should look to build a holistic picture before having any discussions with banks about what they are charging.

TPP Trumped: digested and destroyed?

TPP would lead to enormous import tax reductions on American exports, although the US already has trade agreements with most of the countries covered by the TPP. Importantly, two new markets would be opened up: the world’s third largest economy, Japan, and Vietnam with its strong emergent potential.

In February 2016, 12 countries (US, Australia, Brunei, Chile, Malaysia, Mexico, New Zealand, Canada, Peru, Singapore, Vietnam and Japan) signed the TPP trade deal. All of these will need to ratify the agreement and that is what is now looking unlikely. In November 2016, following his surprise victory, US President-elect Donald Trump made a statement that have left many feeling certain that the US will not go through with this. Barack Obama, the outgoing US President, has an incredibly positive approach to trade arrangements, but with public sentiment seeming to prefer national sovereignty over international trade arrangements, the TPP may be dead.

So just what is TPP? It began with the P4 trade agreement between just four nations – Brunei, Chile, New Zealand and Singapore – that came into effect in 2006. That deal removed tariffs on most goods traded between the countries, promised to cut more and also to co-operate on wider issues such as employment practices, intellectual property and competition policies. Member states of the TPP are now the US, Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru. The pact aims to deepen economic ties between these nations, slashing tariffs and fostering trade to boost growth. Members had also hoped to develop a closer relationship on economic policies and regulation. The agreement was designed to potentially create a new single market, not dissimilar to that of the EU. TPP would have dwarfed the power of the European Union with the 12 countries’ combined population of about 800m, almost double that of the European Union’s single market and this 12-nation bloc is already responsible for 40% of world trade.

The majority of goods and services traded between the countries were included in the TPP. Not all tariffs were going to be removed and some would take longer than others. The signatory countries did declare they would either eliminate or reduce tariffs and other restrictive policies from agricultural products and industrial goods, with 18,000 tariffs affected.

The push back from incoming Trump would seem to echo recent nationalist and anti-free-trade sentiments shouted out loud in the Brexit vote in the UK and still being felt across the rest of Europe. The TPP has been seen in conflicting lights, by some as a remarkable achievement to unite such diverse member countries and to foster free trade in services and a positive step. However, there were many who critiqued its potential for exploitation of labour forces.

Now that we are observing the likely demise of TPP, what will this mean? To take effect, the deal would have to be ratified by February 2018 by at least six countries that account for 85% of the group’s economic output. And this means that Japan and the US would have to be involved, something which now looks highly unlikely. There has been talk of a potential deal that could occur without the US or of possibly changing some of the conditions to let Mr Trump approve the deal. However, any involvement on the part of the US is looking incredibly unlikely. Japanese Prime Minister Shinzō Abe has said a TPP without the US would be “meaningless”.

TPP failing would certainly not hurt China which was shut out of the agreement in a move to try and restrict its power over global trade. The lack of the TPP combined whilst China pushes ahead with the One Belt One Road initiative would leave China in a very comfortable competitive position.

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



Join us in celebrating ten years of outstanding achievement

Treasury Today is delighted to announce the tenth anniversary of the Adam Smith Awards. This prestigious awards programme is universally recognised as the ultimate industry benchmark in treasury excellence. The Adam Smith Awards shines the spotlight on corporates who have excelled, who demonstrate cutting-edge thinking and who are driving our industry forward. 2017 presents the perfect opportunity for you to showcase your achievements in your respective corporate treasury departments so why not enter and join the celebration?

NOMINATIONS OPEN – 31st January 2017

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

Nominations open on 31st January and close on 30th April 2017. The short nomination form will be on the Adam Smith Awards pages of the Treasury Today website and should take no more than 15 minutes to complete. There is no limit to the number of entries that can be submitted and a single project can be entered under more than one category. Nominations can be made by any corporate. Banks and service providers can assist their clients in completing the nomination form and may submit nominations on behalf of their corporate clients, with their approval, of course.

Winners will be announced in May and will be invited to attend our tenth anniversary Gala Presentation Lunch which takes place on 22nd June at Plaisterers' Hall, an awe-inspiring venue in the City of London. All winners are presented with stunning crystal awards and the event also provides a superb opportunity for networking, enabling winners to significantly raise their profile and that of their team, whilst showcasing their achievements to their colleagues, clients, investors, partners and peers.

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

Award categories for 2017

- Treasury Today's Top Treasury Team 2017.
- Best Cash Management Solution.
- Best Cash Flow Forecasting Solution.
- Best Liquidity Management/ Short-Term Investing Solution.
- Best Working Capital Management/AP/AR Solution.
- First Class Relationship Management.
- Best Trade/Supply Chain Finance Solution.
- Best Card Solution.
- Best Funding Solution.
- Best Foreign Exchange Solution.
- Best Risk Management Solution.
- Best SWIFT Solution.
- Harnessing the Power of Technology.
- One to Watch.
- Best in Class Treasury Solution in the Middle East.
- Best in Class Treasury Solution in Africa.
- A Rising Star.
- Treasury Today Woman of the Year.

2017: expecting the unexpected

Last year was characterised by dramatic world events and considerable uncertainty – and these themes could continue to dominate the treasurer's agenda in 2017. From political events to cutting edge technology, what will treasurers be focusing on in the coming 12 months?

It's fair to say that 2016 was something of a rollercoaster ride for treasurers around the world. As such, when asked to predict what shape 2017 will take, the word that first springs to mind is uncertainty. The events of 2016 will certainly lead to an adjustment for many in the year ahead. Treasurers will be keen to understand the impact of last year's political and other developments, while monitoring new events with renewed caution.

At the same time, however, the core priorities of corporate treasurers are the same as they have always been. A recent survey by Ovum found that treasurers' priorities in 2017 included managing liquidity (a priority for 50% of respondents), cash visibility (27%), managing FX and credit risk (39% and 31% respectively) and data analysis to improve decision making (36%).

While the repercussions of recent and upcoming world events will loom large in the coming year, treasurers will continue to focus on the fundamental components of the job – and to ask how developments in technology can support them in increasing efficiency, reducing costs and making effective decisions.

Changing political landscape

The last year has been nothing if not surprising. On 23rd June, the world was shocked by the UK's decision to exit the European Union. More was to follow with Donald Trump's election victory in November, as well as the resignation of Italian prime minister Matteo Renzi in December, following the resounding defeat of his referendum on constitutional reforms. Following this wave of political upheaval, treasurers will be watching events closely in 2017 – particularly the upcoming elections in France, Germany and the Netherlands.

Interest rates

Recent political events have the potential to impact treasurers in a number of different ways. Speaking after the US election, Daniel Jefferies, Group Treasurer of Equiniti Group, said he will be watching the rates environment closely in 2017, particularly in light of Brexit and uncertainty in other economies around the world. "About six weeks ago, before the US election, we were looking at the scenario where base rate was looking to be bumping along the bottom at a few basis points out to 2020 and beyond," he explained. "But even in the last six weeks, we've seen that rate kind of flatten out, and there's more speculation now about rates potentially going up rather than down."

Rick Martin, Group Treasurer at GasLog, is similarly interested in the impact of political events on interest rates in the coming year. "My prediction is that President Trump is going to do a 'Nixon to China' on domestic policy," he says. "Meaning? Just like it could only be an ardent anti-communist like Nixon

to welcome China back to the family of nations, it will take a Republican president to push through Congress the sort of fiscal stimulus that President Obama could only dream of. And with that, US rates head up, even a bit more than they already have."

Any such developments in interest rates would be of considerable interest to corporate treasurers. "In the US, with rising interest rates, treasurers will be looking at their cost of funds and when is the right time to tap the market for funding, from banks or through bonds," notes Matt Tuck, Head of Global Transaction Banking at Barclays Corporate Banking. "The as yet unknown impact of Trump is also hampering clear decision making."

In Europe, meanwhile, Tuck says that investment decisions are becoming harder to make in light of forthcoming elections in Germany, France and the Netherlands, alongside the impact of the UK's approach to Brexit on the wider economy and trade flows. "Whilst low interest rates in Europe seem to be here for the foreseeable future, the volatility created by unknown political outcomes will be weighing on treasurers' minds, with continued uncertainty around FX post-Brexit," he adds.

Funding

The changing political environment may also affect companies' funding decisions. While different companies have different priorities, Tuck says that a common theme has been to renew banking credit facilities early – in some cases very early – in order to lock in funding/backup at favourable margins and attractive structures.

"Issuing debt in the capital markets will also be at the forefront of treasurers' minds; despite higher USD rates, long-term debt is still historically very cheap," he says. "Treasurers are also very interested in new digital applications to improve processes and automation of cash management and trade. Part of this has been driven by some organisations employing smaller treasury staff, with treasurers (like professionals in many industries) trying to do more with less."

Managing political risk

After the events of 2016, treasurers will be unlikely to make any assumptions about the outcome of upcoming elections and other political events. Nevertheless, predicting and mitigating political risk is a considerable challenge.

Paul Taylor, Managing Director, Regional Sales Head, GTS EMEA at Bank of America Merrill Lynch, points out that companies have different levels of exposure. "Multinationals with a broad exposure across multiple national, legal and tax jurisdictions have been reviewing their banking arrangements," he says. "They are probably less keen on dealing with large numbers of counterparties now, because that's more risk to

2017: what's on the agenda?

Paul Taylor, Managing Director, Regional Sales Head, GTS EMEA, Bank of America Merrill Lynch says that five key themes are emerging from conversations with corporate clients:

1. **Back to business.** I feel that for many corporate treasurers, the last few years have been about regulation, responding to change and addressing financial risk. A lot of people are saying that they have realised this is the new reality: the world is constantly changing, and the changes can be quite dramatic, as we've seen this year. But they are realising that they can't live in obedience of that and are focusing on new projects.
2. **Staying alive.** Treasurers want to make sure they are managing compliance risk, political risk, regulatory risk, technology risk and counterparty risk. For example, they have seen several of their banking counterparties exit markets, products and clients this year. As such, they want to ensure that their banks will still exist – and that they will still want to continue serving them as clients.
3. **Increasing efficiency and reducing cost.** In the last few years, we've seen a lot of treasuries centralising and adopting payment factories, shared service centres and in-house banks. We have people looking at the working capital cycle and figuring out how their companies can become more efficient. We've also seen more use of solutions such as e-procurement, virtual account management and supply chain finance. These are rapidly becoming core solutions, and increasingly, treasurers are proactive about using them.
4. **Supporting growth.** With companies getting back to business, we have seen a big pick up in the M&A cycle in 2016. We've had a lot of conversations in the pre- and post-M&A integration space around treasury, with companies which are looking at acquisitions asking how they can get the maximum benefit from that integration.

At the same time, companies are moving into new markets and are dealing with increasingly global client bases. As such, they want a treasury set-up which is geared towards easy market entry and easy treasury integration. This is an element of the treasurer's life which might have seemed somewhat exotic five or ten years ago, but which is now very much part of the job.

5. **Predicting the future.** Treasurers are deluged with buzz terms such as fintech, blockchain, bitcoin and dematerialisation. But they are concerned about investing too early because, as yet, there is no interoperability between these solutions and no industry standard. They don't want to back Betamax in a world of VHS; and on the other hand, they don't want to miss out completely when others may be benefitting. The challenge is to be able to predict the future, and we find many clients coming to us for our insights, for validation, and, increasingly, to adopt or pilot those solutions.

manage. So they are looking at consolidating banking providers. They want very certain statements from their providers that those banks still plan to be there, and that they have a strategy in place to cover any sort of dramatic political challenge.”

Automation, security and technology

Mark Smith, Global Head of Liquidity Management Services at Citi, says that investing in automation and security will be another priority for treasurers in 2017 – not only as a means of achieving efficiency gains, but also to increase the security of treasury operations. Last year's high profile cyberattacks have not gone unnoticed by treasurers, and many will be putting measures in place to minimise the risk of similar attacks on their own businesses.

“Automating manual processes brings a number of different benefits,” says Smith. “These include reducing errors and achieving a consistency of approach, as well as greater security compared to manual intervention. Automation also frees up different members of the corporate treasury team to focus on other areas, such as risk management and regulatory change.”

Meanwhile, treasurers will be monitoring developments in technology and gauging which opportunities can be leveraged. “There is major awareness of disruptors such as fintech and blockchain, and appetite to learn more, but resource and funding is limited,” says Mitko Iankov, Head of

Market Development – GTM Europe, Thomson Reuters.

“We expect corporates to embrace big data in a much more comprehensive manner, by tagging and organising internal data, sourcing data externally to complete the picture, and by recruiting data scientists that can help take the corporate to the next stage of their digital evolution (Industrial 4.0).”

Iankov adds that despite the presence of peer to peer lending, the vast majority of corporates still look to their banks for transactional banking and capital market access. “The value of that relationship does need more transparency and the shift of power is in favour of corporates (better rated and having more choice),” he says. “Multibank platforms and transparency of capital market fees means more leverage for the corporate.”

Frictionless user experience

Enrico Camerinelli, Senior Analyst at Aite Group, says that corporate practitioners are looking for a frictionless user experience across their financial relationships, and they want to access financial services in order to increase their operational efficiency.

“Banks, although capable of understanding their corporate counterpart's business issues, are slow in implementing the identified proposition, making delivery time, speed of business, and turnaround time a major corporate concern,” he explains. “Solutions to this issue could come from fintech applications that enable a single customer view, a single digital solution for

cross-business workflow, relationship services, network integration and faster turnaround of bank onboarding.”

Camerinelli adds that treasurers are looking for total oversight of areas such as working capital management and financial supply chain management. “Ensuring supplier financial stability and multi-tier engagement, rather than just immediate first tier suppliers, calls for sourcing and working capital management strategies (including supply chain finance and accounts payable),” he says.

“These can be best supported with an application that could provide one web services portal to aggregate information from multiple banks, non-bank financing solutions, marketplace lenders and e-document platforms. Corporate subscribers only supply their information (eg KYC) once, making it available to all authorised parties through a single platform that links various marketplaces, financiers, distributors and business partners.”

He also points out that technology can help treasurers overcome challenges in areas such as funding and investments. “Corporate treasurers are committed to increasing yield on non-utilised funds through better investments and extending credit to supply chain partners, taking an active role in advising management on the best capital allocation strategies for deploying cash (eg dividends, buy-backs, investments),” he says.

Other areas to watch

Aside from the changing political landscape and developments in technology, the following trends and topics are also likely to be significant in 2017:

- **Regulatory change.** In keeping with the last few years, regulatory change continues to be a major area of focus – and this is set to continue in the coming 12 months. “One key theme for 2017 is managing regulatory change – and within that, tax changes,” comments Smith.
“This includes changes such as BEPS, the anti-tax avoidance directive and Brexit, as well as potential changes to the North American Free Trade Agreement (NAFTA) following the election of Donald Trump in the US. It also includes regulatory changes around capital controls, including changing capital restrictions in China.”
Against this backdrop, treasurers are continuing to face a wide range of compliance challenges spanning different areas of treasury. These challenges are covered in more detail in this month’s Regulation article on page 26.
- **Relationships.** Jefferies says that in the current low rate environment, both banks and corporates are looking to get the most out of their relationships. “Certainly that’s what we do as well. We’re trying to align ourselves to the way that the banks are operating in order to develop the deepest relationships we can in areas such as operational efficiency, rates environment and foreign exchange.”
- **Role of the treasurer.** According to Smith, treasurers are continuing to be more engaged in driving business decisions on topics such as how and where best to set up working capital frameworks and liquidity pools. “I certainly sense there is more engagement at a very early stage of setting up a growing business,” he says. “The treasurer, in many cases, is one of the first people sitting around the



I certainly sense there is more engagement at a very early stage of setting up a growing business. The treasurer, in many cases, is one of the first people sitting around the table and talking about the foundation in setting up the business, which is an exciting place for treasurers to be.

Mark Smith, Global Head of Liquidity Management Services, Citi

table and talking about the foundation in setting up the business, which is an exciting place for treasurers to be.”

- **Regional variation.** While treasurers around the world will be affected by certain trends and developments, they will also be paying attention to trends specific to key markets. For example, Jason Marsden, Head of Client Solutions – TPS International at Standard Bank outlines some of the issues that treasurers will be focusing on in Africa.

“Even though growth in Africa has slowed overall, the region still continues to deliver some of the highest growth rates relative to others,” he comments. “A key challenge for treasurers will be priming their operations to take advantage of the growth which can be expected once the commodity cycles recover.”

Marsden adds that there is a strong focus on payment modernisation across a number of markets in Africa, as evidenced by the introduction of local and regional real-time payments solutions. “This should also lead to a review on some of the liquidity management rules and enable the deployment of more efficient structures compared to what is currently in place.”

Conclusion

While the core priorities of treasurers continue to be on managing cash, liquidity and risk effectively, the events of 2016 mean that treasurers are likely to be entering January with a greater sense of caution about the coming year. If treasurers took just one message from last year, it would be to expect the unexpected.

As Smith concludes, “There is an element of continuation in many of these themes. A number of new risks have come up over the last year, prompting companies to make sure that day-to-day activities are as automated as possible, and that their processes, controls and governance are fully bedded down. As different focus areas come along in 2017, it will be up to treasurers to make sure they are best placed to handle these.”

Building a best in class liquidity management structure

Liquidity management is a fundamental concern for treasurers around the world – and putting in place a suitable structure is essential in order to achieve the required level of visibility and control over cash. The effectiveness of such structures can be affected by everything from M&A activity to regulatory change. Treasurers should regularly review the structures they have in place to ensure the company's needs are met – but what does a best in class liquidity structure look like, and how can treasurers achieve this?

The scope of the treasurer's role can vary considerably from company to company. But for all treasurers, knowing where the company's cash is being held, and making the best use of that cash, is a fundamental concern – as indicated by surveys which consistently place cash and liquidity management at the top of the treasurer's priority list.

In order to manage liquidity effectively, treasurers can draw upon a wide range of tools and techniques, from physical sweeping and notional pooling structures to centralised payment structures such as payment factories and in-house banks. But while these tools can help companies achieve goals such as reducing the cost of funding and maximising interest income, the effectiveness of liquidity management practices is also affected by considerably market conditions.

In the last few years, the liquidity landscape has changed considerably – and conditions are continuing to evolve. "Anyone answering the question of what has changed in liquidity management over the last year in early June would have been forgiven for assuming that 2016 typified another year of the "new normal" for corporate treasurers, with the general low rate environment continuing and only some slow shoots of recovery on the horizon," comments Yera Hagopian, Head of Liquidity Services, Barclays Corporate Banking. "Subsequent political and market shocks have marked the start of a new phase, one that is far more volatile and less predictable even than the preceding period."

Hagopian also points out that Europe and the US may be heading in very different directions where interest rates policy is concerned, with broader currency and economic implications. "In this environment, even seemingly conservative investment strategies can carry market risk that can damage underlying business performance."

In this challenging market, it is more important than ever for companies to review their existing liquidity management structures and make sure that the processes in place continue to be a good fit for the company's needs. This includes having a thorough understanding of the company's specific requirements – and of the considerations that should be addressed in order to achieve a best in class liquidity solution.

Why review your liquidity structure?

Liquidity management structures are not set in stone. Companies should periodically review their structures to make sure they continue to suit the needs of the organisation, and

that they continue to provide the expected benefits. Such a review might include questioning whether a different structure is needed, but could also include asking whether funds should be swept to a header account more or less frequently than they currently are.

"We work very closely with clients, and continuously review their structures with them to make sure they are operating efficiently," says Suzanne Janse van Rensburg, Head of Liquidity, GTS EMEA at Bank of America Merrill Lynch. "As companies change and evolve, so too should the liquidity structure."

In addition to regular reviews, a number of internal and external factors may prompt treasurers to review their existing structures. "Internal changes such as introduction of a payments factory can make more decentralised solutions redundant, giving rise to opportunities for stripping layers out of structures," says Hagopian. She notes that a change in interest rates can also be a driver – as can a change in business profile which leads to a funding requirement where previously there was a surplus.

The introduction of new technology may also trigger a review. "The deployment of a new treasury management or ERP system will inevitably necessitate a review of end-to-end liquidity management practices to drive workflow and cost efficiencies," says Conor Maher, Head of Cash and Liquidity, Product and Capital Management, NatWest. "These may include daily cash management routines, the type of bank reporting and payment interfaces, and a general curiosity to benchmark against the practices of other corporates."

Other developments which could trigger a review include the following:

- Changes in the tax or regulatory environment.
- Geopolitical events, such as Brexit or changes to global trade agreements.
- M&A activity.
- The introduction of internal structures such as a payments factory.
- Changes to the company's funding requirements.
- Changes to the company's legal entity structure.

Impact of regulatory change

As noted above, regulatory changes can act as a catalyst for reviewing current practices. "There are of course periodic

Section 385

While regulations such as Basel III have certain implications for liquidity management structures, some other areas of regulation have proved to have less of an impact than first anticipated. In the US, Section 385 of the Internal Revenue Code became a concern when proposed guidelines were published in April 2016.

The rules, which will require companies to recharacterise related party debt transactions as equity in certain situations, initially looked set to cover structures such as cash pooling. However, this was addressed later in the year with the publication of the final and temporary regulations, which included exemptions for this type of structure.

seismic shifts that require a major review,” says Hagopian. “Changes to regulations governing US Money Market Funds in 2016 can be described as such a change. This has led to many corporates reviewing their investment policies, resulting in changes to their portfolios or changes to their operations to deal with a VNAV (variable net asset value) world.”

Hagopian points out that the focus on liquidity risk that Basel III brought to banks’ treasury risk framework is also now starting to take effect. “Although arguably the impact for corporates is secondary, many are now finding that their bank’s appetite for liquidity, especially of the non-operational kind, is limited,” she explains. “Negative rates in some currencies have only aggravated the problem. In order to preserve capacity, careful consideration is required regarding wallet allocation and maintaining close banking relationships with key providers of balance sheet capacity. This has always been true for debt provision but now extends to deposits.”

Where Basel III is concerned, Hagopian says that more nuanced impacts include the Liquidity Coverage Ratio and the benefits to a bank’s balance sheet of obtaining deposits with contractual maturity of greater than 30 days. “Many corporates have investment policies that heavily restrict use of instruments with greater than 30-day maturity, but increasingly corporates are reviewing these policies to see if cash can be tranching and internal processes improved to give greater certainty of when cash will be required,” she says. “Some businesses are of course better placed to do this depending on the nature of their clients and contracts.”

Hagopian notes that the regulation may also have unexpected consequences for liquidity management structures. “Notional pooling is one such area,” she says. “The requirement to report on a gross basis for leverage means that notional pooling can have a material capital footprint, even though by risk weighted measures, the same structure would have a minimal capital footprint. That does not make notional pooling unworkable in all circumstances but it does mean that structures requiring particularly large gross limits may become uneconomic to operate or future flexibility to support business growth is lacking.”

Hagopian points out that like overnight deposits, notional pooling structures are much loved by corporates because they provide low maintenance and flexibility. However, “the new regulatory environment puts a price on these features and therefore forces a proper evaluation.”

Nevertheless, Janse van Rensburg says that while companies may be reviewing the use of certain structures, such as notional pooling, she has not yet seen any companies stop using them due to regulatory considerations, albeit she has seen companies move providers. “We haven’t had any clients specifically request a change in location of the header accounts,” she says. “We have had one client which moved away from a notional pool to a physical pool – but that was due to the treasurer’s preference, rather than being driven by regulatory change.”

Best in class

What does a best in class structure look like? While the optimal liquidity structure may mean different things to different people, there are a number of considerations which treasurers should bear in mind when determining which structure is best suited to the company’s needs.

According to Maher, “The more obvious attributes include real-time visibility and same-day access to a corporate’s cash regardless of where it is domiciled within a multi-bank or multi-jurisdictional structure coupled with timely and accurate bank statement reporting for reconciliation purposes.

“Equally important, but much more difficult to achieve, is timely and accurate enterprise-wide cash forecasting capability – specifically the ability of the organisation to accurately predict periodic cash positioning (whether daily, weekly, etc), driven by a robust understanding and coordination of collections due from customers and disbursements to its suppliers.”

Maher notes that the larger the company, the more difficult – and indeed essential – it is to build “cultural and workflow arrangements that promote dynamic and accurate cash forecasting to avoid the opportunity cost of idle cash balances in bank accounts.”

No ‘one size fits all’

Above all, it is important to choose a structure that is suited to the company’s needs and the treasury’s capabilities. “Some people try to over-egg the complexity of what they do in this area,” says David Stebbings, Director, Head of Treasury Advisory at PwC. “Companies need to achieve a balance between what they need, their ability to manage and the associated costs. There’s no point setting up automated pooling structures if your flows are such you are only going to pool cash once a month – visibility will suffice in this instance. And remember, automated pooling is never a substitute for good quality cash forecasting.”

It is also important to note that there is no one structure that is inherently better than another – the important thing is to adopt a structure that suits the specific needs of the company.

“There is no ‘one size fits all,’” says Janse van Rensburg. “A structure that is best in class to one company may not be suitable for another company. For a smaller or medium sized corporation, the priority may simply be to achieve visibility and control. A complex multinational may already have these elements in place, but may need a more complex solution such as a global or regional hybrid structure with a combination of physical and notional pools.”

Local considerations

The chosen structure will also depend on opportunities and limitations in the relevant countries. Jason Marsden, Head of

Client Solutions – TPS International, Standard Bank says that the treasurers of large multinationals in Africa are looking to implement regional treasury centres similar to the structures operating across more mature markets.

“Whereas this is possible in a number of markets, regulations in most markets will only facilitate an effective domestic liquidity management structure,” he explains. “This is also limited in many instances to physical cash concentration or sweeping. However, there are clients who are starting to pilot shared service capabilities in some instances.”

The bigger picture

In addition, it is important to make sure that any structure is a good fit not only for a company’s immediate liquidity needs, but also for its wider business strategy.

“We’ve really changed the focus in terms of how we communicate with clients,” says Janse van Rensburg.

“When we are designing a liquidity management solution for a client, we are not just looking at a siloed approach – we are getting into the nitty gritty with the client, working through the end-to-end working capital management cycle and downstream impacts, and then building a solution based on the broader picture to make sure it ticks all the boxes for the client.”

Harnessing technology

While technology certainly plays a part in supporting effective liquidity management, adopting the latest technology may not be a top priority for all companies.

“We always assume that most treasurers are at the ‘bleeding edge’ of technology,” says Marsden. “And yet a large number of clients are still requesting assistance in dealing with some of the basic treasury and liquidity management requirements, including having a clear, real time view in terms of the liquidity position in the various markets around Africa.”

Janse van Rensburg notes that while a lot of banks have focused on offerings such as automated investment sweeps and active investment linked to ebanking platforms, in reality “there hasn’t been a huge amount of take-up of those products”.

Nevertheless, she says that technological advances are bringing new concepts to the table with developments such as the use of virtual currencies and consolidated KYC and AML. “This virtual world will impact the time taken to open accounts, improving implementation times, reducing costs and physical paper flow, allowing for more electronic authentication of both people and payment processes across the globe.”

Technology can also support liquidity management in other ways. Hagopian says that banks are realising the power of the content they capture through the card and payments data flowing through their systems. “Creating Operational Data Stores capable of containing millions of data lines, and providing this back as meaningful cash-flow analysis, can help illuminate win-win scenarios for clients looking for investment efficiencies and banks looking to preserve capital,” she explains. “It’s at the margin, but with low base rates here for a while at least, technology can help bring about change to liquidity management.”

Meanwhile, Hagopian notes that with treasurers hard pressed to increase yield in the current markets, there is an increasing trend for platform type aggregators, whereby corporates can consider multiple ‘bids’ simultaneously. “Where banks can



This virtual world will impact the time taken to open accounts, improving implementation times, reducing costs and physical paper flow, allowing for more electronic authentication of both people and payment processes across the globe.

Suzanne Janse van Rensburg,
Head of Liquidity, GTS EMEA,
Bank of America Merrill Lynch

respond and offer differentiation is the technology wrapper that brings their offering to clients, conveying a broad spectrum of services and solutions to clients through a unified channel,” she adds.

Building a structure

Finally, it is important to be aware that setting up a liquidity management structure is not without its obstacles. Stebbings points out that one of the biggest hurdles can be the fact that a cash pooling structure may take cash and banking autonomy away from local businesses, which local CFOs may resist.

“Having a strategy that says, ‘This is where I want to get to and this is why I’m going to get there’ is key,” he says. “It’s also important not to over extend yourself – companies should aim to be realistic. This might mean identifying that if the company is in say ten countries, six of which are key, the treasurer might automatically pool the six key countries in the first instance, and manually pool the remaining countries in order to see if it’s worth automating them in the longer term.”

Maher agrees that treasurers need to be clear on their objectives. “Systems investment may be required, so is a business case needed or is the driver more about visibility and control?” he says. “What about any tax consequences (eg withholding tax, changing the location where interest income is generated through pooling, etc)? What are the alternatives for ‘trapped cash’? Finally, bank charges are also relevant when determining reporting frequency and same-day cross-border movements to ensure ongoing liquidity management costs are proportionate.

Stebbing adds that treasurers should be careful not to underestimate the difficulties involved in putting in a new liquidity structure, both from a cost and resourcing point of view. “It’s not a two week project to put in a decent liquidity structure,” he concludes. “It’s important to get the business case right, be focused about what you’re doing and get the right support from your banks, internal IT and legal, and if required external consultants. This is common sense, but can sometimes be forgotten.”

Key steps to improved foreign currency management

As globalisation continues to drive the need for international payments, corporates are engaging with issues around underlying FX as well as the payment itself. Increasingly, they require their banks to offer fully integrated payment and FX platforms. BNP Paribas' new cross-currency solution is designed to meet these requirements. In a recent webinar hosted by Treasury Today, Wim Grosemans and Adrian Brown discussed key areas of focus which can result in improved foreign currency management.



Wim Grosemans
Head of Product Management –
International Payments & Local Offer
EMEA Region, Cash Management
BNP Paribas



Adrian Brown
Head of Commercialisation – FX+
BNP Paribas

Globalisation continues to drive the need for international flows

Adrian Brown set the scene by emphasising the presentation's focus was on operational FX rather than strategic FX, the latter being well understood and well served. He went on to pose questions around some commonly misunderstood themes, including, "do you know there is a margin and do you know what that margin is?"

Making effective cross-border payments

Wim Grosemans offered some interesting advice around how to identify delays and errors in the cross-border payments process and steps to take to improve efficiencies. He also highlighted some tips when sending US dollars to the US, RMB to China and RUB to Russia. He explained, "including the BIC and IBAN in your payment is the standard, but not for all currencies or countries." BNP Paribas offer a practical guide to making payments in over 130 currencies: see cashmanagement.bnpparibas.com/currency-guide

Grosemans then discussed the new SWIFT gpi initiative scheduled for 2017 and mentioned its key benefits: **Transparency on fees, same day use of funds, track and trace feature** and **full payment information**.

Optimising receivables

This section highlighted two main operational challenges:

1. While SEPA has contributed to harmonising formats for credit transfers and direct debits, treasurers still face disparate payment behaviours in the Eurozone where clients tend to insist on using legacy payment methods – like the RIBA in Italy. Outside the Eurozone this is obviously a problem as well.
2. As transaction volumes and client numbers go up, it is becoming increasingly important to allocate funds automatically in the right place.

The BNP Paribas Virtual IBAN solution enables corporates to combine the following capabilities:

- Allocation of a unique IBAN account number to each of a company's clients. Clients will pay using this IBAN which corresponds to a BNP Paribas branch. The funds will end up in a single physical bank account with this virtual IBAN showing in reporting.
- Allocation of a virtual IBAN per collecting business unit, helping to allocate the funds automatically in the right place, again using one physical bank account.

Grosemans explained, "should you wish, you could also use such a structure to automatically reallocate funds to an account in another currency. BNP Paribas can offer this in an expanding number of countries and payment instruments, domestic and cross-border alike."

Liquidity management

The major challenges and opportunities BNP Paribas would identify in an international corporate environment are:

- Improving the accuracy of treasury forecasting – this depends on organisational set-up and infrastructure.
- Improving global visibility on cash – this gets more difficult as the number of partners a company is working with are multiplied and if it is addressed as global or regional.
- Optimising yield on the consolidated cash position – interest rates on long and short positions are not quite the same.
- Centralising global liquidity and unlocking any "trapped" cash.

Grosemans concluded: "The chances are you will be better off with a combination of cross currency notional and/or physical pooling. Bear in mind that by implementing a strategy to manage currency mismatches in liquidity management, ultimately you will further optimise your overall working capital management – avoiding the need to reach out to external financing, mobilising short-term investments and eliminating inter-bank margins for the offset positions."

Five steps to conclude:

1. Conduct an operational audit of FX.
2. Find the right balance between maintaining currency accounts and using international payments.
3. Use international payments effectively.
4. Review reconciliations process.
5. Evaluate transaction flows and balances across currencies and countries.



Built to last

Fred Schacknies
SVP & Treasurer



Creating something that he can be proud of, be it a best in class treasury function or a photograph that can be hung on the wall of his home, is something that Fred Schacknies, SVP & Treasurer at Hilton continually strives for. But he is not just interested in the result – he is fascinated by the process of getting there and the combination of art and science that underpins this.

Hilton is a leading global hospitality company, comprising more than 4,800 managed, franchised, owned and leased hotels and timeshare properties with nearly 789,000 rooms in 104 countries and territories.

Photography is as much a science as it is an art form. Indeed, most photographers will tell you that capturing the perfect image calls for a degree of luck, spontaneity and flair. But it also requires the precise set-up of a complex piece of equipment; the smallest change can make or break a photo.

It is therefore only when art and science converge that a truly great image can be created.

It is the application of both art and science that interests Fred Schacknies, SVP & Treasurer at Hilton. A keen amateur

photographer, Schacknies is fascinated by the processes behind taking a photo – particularly how the science can foster the art.

It is a fascination that also extends into his professional life. Throughout his career, Schacknies has sought roles that focus on building out the treasury function. His approach to this is to create robust processes and controls, while also allowing his team to use their skills, improve on these and challenge the status quo – thereby combining science with art. His goal is to create treasury functions that not only work today, but, like a great photo, stand the test of time.

Sell side to buy side

Despite his philosophical and considered approach to treasury, Schacknies admits that his path to the profession was far from mapped out. “I started out my career in FX sales and trading,” he notes. “This was somewhat random as I stumbled into the role after graduating from university.”

Working on the sales side, however, gave Schacknies an insight into the world on the other side of the telephone. “I became very curious about why people were making these decisions to trade FX and the process behind this,” he says. “Eventually my interest was piqued, which prompted me to obtain an MBA and move into the corporate sphere.”

Following business school, Schacknies’ first role was at Lucent Technologies where he ran the in-house bank. After eight years at the company, he moved to Constellation Energy to become Assistant Treasurer. Then two years later, in August 2009, an opportunity came up around Hilton’s relocation from California to the US east coast. “This was a very appealing opportunity given the global nature of the company and how it was expanding,” he says.

At present, Schacknies oversees the group’s corporate treasury function, which includes 25 people in the US and the UK. The team’s primary responsibility is to manage Hilton’s global liquidity portfolio and global risk, while also supporting capital markets activity.

Perhaps counterintuitively, Schacknies says that moving into corporate treasury has given him an opportunity to understand how the rest of the organisation works. “Although I have always worked in a treasury role I spend most of my time dealing with issues outside of treasury,” he explains. “This is what is most fascinating. It is about how treasury issues pertain to the rest of the company.”

Supporting international growth

As the company has grown internationally, Schacknies says that the need to work closely with other functions has only intensified. “For instance, we now have a greater need to understand our global liquidity portfolio and the risks associated with this,” he explains. “It is about sharpening our processes and how we manage these issues both at home and overseas.”

This is not something that treasury can achieve in a silo, as it requires a restructuring of the Group’s international entities and the education of its people to foster a more currency-rational approach to liquidity management. This sees the company looking at new ways to manage its currency exposures and to naturally offset these. “To achieve this, we

have partnered with other groups in finance who were already working to restructure the business for commercial reasons. We have also looked to redefine the currency plumbing,” Schacknies explains.

For this project, the company first needed to gain control and visibility over its transaction data by capturing all intercompany loans in a single system. With a single, comprehensive data-set in hand, Schacknies could then assess the earnings and cash flow characteristics of each loan in the portfolio, with input from individuals in the treasury, tax, accounting and operations finance teams.

This meant that risk could be measured in terms of notional exposure, simple factor sensitivity and probabilistic models (value-at-risk), and calibrated with historical results data.

This exercise allowed the Hilton treasury team to target any new or existing loans, and the cross-currency cash flow impact of these, for hedging under the umbrella of a new in-house bank structure. Any remaining loans were flagged for restructuring under a rationalisation plan. By routing all cash-impacting intercompany activity through an FX hedging programme, Hilton has been able to reduce FX cash flow risk to a negligible level, while better managing the cash flow and liquidity associated with these flows.

“The next step is to transition towards hedging reoccurring cash flow,” explains Schacknies. “This is because our currency mix is changing and we are no longer simply able to mitigate our currency risk by offsetting it against expenses in key locations. This will put the business in a better place as we move forward.”

Heavy burden

Despite many great achievements – and awards – during his time at Hilton, Schacknies would still like to do more value-adding work. Yet mitigating factors mean that his team’s time often has to be spent elsewhere. Regulation, for instance, as many treasury professionals will attest, is becoming increasingly burdensome. “The regulations might be well-intended, markets need rules after all, but I do believe there is some overreach of regulation and some that are going further than was originally intended,” Schacknies says.

Know your customer (KYC), or “death by a thousand papercuts” as Schacknies describes it, is probably the most obvious example of this. “This has become an immense burden for corporate treasury departments and the banks,” he says. “It saps time – not simply because of the work involved in meeting KYC requirements, but also because of the need to explain these requirements to the business and make them understand why it takes time to open a bank account. Frankly, this adds no value to what we are doing and our time could be better spent doing other things. It has also increased the cost of doing business through indirect taxation.”

Schacknies is yet to find a solution to alleviate this burden and he sees the situation becoming more complex in the meantime. To address these challenges, Schacknies relies on honest and frank conversations with his banking partners. “We listen to their requirements and then tell them if their requests seem excessive compared to the other banks we work with,” he explains. “The hope is that we can find a middle ground that suits both parties’ requirements. It has become a dominating topic with the banks – more than both we and they would like it to be.”

Managing the data

Schacknies muses that perhaps technology can save the day and solve the KYC burden, just as it has assisted in other areas. In his view, technology has had a greater impact than anything else in the profession during his working as a treasurer. “The impact of technology has fundamentally changed how treasury achieves its goals and the skills that treasury professionals need,” he says. “Corporate treasury in the 21st century is as much about managing data as it is managing money.”

He cites his work building out treasury teams as an example of this. “To get people around the world working from a single source of truth requires a complex suite of technology – this cannot be easily achieved using spreadsheets,” he says.

But, as he is acutely aware from his experiences using technology, simply installing a new system and hoping it solves all your challenges is a foolhardy approach. “We have built a robust and effective technological architecture here at Hilton,” he explains. “This is built around our Wall Street Systems treasury management system.” But whilst this architecture has enabled Schacknies and his team to better manage the treasury department and the data that flows through it, there is no time to stand still.

For instance, as the company has transformed over recent years, its reporting needs have changed greatly. “There is now a need for us to provide not just accurate but also incredibly detailed information to the management,” he explains. “Due to this, the way we managed our data structures before, and how this informed the reports we created, has essentially become outdated and requires a significant amount of human intervention to understand and complete.”

It is there that Schacknies sees technology having its limitations and not being the panacea that some make it out to be. “Of course, any modern treasury department needs to have an advanced and sound technological architecture in place,” he says. “But what really counts is having the right people. No matter how smart the system, you need the people coming up the curve and being able to interpret the increasingly complex data that is being created – again the challenge is dealing with the pace of change.”

On the horizon

Despite the current limitations of technology – or at least the cost associated with upgrading and purchasing the latest systems – Schacknies does expect to see technology having an even greater impact on the role of treasury in the years to come. “Although the fundamental mission of treasury hasn’t changed – it still exists to manage cash and risk – the way this is done is dramatically different from when I joined the profession,” he says. “Technology has brought the profession on markedly.”

Yet there is still more that can be done. “There remain processes that require human intervention,” he says. “In these instances, we are simply acting as middleware. Removing these processes, and driving automation and straight through processing, is where we should be heading.”

Schacknies also sees the broader impact that technology in the treasury domain is having on the wider business. Indeed, given Hilton’s consumer focus, Schacknies and his team are



The impact of technology has fundamentally changed how treasury achieves its goals and the skills that treasury professionals need.

dealing with both retail and wholesale payments. “How guests pay and engage with us financially is a critical component not just of treasury, but also of how the entire business operates – it is a big part of the guest experience,” he explains. “We are therefore very closely following innovation that is happening in this space and will adopt new solutions if they are convenient for our customers, with the caveat that they have to be secure.”

Where innovation is concerned, Schacknies believes that banks which take a holistic approach are currently performing best. “We have a great banking group,” he says. “Increasingly, in the conversations that I am having with them, discussions are now more multi-faceted and span multiple product sets. Before the recent wave of technological innovation and interconnectedness of systems, conversations were very much in silos and about one particular product. The shift to a more dynamic discussion is certainly positive.”

Schacknies is also keenly watching how the banks continue to evolve and often wonders what business lines will be altered or even cannibalised by emerging technology, both within and outside of the banks. “FX, where I began my career, has already fundamentally changed and become commoditised,” he says. “And this is true of many banking products, so it will be interesting to see how they behave in the future. We certainly live in exciting times.”

Building a legacy

What then does the future hold for Schacknies and his team at Hilton? “Once the spin-off of the real estate and timeshare businesses as independent companies is complete, the focus will be on fine-tuning the treasury engine,” he says.

Schacknies notes that the pace of change in the company has meant that the treasury has been running at full speed to date. “We want to tweak it slightly and recalibrate some components to drive further sustainability,” he says. “The aim is build a department that is sleek, efficient, intuitive and able to be inherited by future generations who join the Hilton treasury team.”

Indeed, Schacknies plans to continue building a legacy throughout his career – whether that means developing a best in class treasury architecture or putting together a world-class team. He concludes, “It is great for the team to be recognised for the work we have done with awards, but what really gives me the most satisfaction is seeing other new members taking ownership of functions, improving them and making them their own – this is when you know you have done something worthwhile.”

FX decision making reimagined: the Ericsson story

How to improve currency risk management in an increasingly volatile environment is a big question for many organisations. Here, Magnus Attoff of Ericsson explains how the provision of better currency information can help drive smarter currency decisions and improve currency risk management.



Magnus Attoff
Head of Financial Risk
Management & Operations



Wolfgang Koester
CEO



Ericsson's exposures are huge. They operate in virtually every country, except North Korea, and trade in 100+ currencies comprising more than 500 currency pairs. Managing foreign exchange risk is, therefore, a major challenge for the Ericsson treasury team, especially in such volatile times.

In order to overcome this challenge, the Ericsson treasury team, led by Magnus Attoff, Head of Financial Risk Management & Operations have worked to transform how it manages FX risk enabling the company to dramatically improve its currency risk management. Over the three years of this incredibly impressive transformation project, Ericsson has executed over US\$20bn in currency hedges.

Ericsson's story, and the company's use of the FIREapps currency analytics platform, was detailed in a recent webinar hosted by Treasury Today and highlights how the provision of better currency information is driving smarter currency decisions which has led to some very impressive outcomes.

A spotlight on the solution

Importantly, Ericsson needed to nimbly support three different types of hedging environments – restricted, on-shore and off-shore. “Our primary issue was to gather our exposure data in a much more timely manner. We have a protect our balance sheet policy which means we are trying to get to zero, or as close to zero FX P&L as possible,” Attoff explained.

During the webinar Attoff spoke about how Ericsson is now much more a learning and changing organisation. He also focused on one primary issue; data accuracy, and both he and Wolfgang Koester, CEO FIREapps explained how the data, process, structure and technology issues are inter-linked. They also emphasised the importance of a single SAP platform, the need to align the corporate strategy and to obtain the buy-in across the enterprise from functions with responsibility for risk, accounting, control, markets and information technology.

“If I had told you I could take risk off and save you US\$2m a year, would you have believed me?”

Wolfgang Koester, CEO, FIREapps

Key performance indicators (KPIs) were also cited as key and one clear overarching goal to guide their ongoing performance and improvement stood out – FX P&L as close to ZERO as possible. Ericsson approached this ambition by focusing upon four primary areas:

Time: the team needed to use less time collecting data and more time running value added analysis and forecasts.

Insight: the global scale of their business meant they needed to strike the optimal balance between local and regional insight.

Flexibility: they needed flexibility in order to apply different strategies across the myriad of regulatory environments to which Ericsson is exposed.

Collaboration: they needed to nimbly support the three different hedging environments mentioned above.

The results are staggering – 33% faster decision-making in the monthly cycle (2 days less), US\$2m+ per year in cost savings (US\$6.7m in total) and 180 days per year of unnecessary processes eliminated (human capital impact).

Attoff summarised the key learning points from his transformational journey under three key headings:

1. **Don't get deterred** – Smartly designed plans for evolution of the programme initially broke and the entire team had to find new solutions quickly to maintain momentum.
2. **Get the right people to buy-in** – Having the right mix of accounting, risk, IT and controlling on the team made all the difference when we were hitting setbacks and hurdles.
3. **You need a shared, clear goal** – Having a clearly understood and mutually shared goal of equipping our people with more time to act as strategic risk managers.



Panda bonds come to life

China is home to the world's third largest bond market, but for international corporations, it has traditionally been underutilised as a source of financing, despite its great potential. This is beginning to change. Here we take a look at the history of the Panda bond market and its growing appeal to corporate borrowers.

It was hard to find many good news stories concerning China in 2016. The economy is, of course, undergoing a significant shift and growth has slowed somewhat as a result.

A consequence of this has been Chinese policy makers clamping down on some of the regulatory progress made in recent years, most notably, the introduction of 'window guidance' to limit corporates' cross-border cash flow.

However, at the same time, there have been significant developments in other parts of the economy. Most notably, the growing attractiveness of the Chinese onshore debt market to foreign companies. Indeed, in 2016 the Chinese Panda bond market exceeded the offshore RMB dim sum market for the first time, with US\$8.39bn raised onshore in the first seven months of the year alone. It is good progress, but there remains some way to go for it to live up to its full potential.

Young shoots

The first Panda bonds were issued in October 2005 by the IFC and the Asian Development Bank to much fanfare. This followed years of discussions with Chinese government officials, who were worried about the potential impact of the bonds on its currency peg.

Yet the nascent market failed to live up to the initial hype with very few foreign corporates issuing bonds. "Before 2014, only international financial firms and a limited number of corporates were allowed to enter the Panda bond market," explains Ying Gu, Emerging Markets Asia Rates & FX Strategist at J.P. Morgan. "But since last year, the regulators have loosened

policies to allow overseas non-financial corporates and banks, as well as foreign governments to issue Panda bonds. This can go some way to explaining the recent boost in issuance."

Typically, the companies who have issued since the market has opened up can be split into two buckets, says Keith Pogson, Senior Partner at EY Asia Pacific Financial Services. "First are those who want to prove it can be done to encourage others to do so. A lot of the banks who have issued, fit into this tranche as they want to advertise this to their clients." The other group, he says, are those international non-financial corporates that have had a pressing need to raise large volumes of capital in the mainland – but these remain few and far between.

That doesn't mean there isn't a lot of corporate activity in the market. J.P. Morgan research has highlighted that 65% of issuances, weighted by market value, are made by corporates. "Many of these issuers are actually overseas incorporated Chinese companies, 'real' foreign borrowers are still yet to fully embrace the market," says Gu.

German multinational automotive company, Daimler, is the most well-known 'real' foreign company to do so, issuing a one-year RMB500m bond at an interest rate of 5.2% in March 2014. The issuance was seen as a success and Daimler revisited the market in 2015 with a one-year RMB3bn bond to diversify its refinancing base and fund its expansion in China. The company has since also issued a private placement worth RMB4bn this year – the largest single Panda bond for a non-financial business.

The French multinational joins a small number of foreign corporates that have tapped the nascent Chinese onshore bond market.

In early September 2016, French multinational, Veolia, issued its first Panda Bond. Worth RMB1bn (€135m) the deal was the first foray into the market by any French company. Issued via a private placement, the paper bears an interest rate of 3.5% for a three-year maturity and was issued to both Chinese and international investors. Despite the relative low-value of the deal, it presents another significant milestone in the development of the nascent market and highlights that it is increasingly becoming a viable option for companies looking to raise RMB debt.

It is also a significant transaction for Veolia. The company has been looking at numerous ways to raise RMB funds for some time as it looks to satisfy its policy of matching its borrowing currencies to that of its assets.

Claire Bechaux, Director of Treasury at Veolia explains how the company's traditional approach has been to issue Eurobonds and swap the proceeds into RMB. But the company has always had sights on the onshore market and towards the end of last year, the stars began to align. "A lot of our partner banks were talking to us about the Panda bond market and how this was beginning to open up," she says. "At the same time, there were increasing levels of volatility in the offshore RMB market. It, therefore, seemed logical to explore the possibility of issuing a Panda bond further.

"We knew that it wouldn't be an easy process, however, and we made this clear to the CFO when pitching the idea," adds Bechaux. "Yet the benefits of doing this issuance far outweighed the negatives."

Open discussions

To begin the process, Veolia entered into discussions with the Chinese regulator alongside the Bank of China, who had been selected as the Global Coordinator and Lead Underwriter. "It was a very open and transparent discussion and we found the Chinese regulators very willing to hear our concerns and then see how they could help solve these by flexing the rules," says Bechaux.

Most notably, Veolia had questions around certain legal clauses and documentation, as well as the use of proceeds. "We spent quite a lot of time working on this area because the regulators are very keen for the proceeds of any Panda bond transaction to be used to support the real economy," she explains. "If you are looking to take the proceeds offshore then you have to present a strong case as to how this helps the real economy – they want to avoid companies taking advantage of currency arbitrage." In Veolia's case, the proceeds were used to refinance offshore debt that had been used to finance the Group's investments in mainland China.

Bechaux also notes how the fact Veolia issued a private placement simplified the process somewhat and removed some of the hurdles that have put other companies off issuing thus far. "We could use our European IFRS accounts if we issued this way, for instance, and thus removing the need to translate these into Chinese GaaP," she says. "This saved time and reduced the complexity of the transaction and given that this was our first foray into the market we wanted to be successful so it made sense to take this approach and I would recommend it to other companies as well."

The need to obtain a credit rating from a local rating agency can also prove a stumbling block for corporates. However, Veolia found this to be a relatively straightforward process. "We obtained a rating in four weeks and the process was very similar to obtaining a rating from an international agency – albeit with a greater focus on activity in China," notes Bechaux. "And just like the regulators we found them to be extremely professional and very keen to make life as simple as possible."

A worthwhile project

Having issued the bond, Bechaux says that Veolia is very happy with the outcome. "It has been a worthwhile project and we are now in a position to issue in the mainland again by simply drawing down on our existing programme," she says. "This provides us with a lot of flexibility. What is more, the pricing was very good."

Indeed, Bechaux admits that whilst not the most important factor, the pricing certainly gave the treasury extra incentive to issue a Panda bond. "We have options to raise RMB, so we didn't need to go through this intensive process to issue onshore and if the pricing wasn't as favourable we probably wouldn't have at this moment in time. It was the last push."

For Scott Barton, Head of Corporate & Institutional Banking, Europe, Standard Chartered – a key financial advisor on the transaction – this deal will "open up the window to access the Panda market for all corporates around the world". He does note, however, that "Panda bond issuance is in its nascent stage so the process naturally comes in shades of grey and involves elements of careful negotiations. At the end of the day, the cost savings it brings is well worth the efforts to get a programme set up."

An attractive proposition?

Given the markets historical lethargy, what then is driving the recent boost in issuance? In the view of J.P. Morgan's Gu, cheap funding is the primary reason. "Issuing Panda bonds and then swapping CNY into USD using USD/CNH CSS provides more attractive funding costs compared with issuing USD bonds directly." Panda bonds are also now cheaper than Hong Kong's Dim-Sum bond and Taiwan's Formosa bond – typically more favourable options for issuers wishing to raise funds in RMB.

China also offers bond issuers a new and extremely large investor base. "For those corporates looking to diversify their portfolio, Panda bonds could provide a useful tool," says Gu. "China is, after all, the world's third largest bond market and provides ample liquidity to issuers."

Despite these benefits, and the recent surge in issuance the Panda bond market only accounts for a tiny fraction of China's US\$3bn onshore debt market, meaning that there is plenty of room for it to grow. However, there are a number of hurdles that need to be removed before the Panda bond becomes a truly attractive proposition to the international corporate community.

Do you need RMB?

"Although the Panda bond market has developed rapidly in the past two years, there are still some technical obstacles preventing foreign issuers from entering this market," notes Gu.

Firstly, Panda bonds are reviewed on a case-by-case basis by the Chinese regulators, essentially meaning that there is a chance that the issuance will be rejected. For corporates wanting certainty, this is clearly a big issue. "What's more there is very little transparency around this process and what makes a request successful," says Gu. "Some corporates may be put off at the first hurdle because of this."

If a corporate is successful in their issuance, there are further issues that can arise, chiefly because there is no official guidance on what can be done with the proceeds of a Panda bond issuance. "This is a particular issue for those companies who might want to raise cheap funding in the mainland and then move this cash offshore," notes Gu. "If issuers cannot shift the proceeds offshore and they have little to no CNY investment plans onshore, then there really is no benefit for them to enter this market."

Different standards

The documentary filing process is another area where corporates, especially those based in the US, find issue with the Panda bond. "Issuers must provide the past three years of financial statements under the Chinese Account Standards (CAS), Hong Kong Financial Reporting Standards (HKFRS), or International Financial Reporting Standards (IFRS)," says EY's Pogson.

"This has been a problem because a lot of bond issuance is made in USD and filed under US GAAP," he adds. "Issuing a Panda bond and changing your accounting standards to do so can, therefore, be too great a resource burden on many organisations, limiting the attractiveness of the market."

Another burden for international corporates seeking issuance can come from the fact that a local credit rating is needed, alongside one from an international agency. Again the process here is slightly different to what international



For those corporates looking to diversify their portfolio, Panda bonds could provide a useful tool. China is, after all, the world's third largest bond market and provides ample liquidity to issuers.

Ying Gu, Emerging Markets Asia Rates & FX Strategist, J.P. Morgan

corporates would be used to when issuing in other markets and, of course, creates further work for the organisation.

Creating a mature market

Combined, these factors show the hallmarks of an immature market and one not aligned with international standards. "At present, corporates don't have to push their domestic markets too hard to raise cash. This means that unless there is a genuine business need to take on RMB liabilities it doesn't make sense for international corporates to issue Panda bonds," states Pogson.

But he is philosophical in his outlook. "The market is setup this way deliberately, the Chinese regulators did not want to take a risk and loosely regulate the market, only to add further regulation later. This would dent the image of the market and also be quite difficult to do," he says. "This is why they evaluate issuance on a case-by-case basis at present, because it gives them a chance to bend the rules, without issuing formal regulation, to see what works and what doesn't – this will have big advantages in the long run.

And Pogson is already hearing positive noises coming from the Chinese regulators, who plan to make the Panda bond more attractive to international corporates, aligning it with international standards both in terms of how they access the market and the filing requirements.

But there is still more work to be done. In the near future, the issuance of Panda bonds will increase rapidly due to a low base," says J.P. Morgan's Gu. "But to ensure the sustainable development of the Panda bond, reforms are critical to resolve the discrepancies in accounting rules, as well as provide clear guidance on fund repatriation to offshore and simplify the approval process. In the long term, a fully liberalised capital account, free floating currencies and well-developed rates and FX hedging instruments are necessary to the success of this market.

I fully believe, however, that with the internationalisation of RMB and the openness of the onshore bond market, Panda bonds will become an important market for global issuers and investors and the market will reach its full potential," he concludes.



W Women in Treasury

Driving diversity

Treasury and finance professionals come together in New York to celebrate and champion diversity at the first US installation of the Treasury Today Women in Treasury Forum.

On Thursday 6th October 2016 over 130 senior financial professionals from across the US gathered in Midtown, Manhattan to celebrate diversity in the corporate treasury community at the inaugural US Treasury Today Women in Treasury Forum.

The Women in Treasury Forum was held at the sharp Intercontinental Barclay in the heart of Midtown. Featuring a superb line-up of industry leaders, our panellists were:

- **Anita Prasad**, Treasurer, Microsoft.
- **Maeve Robinson**, Assistant Treasurer, Omnicom Group.
- **Diane S. Reyes**, Group General Manager, Global Head of Global Liquidity and Cash Management, HSBC.
- **Diane Schumaker-Krieg**, Managing Director, Global Head of Research, Economics and Strategy, Wells Fargo.

The panel discussion was facilitated by Sophie Jackson, Associate Group Publisher at Treasury Today. The panellists shared valuable and personal insight on issues affecting many women and men working in our industry, whilst also offering decisive tips and practical advice for those in attendance.

Speaking about the success of this year's panel, Sophie Jackson said, "It was an honour to be involved with bringing

our Women in Treasury Forum to the US for the first time. Moderating such an accomplished panel from different industry sectors was a real privilege and we look forward to further developing our US platform."

The discussion, defined by the open and honest views of the speakers, offered many thoughtful insights into gender diversity in the US and globally, the progress that is being made and what more needs to be done. The varied and complementary backgrounds and professional achievements of the four women on stage inspired a broad spectrum of ideas and experiences which were shared with the audience.

Raise your profile

Diane Reyes was the first to speak taking the topic, 'Career progression – how to get ahead'. Reyes offered some very useful, practical advice centred around the following five tips; The first was know your elevator pitch: Reyes stated that you must always be prepared to highlight your milestones and capitalise on opportunities to raise the profile of your accomplishments. If you're in an elevator or walking down the hall and you run into your CEO or other senior stakeholders, you don't want to make small talk about the weather. Use this short time to talk about what you've done for them or for their



business. Give tangible examples of key achievements or ideas you want to be known for are important to share. Reyes explained that traditionally men tend to be very good at this, and women aren't as comfortable, but developing your brand is important and women need to be thoughtful about how they convey theirs.

The second tip was around adapting your style to your recipient/manager: during your career, your managers will have different styles. We need to understand how our manager likes to receive information and how they are going to digest it. We need to adapt our message to the receiver's preferred style of taking in information. If we don't, our message could be lost in translation.

The third tip was Reyes' 48 hour rule: when something happens in a meeting or during an interaction that bothers you, don't stew on it or let it ruminate for more than 48 hours. Allow yourself 48 hours to digest and reflect, and then put it in a box and let it go. Many women have an emotional response to challenges and let feelings linger. Holding on to negative feelings can hurt your performance, rating and future development. The fourth tip was that women need to learn to take risks: women are less likely to apply for a job unless they are 100% qualified. Often, women need to be pushed to put themselves forward. But, if you don't apply, you'll never get the job. And even if you don't get the job, applying can still have a positive effect on your career, as you and your capabilities become better known.

Reyes' final tip was that as you become more senior, what is expected of you changes: the more senior you become, with each new role, your professional journey resets and you begin again. What is expected of you also changes, and you may be evaluated more on what you do for others, ie driving profile to your business, helping others achieve, growing the calibre and skills of your team, focusing on group goals versus your own personal goals.

Speaking after the event, Reyes said, "It was an honour to be a panellist in this forum and to connect with so many talented women from the corporate treasury profession. One of my professional commitments is to helping build the next generation of female leaders, both within HSBC and the wider industry. Events like this not only recognise the importance of women in this space, but they provide an opportunity to inspire each other to overcome challenges and achieve goals."

Working together

The conversation then moved on to moments in one's career where taking a contrarian position or not being afraid to speak

out can be of benefit. The panellists discussed times when they have had to overcome different obstacles in their careers and gave advice for those having trouble getting the recognition and the roles that they deserve.

Anita Prasad of Microsoft was the second to speak, taking the topic of 'Come together – bringing on board male allies', speaking about her experiences with different bosses and men who have supported and enabled her career to date. Moving beyond thinking of enabling diversity as an area that should only concern women, other panellists shared their own experiences around mentorship and the ways in which male allies can help to support women and gender equality.

Maeve Robinson of Omnicom was the third to present, focusing on the topic of 'Building a talented team; how to get the best mix'. Maeve spoke around what a good mixture can look like in a team and that a plurality of age, experience, ethnic and cultural background and so on can all influence that great mix, beyond just looking at gender as a marker of diversity. Interestingly Maeve gave a poll of the room to see how many people thought of themselves as 'emotionally intelligent' and then again to see how many people had ever listed that as an attribute when applying for a job. Although the overwhelming majority of the men and women in the room would describe themselves as 'emotionally intelligent' it wasn't something that anybody had ever thought to describe themselves as when applying for a job or writing their CV.

Crystal ball gazing

Finally Diane Schumaker-Krieg spoke around the topic of 'Crystal ball gazing: looking ahead'. Schumaker-Krieg explained that in ten years from now she believes that gender roles will be redefined, particularly with respect to caregiving. With growing numbers of women out-achieving men, we'll see more female breadwinners and more stay-at-home dads (Wall Street mothers, stay-home fathers). The stigma for stay at home dads will gradually diminish and the next generation of men will be far more comfortable with women in leadership positions.

Instead of promoting women's advancement, we'll be talking about a nascent "save the males" movement. She talked about having seen a significant shift in participation in what had historically been "women's programmes" in recent years. As recently as five years ago, the keynote speeches she gave to corporations regarding career advancement were attended exclusively by women. Now a significant number of men, including senior executives, routinely participate in these forums. The participation of men in these programmes and



their attendance at women's events communicate its importance to the rest of the organisation.

Speaking after the event, Diane Schumaker-Krieg said, "I see two major trends on the horizon. First, the next phase in the women's movement may ironically be a men's movement! Gender roles will be redefined – particularly with respect to caregiving. The second major trend I foresee is senior women doing more to help other women as more of us move into C-Suite roles. As I peer into my crystal ball, I see the words: "Don't be a queen bee and pull the ladder up behind you. Reinvest your success!"

An inspiring day

A very enthusiastic and lively question and answer session followed the panel discussion, with many questions from the floor and valuable insights, experiences and opinions shared. Hearing about the paths these highly successful women had taken and the challenges they had encountered and overcome was truly inspiring. Overall the message was clear: we must work together, women and men, to conquer our unconscious bias and to drive diversity in our teams and companies.

Christy Barwick, Treasurer of Intellectual Ventures, shared the following insights on her experience after attending the Women in Treasury Forum in New York, "I was truly impressed

and inspired after hearing the panel's rich experiences, business insights, and perspectives as accomplished females in treasury and finance. Diane Reyes' perspective on 'letting go' of a difficult experience by way of a virtual letter really resonated, as I think it's particularly difficult for women to do this both personally and professionally."

Speaking around the idea of advice to other women in the industry, Barwick said, "My advice to women would be this, 'No one will advocate on behalf of you and your career better than you! Don't be afraid to ask for what you think you deserve, just be prepared to support it with facts and data, particularly if you are a finance professional. Initiatives like Treasury Today's Women in Treasury Forum are extremely valuable for women across all career spectrums. It allows women who are early in their career to learn from more seasoned women veterans, it allows the more experienced women to pass along their rich business insights and perspective, and it's a wonderful networking opportunity for all!"

Commenting about the Women in Treasury initiative and the success of this, most recent, event, Meg Coates, Associate Publisher EMEA and Americas, Treasury Today said: "It is fantastic to be able to bring our pioneering Women in Treasury programme to the US for the first time. We are overwhelmed with the positive response from the corporate professionals in the room and are excited to be championing diversity in our industry on a global stage."

Treasury Today Women in Treasury initiative

Our Women in Treasury initiative recognises the importance of women in the treasury profession and creates a means for women to communicate with one another; learn from each other and network in order to help each other.

Women need to be much more visible in their roles, both inside and outside of their organisation. Men and women need to come together to celebrate diversity in all its forms and move the conversation forward.

Events such as the Women in Treasury Forum are an integral part of this path to diversity. Our Women in Treasury Forums are hosted in Asia, Europe and the US, and our initiative also comprises:

- Profiles of female corporate leaders.
- The Women in Treasury annual Global Study.
- Our Women in Treasury LinkedIn networking group.
- Woman of the Year Awards at the Adam Smith Awards and Adam Smith Awards Asia.

To learn more about the Treasury Today Women in Treasury initiative please visit:

treasurytoday.com/women-in-treasury

For further information please contact Lisa Bigley, Global Head of Events, lisa.bigley@treasurytoday.com

Invoice financing reimaged

In the first of our new series profiling some of the world's most exciting fintech companies we speak to Kush Patel, CEO and Co-Founder at Tallysticks to hear how the company is looking to transform the trade finance space with blockchain and smart contacts.



Kush Patel
CEO and Co-Founder
TALLYSTICKS

Tell us a bit about yourself and your background. How did you get into fintech?

I began my career in finance and I got into a fintech because of Tallysticks. Specifically, after a successful career on Wall Street as an emerging markets strategist, and as a diplomat with the US Government, I decided to venture out on my own. I have start-up experience in a range of industries, including: investments, pharmaceuticals and, now, financial technology. According to a few, I'm an outside-the-box thinker with a talent for crafting efficient business strategies.

Where did the idea for your company come from?

The idea started with simply matching a payment to an invoice. In other words, it was to be an invoicing solution on the blockchain. Then a major European bank asked if we ever thought about integrating an invoice financing solution with our invoicing platform. We designed and presented the process flow a week later. With positive interest from the bank, we built a light solution. Meanwhile, we were asked to enter a hackathon which was sponsored by Barclays. Between winning the hackathon with our invoice financing app and getting there through our own merit, we ended up in the finals of the Barclays Techstars Accelerator programme. That, of course, sent us on our way.

What makes fintech such an exciting space and what do you find most interesting about it?

Banking is an industry in transformation, a change that was brought about with the 2008/2009 financial crisis. Having previously worked with financial markets, I've learned that any

time there is turmoil, there is an opportunity. As a result, I wouldn't want to be anywhere other than in the front-seat of a fintech company during this period of revolution.

Banks, of course, are friends to the fintech community, but they remain too slow to adapt to the rapidly innovating financial technology landscape. As a result, fintech companies are being forced (in part by investor demands) to go it on their own and build robust proprietary platforms. Eventually, the circumstance will be such that banks will find it cheaper to outsource various services to the fintech companies than continue to operate them in-house.

Think of how Amazon disrupted retailers. Post the dot.com crash, bricks and mortar retailers built online stores, thinking that they timed their strategy correctly. In truth, they didn't understand how to leverage their online presence to reduce the existing cost overheads or simultaneously offer better service with things like home delivery.

Today, with Amazon eating into retailer profits, retailers are looking to leverage Amazon's site and infrastructure to service customers. Similarly, various payment, lending, and even account management platforms are beginning to create global frameworks, or marketplaces in the case of lenders.

So eventually, much like with retailers, it will be cheaper for banks to plug into those platforms than to continue offering those services with legacy in-house systems. Put differently, banks will channel their customers directly to outsourced platforms through white-labelled interfaces and in some cases even provide the supporting compliance buffer as well as balance sheet.

What are the challenges for fintech currently?

Banks remain too slow to adopt innovative fintech solutions or work with fintech companies. In part, this is because banks are saddled with legacy systems and are afraid of disrupting peers or cannibalising their own profits.

As a result, fintech companies are starting to ignore the banks and sell their solutions directly to corporates: we included. Eventually, banks will take notice. Whether banks respond in time for fintech companies to agree to work with banks will be a question best answered by time, however.

Company timeline

July 2015

The idea to connect invoicing to blockchain is born.

September 2015

System design and development ramps up.

October 2015

Tallysticks announced at Rise New York. POC completed and Techstars application submitted.

November 2015

A major continental bank contacts Tallysticks to build a blockchain-based supply chain finance solution. Tallysticks later integrates the solution to a mobile payments API to win the Barclays hackathon.

A dynamic offering

Tallysticks is an invoicing software solution that leverages the functionality of blockchain to share a common record of immutable invoice-related data for all parties to transparently edit and update. The shared information thread, together with software automation can help to streamline the purchase order-to-invoice-to-payment workflow processes.

Due to its invoice-related focus and nature of the underlying technology, Tallysticks sees itself as an ideal solution for multi-party interactive workflows such as post-trade settlement of OTC commodity trades and more relevant, dynamic discounting of invoices.

Plugging the funding gap

The main challenge that the solution aims to solve is the US\$2trn SME funding gap that largely results from a working capital shortfall. "SMEs account for over 60% of all employment and nearly 60% of GDP output," highlights Patel. "Yet SMEs receive less than 30% of all lending."

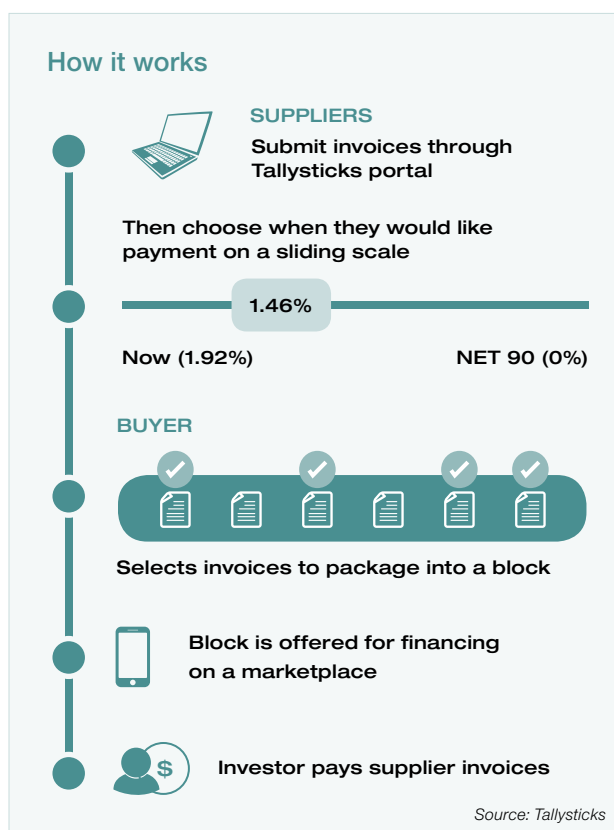
In Patel's view, this funding gap exists because of the mismatch in payment cycles between large corporates and SMEs. "Large corporates pay bills on 90-day payment cycles and SMEs are often required to pay bills on 30-day payment cycles, sometimes even less," he explains. "As a result, SMEs supplying to corporates are net 60 days short in terms of cash flows."

The banks have looked to address this need through invoice financing solutions. Typically banks offer financing directly to the supplier in the expectation that the buyer will pay the invoice. "This requires three parties to engage in the transaction – the lender, the borrower (the supplier) and the debtor (the buyer)," says Patel. "With three different parties involved – one of which has no vested interest in the arrangement between the other two, traditional invoice financing is clumsy. To manage the risk of this three-party transaction, banks impose harsh measures on borrowers which SMEs don't like and so, they turn down the capital they desperately need."

It is ensuring that SMEs are able to access this capital that the Tallystick's solution looks to solve. "In contrast to traditional bank invoice financing, Tallysticks offers financing to suppliers via the buyer through an invoice portal," outlines Patel. "This is called dynamic discounting and is much more efficient than supplier finance because the borrower and the debtor are the same party."

Blockchain: a game changer

Patel notes that dynamic discounting is offered by a few other software platforms. What he believes makes the Tallysticks solution stand out, however, is that it is underpinned by



blockchain technology. This enables businesses to potentially borrow through a marketplace at more affordable rates with a high degree of automation.

"More specifically, since reducing cost is the goal of any marketplace, the aim of our marketplace is to reduce the cost of capital," he adds. "With our marketplace SMEs are able to access capital at lower rates with flexible financing terms whilst companies using dynamic discounting can expect to earn a healthy risk-free rate of return."

Tallysticks are already in discussions with several corporates about deploying the solution and the invoice financing solution will be ready in Q317 with financing initially offered through a special purpose vehicle. The corporate treasury dynamic discounting solution should also be ready around the same time with the invoice financing marketplace operational in 2018.

"As long as we deliver our vision, help corporates achieve a better return on equity, offer a more stable supply chain, a streamlined payables process, a simplified supplier management process and more efficient invoice capture, I believe corporate treasurers and corporate finance departments should be quite interested and pleased with our solution," concludes Patel.

Source: tallysticks.io

December 2015

Filed four patented processes, including automated custodial transfer and automated transaction settlement. Tallysticks selected into the Barclays Accelerator powered by Techstars from a pool of nearly 700.

January 2016

The company completes its first round of funding with investors valuing the company at more than £1m.

April 2016

Tallysticks gets voted to be a top 100 European Fintech start-up.

September 2016

The company gets chosen to participate as one of only six start-ups in the EY Start-up Challenge in October 2016.

Overcoming compliance challenges

Compliance has become a greater challenge for corporate treasurers in recent years. Treasurers are currently facing a wide range of new and evolving requirements, although the specific challenges will be different for every company. How can treasurers best overcome these issues – and what role is technology playing in supporting compliance activities?

Compliance has long been an area of concern for corporate treasurers. However, the recent wave of new regulation has made this area more pressing – and challenging – than ever before. “In the last few years, treasurers have realised that, given the speed and complexity of regulations that are coming out of Europe, the US and other jurisdictions, they need to be much more alert to regulation itself,” says Ruth Wandhöfer, Global Head of Regulatory and Market Strategy at Citi.

While compliance is a challenge for treasurers around the world, the nature of those challenges – and the way in which treasurers address them – varies considerably between companies. A recent market study published by FIS asked how treasurers currently approach risk management and regulatory compliance. “In the FIS Treasury Risk Management and Regulations study we recently completed, we learned Basel III was expected by treasurers to have a significant impact on depository relationships, short-term cash management strategies, and financial services pricing,” says Andrew Bateman, Head of Treasury, Payments, Receivables Solutions at FIS.

“With most Dodd-Frank rules either finalised or close to being finalised, treasurers are getting settled into the new normal – we’re seeing greater efforts required to record and report data, especially data related to derivatives. Corporates are still in the process of understanding the implications of moving away from IAS 39, so that attention can be turned to reducing operational complexity and capitalising on possible new hedging opportunities presented in IFRS 9.”

Areas of focus

Treasurers are facing compliance challenges in a number of different areas. While the implications of Basel have been written about extensively, other regulatory topics are also significant – including the introduction of IFRS 9. However, the FIS study found that almost half of respondents were unclear about the impact IFRS 9 would have on reporting and accounting for derivatives. The survey noted, “Key IFRS 9 implications for treasurers include changes in hedge accounting effectiveness thresholds, an expansion in items which qualify for hedge accounting, as well as benefits for those organisations engaging in economic hedging activities.”

Where the securities space is concerned, Wandhöfer says that MiFID II could lead to some compliance challenges that

are quite specific to large corporates that are very active in the trading business. “Of course these businesses have already been on the case for some time,” she says. “They have made presentations to the EU to help advocate on the technical side, but they will need to focus quite specifically on what these changes mean from a compliance point of view when it comes to topics such as reporting and transparency.”

Wandhöfer adds that a key pain point is the Know Your Customer (KYC) account opening process, which is highly paper based. “The country differences lead to problems when it comes to filling out different types of forms. But there is also the ongoing KYC effort which has to be constantly refreshed.”

Wandhöfer points out that banks are under pressure to have the right data for their clients at all times, so if anything changes – for example, if a board member is replaced – KYC will need to be refreshed. “The question there is how you can create a KYC model whereby the corporate has an automated process for pushing updated data to the bank, rather than the bank phoning the corporation and asking for paper copies of passports.”

Other areas of focus include EMIR and the Dodd-Frank Wall Street Reform and Consumer Protection Act. However, a question mark exists over the fate of Dodd-Frank following the election of Donald Trump, who has pledged to dismantle the regulation.

While the compliance challenges that companies face are numerous and varied, treasurers should be aware that not all new regulation comes to pass – at least not in its original form. Section 385 of the Internal Revenue Code had been widely expected to have a negative impact on cash management structures such as cash pooling and in-house banking. However, following a consultation period, the final and temporary regulations published on 13th October included exemptions for arrangements such as cash pooling.

By the same token, some regulations can have a positive rather than a negative effect on corporations, as illustrated by the introduction of SEPA.

What determines compliance challenges?

While there are many areas of compliance to consider, not all companies are affected in the same way. As David Stebbings, Director, Head of Treasury Advisory at PwC explains, “Corporates do not only need to understand their

own compliance requirements – they also need to understand how different regulations affect their banks and their financial services providers.”

For example, Stebbings points out that corporate treasurers may have some compliance challenges around accounting standards and EMIR – but the more significant concern may be about how banks are affected by developments such as Basel III. “Companies will need to understand how the price of structures such as notional pooling might increase because of regulation on the banks,” he adds.

Compliance challenges will also vary from market to market. “From an Africa perspective, the diverse regulations surrounding centralised or regional liquidity management remain a critical focus area to manage – something which [companies] would also look to their banks to support them in doing,” comments Jason Marsden, Head of Client Solutions – TPS International at Standard Bank. “In addition, international payments regulations, including the availability for foreign currency in some of the markets, remains a challenge.”

Marsden adds that the trapped cash issue can often be further complicated by the way in which a company is set up, and the way in which it invests in certain markets. “Not getting the right approvals may also hinder capital and dividend repatriation,” he notes.

Nevertheless Bateman points out that while compliance challenges vary between different regions and industries, the treasurers addressing these challenges have one thing in common: resource constraints. “Increased demand on treasury operations, and the expanding scope of treasury, has resulted in resource constraints for many treasurers,” he explains. “Finding domain expertise and maintaining a trained team has never been more challenging. Because of these resource constraints, staying up-to-date with frequent post-recession changes in the regulatory environment has been all the more challenging.”

Tackling compliance

With so many regulations and variations to consider, where should treasurers start when it comes to overcoming compliance challenges?

First and foremost, it is important to address any issues promptly. “If you’re going to wait and sit on your hands before

the new rule is actually there, you’re simply too late,” advises George Dessing, SVP, Treasury and Risk at Wolters Kluwer. “Make sure you’re ahead of the curve – be proactive, speak to your peers, speak to your advisors, speak to your auditors. Try to get more information out of your network.”

Different companies are addressing the challenges in different ways. Bateman observes that some treasurers of large corporates have staffed up in order to help manage regulatory changes. Meanwhile, Marsden says that real time liquidity visibility and management can play a critical role in managing some of the compliance challenges faced by treasurers, “enabling the treasurers to be more agile in their approach to treasury management.” In addition, he says that a number of treasurers are also looking to “localise” their costs as much as possible by leveraging localised supply chains and infrastructures.

Regardless of the chosen approach, it is important for treasurers to understand what they are up against. “Treasurers have to have an understanding of the regulatory landscape, as well as the right treasury technology and resources required for process reengineering, where necessary,” says Bateman. “Without any one of these, treasurers are more likely to lose sleep at night.”

He adds that insight into the regulatory landscape is typically a combination of internal and external expertise. “Technology should be best-of-breed treasury technology, specialising in regulatory compliance, which will allow for the department to achieve that compliance in an automated fashion,” he says. “Lastly, treasurers need resources to achieve compliance – the resource problem can be partially alleviated with treasury technology, and a reliance on third-party experts/specialists for implementation.”

These third-party experts might include consulting partners, banks and treasury technology providers. Bateman explains, “Our role at FIS has changed over the years from just a technology provider, to more of a consultative partner. Treasurers are expecting us to not only deliver technology, but also to help navigate the regulatory and compliance environment, both through the technology solutions themselves and through advice and thought leadership.”

Meanwhile, TMS providers are working to support treasurers in meeting their compliance requirements. “While compliance challenges continue to evolve, treasury technology enables

Tax compliance

One area which presents particular challenges is that of tax compliance. “Global treasurers and global businesses now have a lot of focus within their tax department on staying on top of domestic and cross-border developments,” says Ruth Wandhöfer, Global Head of Regulatory and Market Strategy at Citi. “There is now a whole raft of obligations on global corporations to disclose tax matters – namely where profits have been earned, and where money has been moved to. We are starting to see the net closing on the tax matter – even Panama has recently announced that it will participate in the tax transparency initiative.”

Wandhöfer says that treasury has a key role to play in understanding where the company’s tax-related liquidity activities may have to change, what type of reporting is needed and how banks can facilitate the new demands which are emerging.

“On the flipside, banks are spending a lot of time in understanding where global tax rules are going, when something starts to be applicable, and whether changes will need to be made to their products, so that clients can be better supported, for example in the space of liquidity solutions.” Wandhöfer adds, “In a positive sense, this is almost a collaboration space, because every business wants to make sure they are doing the right thing – and so do the banks.”

Compliance: a treasurer's eye view

"A few years ago, compliance was limited to some standard forms – bank account opening and the like, and making sure you knew your relationship manager," says James Kelly, Group Treasurer of AB Ports. "We then went through a bit of a chaotic phase where new regulations came in and banks set up their own processes, often without sharing with customers the detail of the new requirements, which made it difficult to develop any standard process.

"Banks took on armies of compliance people but typically, corporates have tried to muddle through without increasing staff numbers, which has increased the pressure on transactions which have to be executed quickly, like acquisitions.

"Happily, the rules have now been reasonably established in developed markets like the UK. As a result, not only are customers able to begin to develop a standard response per bank, but the banks are also sharing standards by joining together on initiatives like the Markit KYC platform. Meanwhile, other providers like Thomson Reuters have developed platforms and asked banks to sign up.

"As a direction of travel this is helpful, although the very bank-focused roll out (saving costs but not necessarily enhancing the customer experience) means take-up has been slow from what I have seen.

"The multitude of rules, depending on bank and jurisdiction, has meant that during my time at Rentokil Initial we tried to build a library of what was required for transactions in each jurisdiction. This can then be used to develop systems, rather than adopting ad hoc processes. Interestingly this is an area which the TMSs have not really focused on to date, leaving customers to develop their own platforms.

"With the potential demise of Dodd-Frank, we may be entering a period with a little more stability, allowing systems to catch up with the various compliance demands."

even small treasury teams to be more strategic," says Bob Stark, VP Strategy at Kyriba. "This allows them to get beyond basic compliance and contribute to business performance such as reducing cost of goods and services by optimising cash flow hedging programmes."

The rise of RegTech

Indeed, the role played by technology in supporting compliance is continuing to evolve. "Technology has a key role to play in supporting compliance," says Matt Tuck, Head of Global Transaction Banking, Barclays Corporate Banking. "Compliance requires a huge amount of data and individuals can only process that information when it is easily accessible and sorted efficiently."

Wandhöfer notes that technology innovation is starting to focus on elements of RegTech, where innovation aims to help banks and, increasingly, corporations navigate compliance challenges by allowing for more automation of data feeds and data reporting.

She adds that the manual work involved in data reporting can be almost impossible to achieve, given the raft of different requirements. "Taking tax as an example, you could have multiple jurisdictions asking for slightly different things," she explains. "Even though OECD principles are harmonised, local implementation tends to be different. Technology is becoming increasingly important as a means of helping automation in that space."

Wandhöfer says that some solutions which initially focused on helping banks fulfil reporting requirements are now also starting to venture into the corporate reporting space. "Distributed ledger technology could be a real answer to some of this, but at that moment we are still in the experimentation stage," she says. "We haven't even got clarity as to whether some of these solutions can be acceptable from a regulatory point of view."

In addition, Wandhöfer says that smaller, innovative businesses are emerging with various solutions. For example there are fintechs focusing on helping corporates understand the different FX rates that they get from different providers, in order to help optimise for the cheapest choice. She notes that not all such solutions are aimed specifically at compliance – a lot of these focus on improving a company's business performance – "which I think is quite important, because otherwise you don't have any money left for compliance."

One way in which treasurers can overcome the resourcing challenges associated with compliance is by introducing efficiencies and cost savings – often through the strategic use of technology. As Bateman explains, "Without the right treasury technology in place, we find treasury departments spend a disproportionate amount of their time performing the daily 'blocking and tackling', something which hampers the treasurers ability to achieve compliance."

Looking forward

As the regulatory environment continues to change, new compliance challenges emerge. As such, treasurers need to continue monitoring this area, introducing new solutions and strategies as the need arises.

"We're always anticipating changes and new regulatory requirements for our clients," says Bateman. "Here in the US, for example, we expect certain changes as a result of the recent election, with the Trump transition team pledging to dismantle, or modify Dodd-Frank."

Bateman adds that he expects cybercrime to be a greater area of focus and responsibility for treasurers as well, due to the rampant cyber-attacks of the past two years. "We expect treasurers will continue to feel the squeeze on resources as well," he concludes. "It's our job as a technology and consultative partner to stay ahead of the regulatory curve, in order to help our clients better navigate the regulatory and compliance landscape."



Welcome to the syndicate

A syndicated loan is often part of a wider financing strategy, allowing a company direct access to both banks and institutional investors. But why might a corporate use a syndicated loan and how are these arranged and managed? We go back to basics to find out.

A problem shared is a problem halved, or so the adage goes. This certainly rings true when corporates need an amount of funding which cannot be supplied by one bank. In cases such as this, a syndicated loan can be used effectively to share the financing burden between banks – and, increasingly, other institutional investors such as hedge funds and pension funds.

Corporates certainly noticed the value of the product pre-crisis. Indeed, global deal values peaked at just under US\$5trn from over 9,000 issuances in 2007, according to Thomson Reuters data. While the market contracted significantly during the financial crisis, it has picked up in recent years: total global deal value reached US\$4.2trn in 2013, up 29% from 2012. In 2014, global syndicated lending reached US\$4.8trn, although this figure was slightly lower in 2015 at US\$4.7trn.

As of Q216 (the latest figures available at the time of writing), syndicated lending is down 9% compared to the first six months of 2015. From a regional perspective, the Americas are leading the way with 2,127 deals totalling US\$1.2trn.

Elsewhere, Europe accounted for US\$439.7bn of the global total whilst Asia Pacific (APAC) accounted for US\$202.3bn.

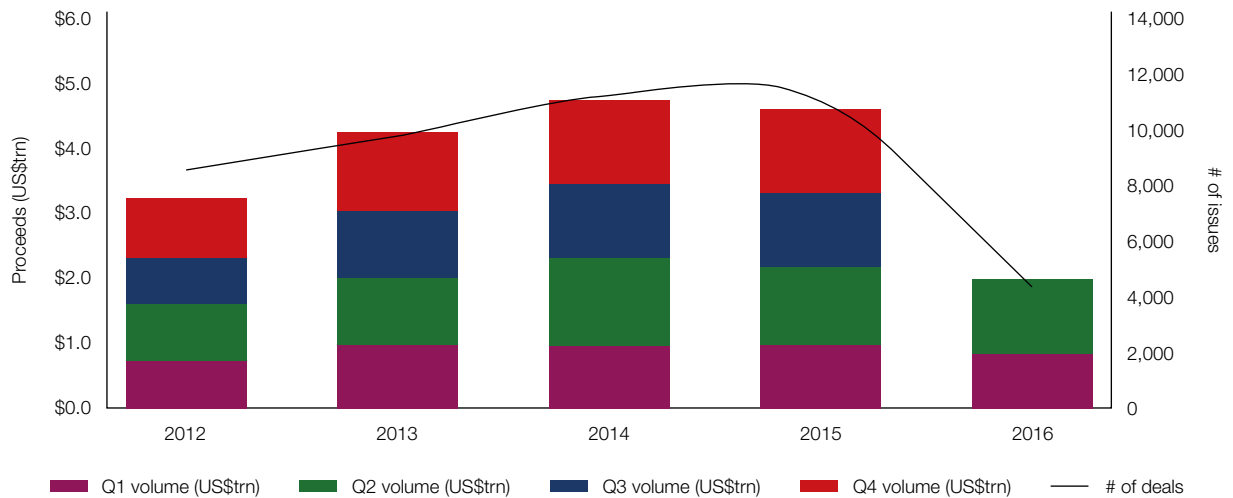
The purpose of the loan

Companies obtain syndicated loans for different reasons. Some, for instance, may use this as a key tenet of their core funding portfolio. This could be a typical strategy for corporates with a lower credit rating which are unable to access funding readily through the bond markets.

Syndication may be a good option for these companies because investors are able to limit their exposure to the corporate's risk. To account for the increased risk, companies in this situation are likely to have to pay higher margins for the loan. Investors may also put covenants in place as further protection.

For companies that have a higher credit rating, and thus more financing options available to them, syndication may be used more strategically and as a backup to other sources of finance. For example, companies may use the loan to finance

Chart 1: Global syndicated loans volume



Source: Thomson Reuters

gaps in funding between the maturity of one loan and the receipt of funds after a divestment.

With a higher credit rating the margin payable to the investors tends to be lower and few, if any, covenants restrict the way the company operates. The existence of the facility may also reassure investors holding other instruments issued by the company, such as commercial paper, allowing the company to benefit from a lower overall cost of funds.

Types of loan

Syndicated loans primarily come in two forms:

- Term loan.** A term loan is a more traditional type of loan. The full amount is drawn either initially or in pre-determined instalments. The principal is either repaid over the term of the loan or at maturity.
- Revolving syndicated loan.** This will have a specified term limit, but, in contrast to a term loan, the borrower can draw down funds and repay them as necessary, as long as the terms and conditions of the loan are met. This style of loan is more suited to companies which view the syndicated loan as a secondary source of finance or have a periodic need for funding.

Corporates also have a choice regarding how the loan is structured. For instance, some companies may wish their syndicated loans to comprise both a term loan and a revolving loan. This is most common if the company is a lower rated issuer. Investment grade credits are more likely to structure their loans into different revolving tranches, however. One tranche will be repayable in under a year whilst the other will have a longer maturity (typically three to five years). This provides the company with a longer-term source of funding, which is particularly useful as a backup to a commercial paper programme.

The maturity of the loan can also be designed to reflect the borrower's needs. For instance, if a loan is sought by a shipping company to finance the purchase of a new fleet of its ships, the company may want to delay repayments until these are fully operational and bringing in revenue.

Relationship management

Before any bank is consulted about arranging the loan, the treasury needs to have a clear understanding of the role the loan will play in the company's wider funding strategy. This will provide a crucial focal point when the company states its case to investors. A repayment strategy will also have to be outlined.

With a strong case built, treasury can appoint one or more arranging banks. This is typically completed through a tender process and, as with any selection procedure, can be difficult without prior experience.

In particular, treasurers need to be aware of the relationship implications of syndication. Appointing a bank to arrange a syndicated loan can be an effective way of rewarding a bank – or banks – which already provide the company with credit. However, the selection should take into account the entire relationship, how long it has existed and the company's future plans.

To avoid this issue, a company can arrange a club loan – when no arranging bank is appointed and the loan is instead arranged by the company. However, this will result in a more labour-intensive process for the treasury.

A second consideration when selecting an arranging bank(s) is its geographic footprint. The selected bank(s) will need to have coverage in all the appropriate markets, particularly if the aim is to attract institutional investors.

Further considerations

The company will also need to work with the arranging bank to decide if the loan will be underwritten. If this is the case, the borrower will receive the full amount of the loan, irrespective of whether the arranger has successfully syndicated the deal. If the loan is to be underwritten, the arranger will usually try to involve other banks as underwriters as part of the syndication process – particularly for very large deals.

A 'best effort' understanding exists if the loan is not underwritten, meaning that the arrangers do not have to meet

The art of negotiation

Negotiation takes place at all steps of the syndicated loan process. It is therefore important to understand what the other side wants. Treasurers need to identify each potential bank's approach to, and appetite for, syndicated loans. Considerations include:

- The type and size of banks and whether they will sell their participation right away, or take a longer-term view.
- The importance of the relationship.
- The arrangement fee. If smaller syndications are divided between arranging banks, they may be dissatisfied with the reduced fee.

At the same time, it is important that the company gets what it needs from the syndication. In particular, the treasurer needs to identify any potential covenants or other restrictions which the company cannot accept.

Syndicated loans are increasingly popular because of the variety of ways they can be structured and the funds used. However, the treasurer does need to be aware of the company's future funding requirements before the negotiations start so that appropriate terms and conditions can be agreed.

any shortfall if the syndication is not fully successful, with the borrower receiving the reduced amount. This type of arrangement is typically found when the aim of the loan is to provide backup financing.

Treasury must also be fully aware of the fees associated with the loan, which can include the following:

- **Margin.** The lenders will charge a margin over an agreed market benchmark.
- **Commitment fee.** Where a loan is not fully drawn, borrowers will be charged a commitment fee.
- **Utilisation fee.** In some cases, banks may be able to charge a small additional fee if a high proportion of the loan is drawn.
- **Arrangement fee.** The arranging bank or banks will normally receive a fee once the syndication has been successfully completed. This will be determined by the size of the syndication and the associated credit risk. In some cases, other lenders will receive an upfront fee (of only a few basis points) for participation in the syndicate.
- **Legal fees.** Companies will have to meet the costs of their legal advisors.

Send and receive

The final step before the syndication is closed is to appoint a bank to act as administration agent. The primary role of this bank is to collect interest payments from the borrower and distribute these among the lenders.

This bank will also administer any interim drawdown notices. Under the terms of a revolving credit, the borrower is entitled

to call for a drawdown of funds at any time. Ensuring that all participants meet their obligations is a key determinant of the success of the syndicated loan.

Secondary market

For lenders, an important factor is the secondary market, where exposure to the syndicated loan can be managed by selling on part or all of a bank's participation in a syndicated deal.

The exact terms and conditions for this are set out in the loan documentation. Most transfers are made 'by novation', in which case the new lender becomes a 'lender of record'. In these circumstances, the new lender simply replaces the original lender. The original terms and conditions apply, with the only change relating to which bank receives the interest payments.

The key factor in all cases is that the bank's ability to sell loans in the secondary market reduces the counterparty risk associated with the decision to participate in the syndication. As a result, the secondary market enhances liquidity in the syndicated market.

What is sometimes less well understood, however, is the importance of the secondary market for borrowers. Indeed, the transferability of loans is an important component in the growth of the market. For the corporate borrower, the development of the secondary market has also enhanced liquidity in the primary market, arguably bringing down margins for all borrowers.

Digital disruption

Arranging and managing a syndicated loan can be an inefficient, labour intensive and lengthy process. While the various loan market associations around the world have made great strides in simplifying this process through the creation of standardised loan documentation and championing best practices, complexities remain.

The syndicated loan industry is, therefore, ripe for digital disruption, and a number of parties are already looking to digitise this space. In September 2016, for example, a group of banks including Credit Suisse, the R3 blockchain consortium, and fintech start-up Symbiont announced that they had taken steps to improve the process. The trial loan, arranged by Credit Suisse, employed smart-contract technology that sees contracts exchanged on the blockchain to quicken and increase the efficiency of loan trade settlements. Using this type of solution, paperwork can be reduced dramatically, as can the hurdles and inefficiencies that any trade market routinely sees.

"This project demonstrates the potential for blockchain technology to fundamentally reshape the syndicated loan market and the capital markets more broadly," said Emmanuel Aidoo, head of the distributed ledger and blockchain effort at Credit Suisse following the announcement of the trial. "This demonstration sets us on a path to increase efficiency and reduce costs, which will benefit banks and clients alike. By connecting a network of agent banks through blockchain, we can achieve faster and more certain settlements in the loan market."

It remains to be seen how long it will be until solutions such as these are fully implemented. But one thing is for sure: disruption in the syndicated loan market is coming, and will hopefully benefit the whole ecosystem.

Currency market volatility

“ 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? ”



Wolfgang Koester

CEO

FiREapps

The aftermath of Brexit, perhaps more than any recent shock in a G10 currency, clearly highlighted there are still two camps of corporate treasury organisations – those who are empowered to be proactive about corporate currency management, and those who are still left on reactive footing.

Leading into Brexit, the proactive teams ran scenario analyses and projected the potential effects of a sharp GBP devaluation (or the versa); and further potential ripple effects. As the odds flipped, many teams ‘tightened’ (raised) hedge coverage for exposures such as GBP, USD and EUR. In the days before, these teams double-checked analyses, ensuring scenarios were still intact and as projected. Each time, the ‘current state’ and ongoing expectations were communicated to executives, and the cycle repeated a few days later and a couple of weeks later.

For these global teams, shocks and fluctuations happen – this is business as usual. But, thanks to proactive steps, financial results were insulated – no reaction required.

Contrast the proactive team’s actions with the reactive group. These teams scrambled for weeks, not only to accurately report the present impact, but also the future, expected impact.

So, in context, what steps have corporates been taking since to mitigate further risks?

Short term: companies in the proactive boat ‘stayed the course’. There have been further shocks which resulted in slight surprises (early October GBP) but for the most part it is business as usual.

Of the corporates caught in reactive mode, many used this opportunity to build internal support to empower proactive currency management. These corporates have been:

1. Clearly documenting and communicating (internally) the existing currency process.
2. Actively working to identify holes in process or programmes that result in poor timing or inaccurate analysis.

3. Leveraging strategic partners such as banks, who have a plethora of value-adding services to offer, to empower their teams to manage this new, volatile environment.

Long term, both sets of organisations (proactive or not) are now going through yearly planning cycles in which an eye is focused on understanding the volatile markets and securing operational results, globally. This cycle is where pricing adjustments (and other tactics) come into focus. That said, while pricing adjustments and sales freezes are not new (Apple, 2014 Russian ruble crisis) they are often a last resort; taking other internal measures is often preferred and more cost effective/competitive.

Teams who were not prepared for Brexit but now have internal support, are taking a long-term view, putting into place programmes which prevent further internal shocks. Those who were proactive are staying the course. Both are/may still be reviewing pricing changes. In truth, the only bad (apparently dangerous) strategy after the latest shock is doing nothing. We’ve already witnessed, privately, the demotion of practitioners as CFOs were surprised that currency risk was not managed; and publicly, we have already seen a UK-based CFO (Sports Direct) step down amid continued currency impact and fallout.



Philippe Gelis

CEO

Kantox

The Marmitegate illustrates the consequences of sharp currency fluctuations and the effect that they might have on the profit margins of importing companies like Unilever.

A sharp currency movement can have an immediate impact on the costs of an importer, and the pound sell-off after the Brexit Referendum – which has devalued approximately 20% against both the euro and the dollar – has put Tesco and Unilever in an awkward situation. Who is to blame for the price hikes?

The answer would have to be found on the terms of the agreement between the supplier and the retailer. In that sense, we might be in one of these three scenarios:

1. The contract includes a clause that contemplates currency risks. The supplier has the right to change

prices in case the exchange rate fluctuations exceed a certain margin. It might be that these margins are wide and that Tesco did not anticipate that the pound could drop to a 30-year low, as it happened. However, if this is the case, Tesco would be assuming the currency risk, even if indirectly, as Unilever is entitled to pass their higher costs in foreign currency to the product. It is on Tesco to choose between reducing their own margins and hold prices steady or maintain their margins and increase product prices, and face losing customers to competitors with cheaper options.

2. The contract establishes a fixed price during a specific period of time. These contracts only contemplate a renegotiation when that period (six months, one year, 18 months) expires. The supplier takes the currency risk in the interim. In this case, Unilever would be responsible for establishing a currency policy that guarantees steady profit margins for the total volume of sales during the period of the contract. If such is the case, Unilever would not be entitled to change the prices of its products.
3. The contract does not consider currency risk and the supplier wants to renegotiate prices because his costs have increased. It is unlikely that Unilever did not have any clause to cover its risk against pound devaluation (either regarding margins as in the first case, or in terms of time, as in the second case). In such a scenario both parties would have to negotiate who assumes the impact.

Currency fluctuations multiply impacts on corporate profits, as margins are eroded by several times the size of the movement. To explain, if your profit margin is 30%, a 15% decline on the currency exchange would not translate in a 15% drop on your profits, but would slash 50% of your earnings.



Gary Williams
Deputy CFO and
General Treasury Manager
Mitsubishi Corporation
Europe

The Brexit decision certainly came as a surprise to many organisations and in line with well-publicised predictions the pound has suffered a wide-scale depreciation against other currencies. This volatility has impacted companies in different ways. A lot depends on the size of the organisation, its home market and in what currencies it transacts. For instance in

sterling terms, an exporter pricing in foreign currency would have become more competitive of late. An importer, however might be finding these times a little more challenging.

That being said, the impact of Brexit on the currency market has put FX risk and the management of this clearly into focus for most companies. The need for an effective and robust FX policy is clear. Those companies, who have typically not managed FX risk proactively, may have experienced an unexpected FX gain or loss situation and therefore should consider the merits of having a policy in place. Whilst, on the other hand, those treasury departments that do have a legacy policy should be checking that this remains viable in these times of material changes to exchange rates.

No matter how this policy is drafted, however, treasury departments must always remember that its main objective is to manage the risk; not play the market. As such, any treasury policy should be able to hold firm, no matter what events occur in the market, by making it more robust to turbulence and clearly understood by all, including the board.

Elsewhere, treasurers in those companies impacted by the currency volatility have a chance to highlight the function's strategic worth. Educating the key stakeholders within the business is a treasurer's responsibility so that this often overlooked risk is clearly understood along with methods of mitigating it.

Long term, there are some fundamental and long-standing challenges that must be overcome for treasury departments to effectively manage FX risk. Key to this is ensuring that the information flow including forecasting is as accurate as possible. This will allow treasury to have a better understanding of what to hedge and what not to hedge and how to separate transaction from translation risk.

Key areas to consider:

- The objective of treasury is not to play the market but to manage risk.
- The result of the Brexit vote may have taken organisations by surprise, so when it comes to the impact of FX there will be winners and losers.
- For companies actively engaged in business that is not in their domestic currency, it is crucial to have an understanding of the risks involved and have a clear FX policy in place, even if the policy states that there will be no FX hedging.
- Treasury must not be dogmatic and therefore be open to revisiting the policy in light of the major shifts in FX rates that have been experienced.

Next question:

"We keep hearing about big data and how it can be used to drive smarter decision making. What practical steps then can a treasury department take to begin to leverage big data?"

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

Fiscal stimulus, austerity and sustaining global growth – what does 2017 have in store?

Certain governments have overseen austerity policies of late but are there signs they are, perhaps, slowly loosening the reins again? Real growth is difficult to sustain and we have recently witnessed the will of the people of the UK and US when called to the ballot boxes in their respective countries. Elections are due to take place in the Netherlands, France, Germany and elsewhere so governments will come under yet greater scrutiny to give their economies the boost they need but is more government stimulus the answer?

Monetary easing on an almost permanent basis has led to interest rates that are desperately low, not just in Europe but also in the US, the UK and Japan. None of this has generated enough sustainable growth to cut debts, substantially reduce unemployment and counter voter dissatisfaction. Major trends stoke insecurity, depress the growth potential and/or undermine employment:

- Ageing populations mean that too few workers have to keep the welfare state alive whereas the costs of the welfare state are rising.
- Technological progress such as the disappearance of entire job categories due to automation alongside technological stagnation (according to scientists such as Robert Gordon the largest breakthroughs are now behind us).
- Geopolitical and economic power shifting from West to East.
- Opposition to free trade and other facets of globalisation.

Organisations such as the IMF and the OECD as well as central bankers – who have increased their balance sheets by fourfold or even fivefold – argue in favour of more government stimulus in order to give economies a leg-up. Last summer the US Secretary of the Treasury said: “Today the G20 is no longer debating growth versus austerity, but rather how to best employ fiscal policy to support our economies.” Since then, Americans have elected a president who promised to spend a thousand billion dollars on infrastructure investment. The European Commission has given Portugal and Spain more time to reduce their budget deficits. Meanwhile PM Abe has presented various stimulus packages in Japan.

Public investment has declined markedly in the past decades and years. In other words, there is a lot of catching up to do in terms of infrastructure. Markets are quite sanguine about the combination of investment and tax cuts Trump has promised. This enthusiasm is fuelled by the large sums that Trump has mentioned and the notion that it should not be hard to select fruitful investment projects. A third of US levees and highways are in bad or poor condition. Nevertheless, we believe the prevailing positivism could be too much of a good thing:

- The power of the purse is vested in Congress so Trump needs the latter to approve his investments and tax cuts. True, the House of Representatives as well as the Senate are in Republican hands but not all Republicans are dead keen on Trump’s plans.

- Trump’s promises of 3.5-4.0% economic growth are unrealistic. Productivity growth is weakening and the working population decreased as a percentage of the total population after the credit crisis.
- Not every economist agrees that this is the right moment to invest in roads, ports, and other infrastructure, as the economy is already performing well.
- Trump’s plans are as vague as they are grandiose. US infrastructure is badly in need of improvements, but opinions differ about the question how, when, and at what price it should be improved.
- Trump wants the business sector to cough up a large portion of the costs. It remains to be seen whether companies will be prepared to take part as public-private constructions have not proved very successful in the past.

As there is a fairly high chance that the US stimulus measures will fall short of expectations, the question is whether real fiscal easing is possible in other countries. The UK may envisage an end to years of austerity (although the image of draconian cutbacks by the Cameron/Osborne tandem is not completely accurate) as PM May and Chancellor of the Exchequer Philip Hammond prepare to loosen the reins somewhat. The UK’s infrastructure could certainly do with some attention since it ranks 24th on a list where France’s infrastructure is in tenth position and Germany is number 11. However, we do not expect London to come up with big surprises in terms of fiscal stimulus.

Fiscal stimulus in the Eurozone does not really have the wind in its sails either. Southern euro states would like their governments to boost domestic growth but member states like Germany and the Netherlands continue to block these efforts. Still, change could gradually unfold. German Finance Minister Schauble has already presented voters with tax reductions in the run-up to the elections in the autumn of 2017. The Merkel government may want to give away additional presents, particularly as Merkel and her party are losing popularity due to the migration crisis. As Merkel is not prepared to significantly change her views on migration, tax boons are a viable alternative to keep voters happy.

Dutch elections will take place in March. In the Netherlands, too, the fiscal handbrake has been released somewhat while the Finnish government also seems prepared to marginally loosen its grip on the public purse strings. In Italy, an interim government will have to pave the way for a new electoral law

as well as for elections. Consequently, few grand gestures will be possible in terms of reform and stimulus. Conditions in France and Spain are not much different. The presidential elections that are due to take place in France in the spring will probably amount to a 'duel' between Marine Le Pen and François Fillon. The latter is believed to have the best chances by far. Fillon is not that enamoured of a large and very active government. Therefore, the chance is low that the French government will take the economy in tow. This also applies to Spain, where the government that took office recently after a lot of commotion is no big fan of fiscal stimulus.

Across the Eurozone few left-wing parties are firmly in the saddle. In that sense we should not have high hopes of the will of national governments to stimulate economic growth. Yet, this is offset by the following:

- The general attitude regarding fiscal stimulus is gradually changing.
- The traditional left/right dichotomy applies less and less whereas right-wing (populist) parties regularly are in favour of large-scale government spending.
- The European authorities are taking a somewhat more flexible stance than before.
- Expectations in Europe are low compared to the prospect of stimulus in the US.

The Japanese government is determined to overcome economic stagnation even though deficits are high and the national debt is huge. Abe has announced stimulus packages worth over US\$130bn. The Central Bank of Japan is facilitating the stimulus and PM Abe is in a strong position politically. The coalition parties have won a comfortable majority in the Upper House elections in July and the next Lower House elections are not due until December 2018. The story looks relatively positive at first glance but we should point out that stimulus money that was announced in the past never even came close to the sums that were actually spent.

The Chinese leader Xi Jinping is perhaps even more comfortable on this throne than Abe. Xi has greatly consolidated and expanded his power since taking office. However, he may worry about China's debt (public and private): it stands at 260% of GDP and economists have been warning against financial bubbles for a long time. Yet, the government can continue to pour money into the economy as its capital account is closed, its reserves are enormous and its debt is almost exclusively denominated in yuan and held domestically. Stimulus measures that entail infrastructure investment are relatively easier to implement than in the West. China lags the rich countries to a considerable degree (it ranks 51st on a list comprising 144 states) and it has grand plans. There is the One Belt, One Road initiative (OBOR) that involves spending worth dozens of billions of dollars and the Asian Infrastructure Investment Bank (AIIB), which has US\$100bn at its disposal; Beijing supplies US\$30bn of this. We expect China to extend public spending in 2017.

Next year could see a net increase in economic stimulus in the major economies. Japan and China will likely meet the prevailing expectations whereas day-to-day politics in Washington may well belie the optimism about Trump's plans. We do not expect any stimulus miracles in Europe although the expectations are extremely modest so there is a possibility that the actual level of spending will positively surprise the markets. The large-scale fiscal stimulus that many international organisations would like to see may not materialise but austerity as a mantra seems done and dusted.

The question is will the governments make use of the time bought by central banks to implement (further) structural reforms? Will fiscal stimulus do more than boost near-term demand? It is worth remembering that the European governments have pursued an austerity policy for a long time (and continue to do so in some cases). 2017 may well be the year when this starts to change while the next trend reversal – back towards belt tightening – may unfold just as slowly. Such a pattern would initially be good news for growth. However, the consequences for public debt and inflation could be very serious in the longer term.

INTERESTED IN OTHER MARKETS?

Go to www.ecrresearch.com and request access to 18 different reports & services. Clear views, concrete market predictions, based on the world's leading research.

ANDY LANGENKAMP

Political Analyst
+31 (0)30 232 8000
a.langenkamp@ecrresearch.com



MACRO & POLITICAL



FX & INTEREST



ASSET ALLOCATION



FUND SELECTION



MORNING BRIEFINGS



The clever research solution for time-pressed decision makers



INSIGHT & ANALYSIS

21st century payments

Disruption in the payments space is rife. Across both retail and corporate payments, numerous players including banks, industry consortiums, and fintechs are looking at ways to revolutionise how payments are made and the user experience when making them. What are the headline impacts for corporate treasury? Treasury Today investigates.



TECHNOLOGY

UI and UX

Apple sparked a technological revolution, but what has been most crucial to the company's success has been its ability to make its technology very simple to use. The user interface (UI) and user experience (UX) that Apple offers is second to none. Now these concepts are being used by banks and treasury technology providers when designing their digital platforms. What does this mean for the treasury systems of the future?



RISK MANAGEMENT

Turning cyber-security into a business enabler

The risk posed to businesses by cyber-criminals is vast, that is without a doubt. It is also an issue that is not going to disappear anytime soon. What is often overlooked, however, is that best in class cyber-security practices may actually enable the business to perform better. In this article, we look beyond the risk and at how treasury can take a lead in turning cyber-security into a business enabler.

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

Magnus Attoff, Head of Financial Risk Management & Operations, Ericsson; Scott Barton, Head of Corporate & Institutional Banking, Europe, Standard Chartered; Christy Barwick, Treasurer, Intellectual Ventures; Andrew Bateman, Head of Treasury, Payments, Receivables Solutions, FIS; Claire Bechaux, Director of Treasury, Veolia; Adrian Brown, Head of Commercialisation – FX+, BNP Paribas; Enrico Camerinelli, Senior Analyst, Aite Group; George Dessing, SVP, Treasury and Risk, Wolters Kluwer; Philippe Gelis, CEO, Kantox; Wim Grosemans, Head of Product Management – International Payments & Local Offer EMEA Region, Cash Management, BNP Paribas; Ying Gu, Emerging Markets Asia Rates & FX Strategist, J.P. Morgan; Yera Hagopian, Head of Liquidity Services, Barclays; Mitko Iankov, Head of Market Development – GTM Europe, Thomson Reuters; Suzanne Janse van Rensburg, Head of Liquidity, GTS EMEA, Bank of America Merrill Lynch; Daniel Jefferies, Group Treasurer, Equiniti Group; James Kelly, Group Treasurer, AB Ports; Wolfgang Koester, CEO, FiREapps; Conor Maher, Head of Cash and Liquidity, Product and Capital Management, NatWest; Jason Marsden, Head of Client Solutions – TPS International, Standard Bank; Rick Martin, Group Treasurer, GasLog; Kush Patel, CEO, Tallysticks; Keith Pogson, Senior Partner, EY Asia-Pacific Financial Services; Anita Prasad, Treasurer, Microsoft; Diane S. Reyes, Group General Manager, Global Head of Global Liquidity and Cash Management, HSBC; Maeve Robinson, Assistant Treasurer, Omnicom Group; Fred Schacknies, SVP & Treasurer, Hilton Worldwide; Diane Schumaker-Krieg, Managing Director, Global Head of Research, Economics and Strategy, Wells Fargo; Mark Smith, Global Head of Liquidity Management Services, Citi; Bob Stark, VP Strategy, Kyriba; David Stebbings, Director, Head of Treasury Advisory, PwC; Paul Taylor, Managing Director, Regional Sales Head, GTS EMEA, Bank of America Merrill Lynch; Matt Tuck, Head of Global Transaction Banking, Barclays; Ruth Wandhöfer, Global Head of Regulatory and Market Strategy, Citi; Gary Williams, Deputy CFO and General Treasury Manager, Mitsubishi Corporation Europe.



WHEN
THE BIG
ISSUES
SURFACE
ARE YOU
PREPARED?

Going for Gold

10 years of outstanding achievement

Nominations for **Adam Smith Awards 2017** open **31st January**