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May/June 2017

Brexit: what comes next?

With the wheels of Brexit already in motion the possible implications may cause both short-term and long-term challenges for treasury professionals. What are these challenges and how can treasury teams best prepare to overcome them?

The Corporate View

Marc Vandiepenbeeck

Vice President & Assistant Treasurer

Johnson Controls

The Bank Interview

Ebru Pakcan

Head of Treasury and Trade Solutions, EMEA

Citi

Investing
Short dated alternatives

What If...
From treasurer to CFO

Treasury Practice
How to navigate emerging markets

Risk Management
Gaining a full view of risk

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Treasury: risky business

Risk management is a strong theme throughout this edition of Treasury Today, and with good reason. Risk management is a key concern for treasurers around the world, with many struggling to understand the direction the world is heading and what this means for their operations.

Brexit is a core concern for many corporates, with the recent rhetoric from both the UK government and the European Union doing little to calm the nerves. Some companies are therefore taking proactive steps. HSBC recently told Bloomberg that some of its larger clients were already looking to book more of their trade and foreign exchange activities from mainland Europe rather than London.

The recent announcement by UK Prime Minister Theresa May that there will be another general election on 8th June has only fuelled the uncertainty and created more questions. In this edition's Insight and Analysis, we seek to demystify the Brexit process and answer some of the burning questions treasurers are asking.

Brexit is, however, just one of a plethora of risks that treasurers are currently managing, with global political and economic uncertainty, technological advancements and the accompanying cyber risk all causing headaches. In our Risk Management article, we investigate how treasurers can get a more complete view of risk across their enterprise and use tools and technology to manage such risks more effectively.

Interestingly, a lot of this risk is now emerging from developed markets, whereas emerging markets were previously perceived as being the riskiest. That being said, treasurers cannot afford to take their eyes off the emerging markets and we explore how best to structure and manage operations in these notoriously tricky markets.

What is clear, be it when managing risk or working with emerging markets, is that treasury cannot stand still. Anticipating changes in markets, challenging assumptions and taking proactive steps to mitigate any risks these changes may create, is a must.

With great challenge comes great opportunity

It is in challenging times that treasury teams can truly show their worth. The work you have done in helping to navigate the business through these choppy waters has been highlighted by the quality of nominations we have received for our 2017 Adam Smith Awards.

Celebrating ten years of outstanding achievement in 2017 we look forward to welcoming all our winners and their partners to Plaisterers' Hall in the City of London for our prestigious Adam Smith Awards Presentation Lunch on Thursday 22nd June.

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Vice President & Assistant Treasurer

Marc Vandiepenbeeck, Vice President & Assistant Treasurer at Johnson Controls is not one to settle for the mundane. His desire to avoid the ordinary and take on new and exciting challenges is reflected in his career choices and his decision to carve out a stellar career working in corporate treasury.

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Citi's new Head of Treasury and Trade Solutions, EMEA, Ebru Pakcan has some big ideas for her new role, but at the core, it is all about deepening and widening the relationship that the bank has with its corporate customers.

Brexit: what comes next?

A year after the UK voted to leave the European Union, what are the implications of Brexit for corporate treasurers, and what steps should they be taking to overcome the various challenges?

As the anniversary of last year's referendum vote approaches, developments continue apace. On Wednesday 29th March, Prime Minister Theresa May sent a letter to Brussels triggering Article 50 and setting in motion the UK's departure from the EU. More was to follow: on 18th April, May called a snap general election for 8th June, remarking that "division in Westminster will risk our ability to make a success of Brexit."

News of the snap election comes as yet another surprise at a time when surprises are becoming commonplace. Few had believed a year ago that the referendum would result in the UK leaving the EU. A poll carried out by Deloitte a few months earlier found that only 26% of CFOs had embarked on contingency plans covering the eventuality of an EU exit. Meanwhile, research carried out by Greenwich Associates in May 2016 found that fewer than a quarter of the treasurers surveyed had hedged against currency or interest rate volatility in the run up to the referendum – even though more than half believed there was a medium to high risk that the UK would vote to leave. As Tobias Miarka, Managing Director of Greenwich Associates, noted at the time, "These risks are much on the mind of corporate executives, but companies have taken little or no action to mitigate them."

Almost a year on, the risks have become more tangible. The UK lost its last remaining AAA rating following the referendum, while the value of the pound fell to a 31-year low against the dollar. Higher costs for importers have led to price hikes in UK supermarkets, with the impacts of Brexit also including a slowdown in business investment.

Nevertheless, while it appears certain that the UK is going to leave the EU – barring further shocks during the upcoming election – considerable uncertainty remains about the exact form that Brexit will take, and what this will mean for corporations. "In the longer-term, there are a lot of outstanding questions that nobody can give the answer to," says David Stebbings, Director, Head of Treasury Advisory at PwC. "How is it going to affect my business? How will it affect the banks that I deal with? Will my cash management structures survive? Should I still base my pooling in London? Will my bank still offer the same services on the same basis that it does now, or will I have to go elsewhere for them? We don't know the answers to these questions because we don't know the nature of Brexit, or how the banks and the London financial markets will be in once Brexit takes effect."

Possible outcomes

Article 50 may have been triggered, but with a two-year negotiating period ahead there are still a number of different possible scenarios when it comes to the form Brexit will eventually take. Points which will need to be determined include the status of EU nationals in the UK, the transition of EU regulations and whether banks retain their passporting rights.

Each of the possible scenarios could have considerably different implications for UK's economy and business environment. Research carried out by Oxford Economics before the referendum found that the range of possible outcomes extended from an increase in business investment of £2.4bn to a fall in business investment of £21.1bn.

The details of Britain's trade deal with the EU, which could be crucial to the economic implications of Brexit, may not be complete by the time the UK exits the EU. At this stage a number of different outcomes remain possible, with some of the variables including membership of the European Economic Area (EEA), membership of the customs union, a free trade agreement for goods and trade with the EU based on World Trade Organisation rules on tariffs.

Arrangements which are already in place in other countries give some sense of the possible outcomes. Norway, for example, is a member of the EEA and the European Free Trade Association (EFTA), contributes to the EU budget and has full access to the single market. Switzerland, which is a member of EFTA but not the EEA, has a free trade agreement with the EU but does not have full access to the single market. Turkey has a customs

union with the EU but is not a member of the EEA or EFTA. However, while these arrangements may give some idea of the different directions Brexit could take, at this stage most of the questions remain unanswered.

Understanding the impact for treasury

For corporate treasurers, the possible impacts of Brexit include both short-term and long-term challenges. The fall in sterling since the referendum last June has been particularly notable. "While that hit last June, the effects are now becoming apparent," comments Stebbings. "Many companies that import into the UK had hedged for a certain period. We're now seeing that hedging come to an end, and the effects of the fall in sterling are hitting company results or forcing them to raise prices."

While there are actions that companies can take to address the fall in sterling, Stebbings points out that the longer-term picture is less clear. He notes, "One of the key issues is what the banks are going to do – how are they going to operate in three or four years' time? What services will the banks provide from London – a lot of companies have got London-centric header cash pooling structures; will London still be the place to do this? Will the banks provide it, and will it work for the corporate depending on where it has its treasury vehicle?"

It is unclear at this point whether companies will need to move either their own operations or their banking relationships as a result of Brexit. Research published by Ovum and Temenos following the referendum found that over 42% of UK corporates believed that some of their operations will need to be moved out of the UK, while a quarter said that they would need to explore additional or alternative banking relationships. For 17%, that could include moving – or considering moving – their lead banking relationship.

While the exact form of the trade arrangements to be negotiated post-Brexit are clearly a concern for corporate treasurers, there are also other details which will affect treasury – particularly regarding issues such as passporting and equivalence. Currently, financial services companies use the EU passporting system to operate in other member states across the EU. At this stage, it is not clear whether the UK will still be able to use passporting after exiting the EU. While this is one possibility, the concept of equivalence, whereby markets recognise each other's standards, may also have a role to play.

Nick Burge, Head of Structural and Regulatory Solutions, Global Corporates at Lloyds Bank Commercial Banking, outlines the major scenarios that Brexit could include from a banking/ markets perspective:

1. **Continuation of current regulatory access arrangements – passporting and equivalence**. Corporates would be able to continue with current treasury activity on an unchanged basis.
2. **Hard Brexit with no passporting and no equivalence**. If there were no provisions for cross-border services, companies would need to have arrangements with providers in each of the 27 EU countries as well as for UK based activity. This could have an impact on different services including syndicated lending, cash pooling and derivatives.
3. **A new equivalence regime**. There is uncertainty around whether the existing equivalence provisions under MiFID will apply to the UK following recent comments from the Commission. Additionally there are no equivalence provisions in the capital requirements directive for banking services. There will be much discussion around a bespoke equivalence regime as part of UK exit negotiations which will have an impact on treasurers.

Despite these uncertainties, Burge says he is not seeing treasurers changing strategy or adopting any knee-jerk reactions. He adds, "The overriding view from companies is that they will be able to continue to source financing and financial services as they do today, backed up by banks and policymakers to ensure market continuity."

That's not to say that treasurers are not paying close attention to the implications for their companies. Burge notes that treasurers have mixed opinions on the impact of Brexit, depending on the size and structure of their business. "One main concern is how they will be able to operate across borders if there is a hard Brexit," he observes.

What to consider

While the impact of Brexit will vary depending on individual companies' business models, industries and geographical footprints, there are a number of questions that many treasurers should be asking. Rick Martin, Group Treasurer of GasLog, says the company, which owns, operates and manages liquified natural gas (LNG) carriers, is looking at a number of different factors where Brexit is concerned:

"Being a global shipping company, we are looking at what it might mean for world trade, and are articulating how the global gas trade is just that – not at all tied to the perturbations within a

Preparing for Brexit

What steps should treasurers be taking to prepare for the challenges ahead? "First off, a treasurer should have a structure in place to sit down regularly with the CFO and management team," comments Carl Sharman, a Director in Deloitte's Treasury Advisory practice. "This will require the treasurer to have an understanding of how Brexit impacts the whole business community as well as their own organisation."

Sharman notes that Brexit is essentially "a challenge like any other", and that poor business performance is likely to be a reflection on management's ability to respond rather than being down to the macro environment. "By now, many senior management teams will have identified risks and moved to manage them," he says.

Before making any commentary on the markets, Sharman says that treasurers should consider whether it is actually necessary, and that they should be careful to only reference specific impacts to their sectors or businesses. He adds, "be positive – support the business to take advantage of new levels of exchange rates and explore new markets. Take the lead in providing the confidence expected for your colleagues across the business."

Sharman notes that how banks prepare for, and react to, potential changes in the regulatory framework may also change how they transact with their corporate clients. He points out that this could result in some activities being routed through a different entity in the banking group, for example.

"Talk to relationship banks, lenders, analysts and debt investors, and understand what they are thinking and what their worries are, and if your business is seen externally by them as a risk," he advises. "In other words, is it especially exposed to European markets, import or export, workforce impacts, etc? Effective PR is also paramount and good internal management can strengthen market perceptions."

Finally, Sharman suggests that treasurers should also talk to legal advisers, particularly about continuity of contracts and covenant compliance. "Deregulation (especially MiFID decoupling) is going to be a huge part of the exit process, so keep an eye on your documentation and make sure your internal governance is fit for purpose," he says. "Remember that many European directives have been transposed into national law and as such will survive intact post-Brexit."

particular geography," says Martin. Other considerations include understanding the possible implications for the company's financing arrangements and "making sure that we are ahead of the curve, should it have unhelpful impacts on our lenders and/or where we are depositing excess cash."

In addition, Martin says the company is seeking to ensure that it has the best possible handle on what Brexit could mean for interest and FX rates. "We are also ensuring that we do all we can to provide assurances to colleagues from outside the UK regarding their stable employment with GasLog."

Martin says that given the uncertainty regarding the process of negotiation with the EU, the company is working hard to keep a range of options open to address the various potential outcomes. He adds, "Fortunately, we believe that the combination of our industry, corporate structure, broad network of business partners, and flexibility of our workforce are such that we will be able to deal with such changes as might reasonably occur in timely and effective fashion."

Rising to the challenge

While it is clear that Brexit will present considerable challenges for corporate treasurers over the next couple of years, it is also worth considering the opportunities that may arise. Just as the financial crisis helped to elevate the profile of treasury within the organisation, Brexit could give treasurers an opportunity to shine – and, indeed, to further the goals of their departments following years of budget constraints.

"Brexit may give a greater focus on the financial risks that the business is facing," explains Stebbings. "So it makes you look at forecasting and systems, and may raise the business case for treasury to have more resources. We're certainly seeing more companies thinking about treasury management systems, automation and improving the way that they do treasury in order to understand the risks more effectively."

At the same time, treasurers should take the opportunity to get their house in order so that appropriate actions can be taken when the need arises. Straightforward improvements such as gaining a clearer view of the number of bank accounts held by the company can help to position treasury so that any necessary changes can be made as the situation develops.

For the time being, treasurers should also take the time to understand what their main banks are currently planning and what the impact would be if certain services were changed. Treasurers should also understand how their cash pooling structures could be affected by different scenarios and what, if any, actions should be taken so that they can adapt quickly if needed. "The main thing is to be ready when things become clearer," says Stebbings.

While it is important to monitor the situation as it develops and understand the implications of different possible outcomes, treasurers should also be aware that Brexit is not happening in a vacuum. "Brexit isn't the only thing that's affecting treasurers – there's also the new BEPS legislation, new accounting regulations and the impact of cybercrime," points out Stebbings. "So there are a number of things on the treasurer's agenda, and Brexit is just one of them."

Conclusion

As the UK prepares for its third major vote in as many years, the direction Brexit will take remains unclear. But while this makes it difficult for corporate treasurers to assess the longer-term impact of Brexit on their businesses, there are plenty of steps that treasurers can and should be taking now to understand the different possible exit scenarios and the potential implications of these for key banks and suppliers.

Alex Fiott

Head of Front Office, Treasury

AstraZeneca is a global, science-led biopharmaceutical company that spans the discovery, development, manufacturing, distribution and worldwide commercialisation of primary care and speciality care medicines. They are headquartered in the UK with a primary listing on the London Stock Exchange and are a constituent of the FTSE 100.

Problem…

Like most corporates, AstraZeneca has a short-term investment policy that weights capital preservation and liquidity above yield. In line with this philosophy, the company historically had a very short-term investment horizon, primarily investing in money market funds (MMFs) and overnight cash deposits. "In times of crisis, such as in 2008, we would go ultra-cautious and invest in short-dated US treasury funds," explains Alex Fiott, Head of Front Office, Treasury at AstraZeneca.

Although nothing was fundamentally wrong with this approach, Fiott and his colleague Peter Walker-Smith, believed that cash could be managed more actively. They set about reviewing how it segmented its cash and found that much of it could be invested for a longer time horizon, potentially resulting in more yield.

"Being so heavily invested in MMFs that invest in a high concentration of financials meant that AstraZeneca was effectively paying for somebody else's liquidity," says Fiott. "This, tied with the changing banking and MMF regulatory landscape, made it a good time to step back and challenge our existing investment policy to see what else we could do. We therefore reached out to our liquidity partners to see what alternative solutions were available."

…Solved

They decided to use tri-party repurchase agreements (repos) and separately managed accounts[1] (SMAs) to invest its short-term cash. AstraZeneca chose to use SMAs because of the flexibility they offer. A further benefit was the opportunity for the team to leverage the knowledge and expertise of its fund managers by mandating them to make investments in longer-dated securities on AstraZeneca's behalf. It was hoped that this would provide incremental returns above those of MMFs, while still retaining the aim of capital preservation and flexible liquidity.

Moving to these products was welcomed by senior management, not least because of the treasury team's proactive approach. "Given the changing regulatory environment, we were really taking steps to get ahead of the game," says Fiott. "And because the products we are using fit within the parameters of our existing investment policy, it didn't take much to persuade the risk committee that this was a positive step to take. The security of capital preservation remained, but our cash worked harder."

It must be noted, however, that adopting these solutions comes with its challenges. Fiott highlights that the documentation and legal work which is needed can put some corporates off. "It can take several months to do this and there is a lot of ancillary work that is required, especially when setting up a tri-party repo agreement," he observes. That being said, Fiott notes that the benefits have been well worth this effort[2]. Not only does AstraZeneca have a more diversified portfolio; the tri-party repos and SMAs are yielding 25/30bps over MMFs a year.

Working with an experienced and trusted liquidity partner such as J.P. Morgan Asset Management has been instrumental to AstraZeneca. "J.P. Morgan Asset Management was our partner on this journey from the very beginning," says Fiott. "Perhaps what is most important is that they always offer us an unbiased view of what is happening in the market and breadth of solutions that are available. This helps lead us to reach best practice, and focus on our actual needs. Their track record and expertise in operating short-dated liquidity funds also instils confidence when outsourcing your investments to them."

Fiott notes that segmenting the group's cash and exploring alternative investment vehicles has been a rewarding exercise for AstraZeneca and one that he would recommend to other corporates. Looking forward, the treasury team is also planning to explore what more can be done to refine the existing product solutions in order to diversify further thus continuing a proactive approach to managing liquidity.

For more information about separately managed accounts and other cash investment offerings, please visit **www.jpmgloballiquidity.com**

[1]Separately managed accounts create a customised portfolio of securities based on an investor's particular tolerance for credit and interest rate risk, cash flows, tax status and investment horizon.

[2]There are also risks that apply to investment services and strategies, which should be reviewed carefully before taking any investment action.

This much I know

Kate Moorcroft

Group Treasurer

BARRATT
DEVELOPMENTS PLC

What is the best piece of advice that you have been given in your career so far?

Believe in yourself, trust in your abilities and have confidence that you can do a good job. This wasn't advice in its traditional sense, but more something that my boss at National Express instilled in me during my time working there.

When I first joined the company, I wasn't the most self-confident person and would often be unwilling to push myself out of my comfort zone. But thankfully my boss invested in my development and handed me projects that pushed me. This enabled me to prove to myself that I could achieve more than I thought.

One of my biggest learnings has been that it is OK to ask questions and having the confidence to do so. Not knowing everything is OK, it is not a sign of weakness, and asking questions is actually a great way to learn from people and build up your own personal knowledge base.

"Believe in yourself, trust in your abilities and have confidence that you can do a good job."

What advice would you give to women in finance in terms of establishing and developing a career?

Don't differentiate yourself from men. I believe that in financial roles, women can do just as good a job as men – it is just about believing in yourself.

Linked to this, I also think it is important that women put themselves forward for roles and become more visible in the industry. I understand that this is not always a simple thing to do and quite often women can have a tendency to focus too much on the things they cannot do rather than the great things they can do. But there are lots of women in treasury doing fantastic jobs and I think that should be celebrated rather than hidden away.

Thankfully, I have seen this happening more and more over the last ten years. For instance, when I first started going to treasury events there were very few women and it could be quite intimidating. Today there are a lot more women at conferences, speaking and making their voices heard.

What is your motto in life?

I don't have a particular motto, but I do believe in living life to its fullest. To do this you need to have a job that you love – and I am lucky to have this. It also requires a well-defined work/life balance to spend time doing what you enjoy outside of work.

What is your next major objective?

Having just assumed the role of Group Treasurer at a FTSE 100 company, I sometimes have to pinch myself that I have come so far in my career. I am therefore just taking each day as it comes, immersing myself in the business, continuing to learn in order to become a better treasurer and leader and proving to myself that I can do a good job as a Group Treasurer.

ONLINE

To read all the interviews in this series go to **treasurytoday.com/women-in-treasury**

> I try to instil confidence in my team and get them to push themselves, just as others have done to me previously.

"I didn't get into treasury the conventional way," admits Kate Moorcroft, Group Treasurer at Barratt Developments when asked about her career path. Indeed, Kate is quite unusual in that she has climbed to the very top of the corporate treasury career ladder without a degree. "After finishing college, I really wasn't sure what I wanted to do," she says. "I therefore worked part-time as a bank cashier with Coventry Building Society and then went full time once I turned 18."

Kate quickly rose through the ranks at the Coventry Building Society, with the next step in her career becoming a branch manager at 21. "I realised though that this wasn't something that I wanted to do for the rest of my life," says Kate. "Around the same time a treasury trainee job came up internally and it caught my interest despite not having any clue about what the treasury department did."

After spending half a day in the department, Kate was intrigued and realised that it was a role that could enable her to build the career that she was looking for. "I decided to go for it and managed to get the role," she explains. "I spent a year or so learning the ropes of the front, middle and back office." The rest, as they say, is history.

Moving forward

After nine years working in treasury at Coventry Building Society, Kate decided that she wanted to broaden her experience and left to join National Express as a Treasury Manager. She admits that this wasn't an easy decision to make given that she was very happy and comfortable in her role.

"In hindsight, throwing myself out of my comfort zone at Coventry Building Society was important," explains Kate. "At that point in my career, I lacked self-confidence and was reluctant to push myself further." Kate says that she couldn't have moved to a better company than National Express, finding a boss who saw the potential in her and was willing to act as a mentor to bring this out.

"Very quickly at National Express I was being given projects that put me out of my comfort zone," explains Kate. "At that time, I still approached these tasks with limited confidence but I still ended up doing a good job. Slowly I convinced myself that I could do more than I thought I could." Kate was rewarded for this work with two promotions in six years, rising to the role of Deputy Treasurer at National Express before moving to her current role as Group Treasurer of Barratt Developments. "When I first started in treasury I never thought I would get to a deputy level, let alone group level, if I am honest."

Drive and ambition

When asked if not having a degree ever impacted her career, Kate answers that it has never really been an issue. "I passed the ACT exams just after moving to National Express and I think this, tied with my experience, outweighed having a degree and proved I was serious about treasury," she says. Kate also notes that not having a degree has spurred her on to achieve more than she might have otherwise. "I would try to shadow my bosses and sit in on meetings, even when I didn't fully understand the content, to build up my treasury skill set and see how people at a higher level operated."

Now, as the leader of a treasury department, Kate feels it is incumbent on her to bring through the next generation of treasury professionals. "I try to instil confidence in my team and get them to push themselves, just as others have done to me previously," she explains. "But as a leader, I also want to show that it is OK not to know everything. My team at Barratt have been with the company longer than I have and understand the business very well. I am therefore not afraid to say that I don't understand something and ask them. Just because you are the boss, it doesn't mean you know everything."

Kate Moorcroft started her treasury career at Coventry Building Society in 2002 as a treasury trainee and worked up through the ranks before being promoted to Senior Dealer in 2008. In 2010 she was offered the opportunity to move from a financial organisation to a corporate and joined National Express as a Treasury Manager. During the six years Kate spent at National Express, she was promoted to the role of Assistant Treasurer and then finally Deputy Group Treasurer where she managed a small team and lead various international projects. Kate now holds the position of Group Treasurer at Barratt Developments.

Getting to grips with exchange traded funds

In light of the challenges they face in today's liquidity environment, some treasurers are looking at the benefits of using exchange traded funds (ETFs) as a means of managing their strategic cash, as well as for liquidity and hedging purposes. What are the advantages of ETFs, and what considerations should treasurers bear in mind when using them?

Today's liquidity management landscape continues to present corporate treasurers with considerable challenges. Despite the US Federal Reserve's decision to raise the base rate from 0.75% to 1% in March, interest rates around the world remain low or, in some cases, negative. Meanwhile, regulatory developments such as Basel III have resulted in some banks having a more limited appetite for liquidity than in the past.

This challenging liquidity environment has prompted corporate treasurers to think differently about the cash they need on a daily basis, and to ask how they can make their cash work harder. In many cases, this is leading to more conversations about the strategic use of cash, with corporates looking to segment their cash into different buckets based on their short-, medium- and long-term needs.

While many corporate treasurers have historically met their investment needs using bank deposits and money market funds (MMFs), these challenges have prompted some to look further afield. In certain cases, treasurers are taking a closer look at the opportunities presented by exchange traded funds (ETFs).

"When corporates segment their cash, the strategic bucket tends to have a bit more flexibility in terms of the investment guidelines and the tolerance to risk," explains Ashley Fagan, Head of the UK Institutional Team for iShares at BlackRock. "So because of that, there's a broader range of short duration solutions that they will consider. ETFs sit nicely as a solution within that, as well as broader tailored liquidity solutions that can encompass ETFs, or a combination of ETFs and traditional money market fund (MMF) instruments."

Overview of ETFs

As the name implies, exchange traded funds (ETFs) are investment funds which are traded on a stock exchange. ETFs typically track an index such as the S&P 500 or FTSE 100 and hold a portfolio of assets such as stocks, bonds or commodities. Investors can buy or sell shares in an ETF in order to gain exposure to a particular index or market. Unlike mutual funds, which are priced once a day, ETFs may be traded intraday.

The first ETFs were launched in the late 1980s and 1990s. Since then, ETFs have grown to become a popular investment vehicle for individual and institutional investors alike. Worldwide ETF assets were worth around US$715bn in 2008, but growth in the intervening years has been considerable. As of August 2016, the ETF industry was overseeing assets under management of US$3.4trn, according to EY's Global ETF Survey 2016, following "a decade of growth averaging 21.5% per annum". The EY report predicted that AuM will reach US$6trn by 2020.

Bill Donahue, Managing Director in Asset Management and one of the leads of PwC's ETF practice, notes that, "ETFs continue to experience significant inflows, including a record US$133bn for the three months ended 31st March 2017." According to Donahue, there continues to be a lot of interest in smart beta ETFs and fixed income ETFs, with ETFs continuing to benefit from the trend towards passive, low cost investment products.

US$3.4trn
assets under management

At the same time, a number of different factors are affecting the direction in which the market is developing. "At the macro level we have a more robust regulatory environment putting pressure on traditional commission-driven financial product sales, coupled with the age of the internet shining the light of transparency on the asset management industry," comments Will Rhind, CEO and Founder of ETF sponsor GraniteShares. "As a result, investors are becoming more educated and are actually seeking out low-cost, transparent and liquid investments. Those are ETFs."

André Horowitz, Lecturer at London Financial Studies, says that the ETF segment "seems to be blooming as investors tend to be increasingly concerned about the high cost of traditional investment vehicles with historically proven suboptimal delivery of expected returns – especially after costs, commissions etc." As such, Horowitz says that many investors – both individual and institutional – have pursued a "change of heart strategy" as they migrate towards passive investment vehicles. "Indeed, Vanguard, Dimensional and iShares have recently gained a higher than expected share of the overall investment pie, and this trend seems to continue," he adds.

Benefits for institutional investors

ETFs have much to offer institutional investors in the current climate. Rhind explains that ETFs offer the same benefits that

are true for all investors: "low cost, transparent, liquid investment funds that provide exposure to a multitude of investment themes."

"ETFs provide the institutional investor price discovery and tighter bid-ask spreads in the fixed income market that has eclipsed that of the bonds themselves that make up the fixed income ETF," adds Geoffry S. Eliason, Chief Operations Officer and Head of Distribution at Peak Capital Management LLC. "Further, ETFs offer a level of agility that will become imperative as the economy dictates a rotation out of risk assets during a correction or recession."

Donahue says that ETFs can be used by institutional investors in various ways, including cash management, transition management, rebalancing investments, accessing new sectors and markets, portfolio completion, for hedging purposes and tactical adjustments, and as an alternative to using derivatives. He also notes that ETFs can provide a way of accessing various industries, sectors and geographies. According to Donahue, corporate treasurers are using ETFs for many of these reasons, although some investment strategies are preferred over others depending on market conditions.

Meanwhile, a report published by Greenwich Associates in Q1 2017, ETFs: Dynamic Tools for Institutional Portfolios, highlighted some trends in terms of how institutional investors are using ETFs. According to the report, 45% of institutional ETF investors are now using ETFs for liquidity management, up from 36% in 2015. Other key uses of ETFs cited by the survey's respondents included tactical adjustments (73%), international diversification (57%), core allocation (55%) and risk management/overlay management (36%).

Treasurers and ETFs

While ETFs might not have traditionally formed part of the investment toolbox for all corporate treasurers, there are a number of reasons why treasurers might consider looking at ETFs in the current environment. "Corporate treasurers recognise that ETFs offer liquidity across various asset classes, a viable solution for cash management, and an effective hedging mechanism," notes Eliason.

Indeed, the benefits of ETFs for corporate treasurers include the ability to access a range of different risk return profiles. "Another benefit is the transparency they offer," says BlackRock's Fagan. "Full portfolio holdings are published on our website on a daily basis, so they have full transparency into what the underlying investments are on an ongoing basis."

GraniteShares' Rhind observes that in the US, corporate treasurers, and corporations more generally, have been increasingly attracted to ETFs. "The money market fund debacle of 2008 and subsequent regulatory reform has led in some cases to situations where banks can no longer – or are no longer – willing to take corporate cash as they are holding too much of it and can't make a return," he says. "This has led to more interest in short-term government securities and short-term government bond ETFs."

Recent market conditions have also played a part in underlining the potential benefits of ETFs for corporate treasurers. "There's more volatility in the market," says Fagan. "And where returns are concerned, we've got the negative interest rate environment with German government bonds yielding -85 basis points in the three-month space, for example."

These factors have a knock-on effect for corporate treasurers, who may decide to look into alternative investment vehicles as a result. Fagan says that one of BlackRock's corporate treasurer clients recently reported that they were being charged up to 2% on their USD deposits, even though the US has not adopted negative interest rates. "That just shows you the lessening appetite that banks have to hold these cash balances," she comments.

How to use ETFs

According to Fagan, when using ETFs corporate treasurers tend to segment their cash balances so that money market funds continue to be used for the core 'bucket' while ETFs can be used for strategic cash. In practice, clients might look for tailored solutions such as a combination of different ETFs, or a combination of ETFs and money market funds to suit their investment criteria or guidelines.

While ETFs can provide a number of benefits, there are also some considerations that treasurers should bear in mind when looking at this type of investment vehicle. For one thing, not all treasurers have their own brokerage accounts set up. "It may be obvious, but the first and most important thing to note is that ETFs are exchange traded and are bought and sold like stocks," says Rhind. "Many companies do not have the ability to trade in or buy stocks especially private companies."

However, companies which do not have brokerage accounts may still be able to access ETF. Fagan says that while treasurers in this position may be challenged in terms of how they buy ETFs, "we've got over that by offering an implementation service for ETFs, so that's something we've dealt with and been able to help corporate treasurers with."

Understanding the risk-return characteristics

It is also important to be aware that unlike many money market funds, ETFs do not offer a stable net asset value, and to understand the risk-return characteristics of this type of investment. "You are potentially increasing duration compared to money market funds, and potentially adding credit risk as well," Fagan explains.

Tom Byrne, Director of Fixed Income at Wealth Strategies & Management, points out that with rare exceptions, ETFs have no final maturity. "Depending on what the ETF holds, the ETF could be worth less than for what it was purchased," he explains. "The same with alternatives. Nothing can provide the certainty than an actual bond or bill (treasury, sovereign or corporate) can provide. If a vehicle promises more than bonds are offering, then there is probably greater risk to principal."

Not all ETFs are equal

Meanwhile, Eliason says that treasurers should be aware that not all ETFs are created equal. "Tremendous time should be

spent understanding the ETF provider, their commitment to maintaining their ETF line-up, the trading and liquidity nuances of the respective ETF, and comparing the underlying holdings of the ETF versus its respective ETF peers," he explains.

Rhind adds that as with any investment, treasurers should do their homework on what an ETF is invested in and whether they are getting the exposure they want. "Index ETFs just track an underlying index, so knowing what the index is and how it performs is most important," he comments.

Understand the risks and rewards

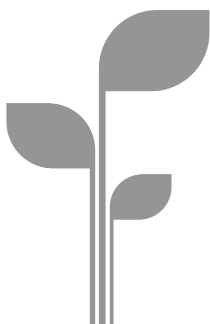
Last but not least, Donahue notes that treasurers should make sure that they fully understand ETFs before embarking on this type of investment. "There are a lot of misconceptions on ETFs, including risks, impact on the markets, etc," he explains. "It is important that treasurers perform their own due diligence to understand the potential risks and rewards with respect to investing in ETFs."

Where the fine detail is concerned, Eliason says that treasurers should have a deep understanding of the index methodology the ETF represents. In particular, they should:

- Be clear on how the index behaves under various market conditions.
- Develop confidence in the ETF company and their commitment to not closing an ETF down.
- Be familiar with the underlying holdings of the ETF and their liquidity.
- Understand how the ETF trades throughout the day, particularly international exposure. Different asset classes trade uniquely at different parts of the trading day.

Evolution of ETFs

With the ETF market growing steadily, considerable developments are taking place in terms of the range of products available. Eliason notes that the ETF universe "continues to grow exponentially, offering cash alternatives, unique ways to carve out the fixed income market, and innovative ways of indexing that may offer more attractive risk-adjusted returns versus traditional market cap weighted indexes."



21.5%

annual growth over the last decade

Donahue says that the range of ETFs across asset classes is continuing to expand, adding that "fixed income, international equity and multi-asset allocation ETFs were the top three asset classes considered to have the most potential based on our 2016 ETF survey, which will be published in the second quarter of 2017." He notes that a lot of discussions are taking place about active ETFs, which currently comprise approximately 1% of the US ETF market.

> There's more volatility in the market. And where returns are concerned, we've got the negative interest rate environment with German government bonds yielding -85 basis points in the three-month space, for example.
>
> Ashley Fagan, Head of the UK Institutional Team for iShares, BlackRock

Rhind says that the biggest trend currently is 'smart beta', which involves "inventing new indices primarily in the equity space that have different weighting methodologies to traditional 'market capitalisation' indices such as S&P 500 or FTSE 100 where the largest companies, regardless of fundamentals, represent the largest holdings." He adds, "the Trump presidency is also causing a renewed interest in inflation motivated investments. Commodities, for example, are seeing a lot of renewed interest as a result."

Fagan says that BlackRock provides a broad range of ETF products, including an ultra-short duration bond ETF which has grown 430% in the last 12 months. She cites the example of a large European corporate which is in the process of reassessing its bank credit risk with banks across the region. "In the past, they would just have considered bank deposit risk as very low risk," she explains. "Now that's evolving, and they are looking at ways to reduce concentration risk and increase diversification, which includes looking at strategic cash balances which were historically held in bank deposits." In light of current negative deposit rates, Fagan says the client has asked BlackRock to look at look at alternative solutions, including a range of short-duration ETFs.

Looking forward, PwC's publication ETFs: a roadmap to growth found that a number of investor segments are set to drive demand over the next five years, including financial advisors, online platforms, retail investors, ETF strategists, insurance companies and private banks/wealth management platforms. "We are seeing each of these investor segments continue to drive ETF growth in 2017," says Donahue.

As development continues, Donahue says that many more ETF issuers are expected to come to market over the next 12 to 18 months. "Thus there will continue to be challenges for ETF sponsors to differentiate themselves in an increasingly crowded market."

In conclusion, ETFs may not be seen as an obvious choice of investment for corporate treasurers. However, in today's challenging liquidity environment there may be benefits to keeping an open mind to a broader range of possibilities. That said, corporate treasurers considering using ETFs should take the time to understand the risks and returns associated with this type of instrument.

Live on-screen cash positions and ultimate real-time control for treasurers

New modules in Connexis® Cash centralise information and ease liquidity

Laura Milani
Liquidity Management Marketing Manager
BNP Paribas

Linn Birnbo
Strategic Cash Manager
Getinge

Hard-pressed treasuries know a good thing when they see it. The increasing sophistication of dashboard control for company treasury is reaching breath-taking proportions and it is this kind of real-world innovation, born out of real customer need, that is truly raising the fintech bar. It's become fashionable to assume that financial innovation is the domain of lean-and-mean start-ups, but sometimes it's the larger players who have their ear closer to the ground.

BNP Paribas, one of the largest global banks, ranking among the top ten in the world by total assets, doesn't trade its responsiveness to customers for sheer size. With the rollout of the new Liquidity Management Modules within its successful Connexis® Cash Management e-banking system, the buzz among treasury insiders is growing.

Familiar interface

The new modules are seamlessly embedded in the familiar Connexis® interface, with no steep learning curve, fully tuned to treasury needs. And no software installation is necessary.

Already Connexis® gives treasurers multi-bank visibility and control over all accounts worldwide. Cash and treasury transactions are optimised: easy access to crucial information reduces idle cash and allows effective management of funding levels, while daily and intra-day visibility of cash positions and projected flows leads to better short term investment decisions and yield maximisation.

Full overview

"Our customers tell us every day how easy the system is to implement and use, and this new functionality has just become part of the familiar day-to-day system," says Laura Milani, Liquidity Management Marketing Manager, BNP Paribas.

This is certainly the case for one of the world's leading global providers of products and systems within healthcare and life sciences. Getinge, based in Sweden, employs more than 15,500 people in over 40 countries, and recently made the decision to centralise the organisation and bring its diverse brands together under the Getinge name.

"It's a challenging transitional phase we're going through, and we're appreciative of the help we get from our bank," says Linn Birnbo, Strategic Cash Manager, Getinge.

"As a Nordic company, we've been used to different cash-pooling methods, but BNP Paribas has created a structure which works for us right across the world, and all in the same set-up. We have a full overview of all our operations in one place. It makes a big difference, and it's helping us a lot."

Live on-screen cash positions

The new Liquidity Management Modules bring much needed transparency to cash concentration and intercompany lending operations.

Through the Cash Concentration Module, treasuries can now access live on-screen consolidated cash positions from international subsidiaries and other entities, and in the kind of detail never before possible.

This centralised reporting provides consolidated as well as detailed views on cash positions across regions. Booked, intra-day and projected transaction flows, as well as cash pooling sweeps are represented in real-time, and here's the big advantage: the expected daily closing balance is updated and available at any time so that cash investment decisions can be fine-tuned, and any need for short-term financing can be identified.

Benefits checklist

- √ Global visibility on cash.
- √ Reduced idle cash.
- √ Real-time visibility of cash positions and projected flows.
- √ Optimised short-term investment.
- √ Maximised yield.
- √ Centralised cash and risk management.
- √ Reporting of aggregate cash and liquidity positions across cash pools.
- √ Integration of cash with short-term investment.
- √ Monitoring and management of intercompany term loans.
- √ Harmonised reporting and full transparency.
- √ Direct access to reporting for managers and local treasury.
- √ Customisable user profiles.
- √ Audit trail of liquidity management across the Group.

BNP PARIBAS

The online treasury dashboard delivers full global cash position visibility and control. Centralised reporting provides consolidated as well as detailed views on cash positions across regions. Booked, intra-day and projected transaction flows as well as cash pooling sweeps are displayed in real-time, automatically updating the forecast daily closing balance available for cash investment or needing short-term financing.

Keeping track of intercompany lending

The Cash Intercompany Module offers enhanced reporting to support intercompany lending and borrowing position monitoring, and administration, making it much easier to manage and track intercompany loans.

The module reports the consolidated lending and borrowing positions of accounts in a liquidity structure, as well as providing a drilled-down view on single account details. Standardised information is displayed real-time in one single location, eliminating fragmentation across banks and geographies.

Intercompany positions and intercompany account statements are updated intra-day in real-time. Indicative interest statements are updated daily, while display time can be adapted to suit the time zones of the accounts included in a treasury's cash pool structures.

Settling intercompany interest automatically

The Cash Intercompany Module does much more than this, however. A newly deployed feature caters for intercompany interest settlement between parties within the pool, where tax regulations allow it. All of this works automatically or, alternatively, payment flow information can simply be prepared, awaiting client go-ahead.

For the internal interest calculation, the client can instruct BNP Paribas to use fixed rates or market reference rates, with a stated margin. Different rates or margins can be set for different entities or accounts.

For Getinge's Cash Manager, Linn, this automation is crucial when busy treasuries are up against the clock: "Month end is a critical time for us, when we only have a short time to close the book. There are only so many hours in a day, and the more things we can automate, life is made so much easier."

"Settlements are fully automated. With no intervention needed from our side, the days of frantic last-minute calculations are finally over."

Comprehensive reporting

Online reporting is comprehensive, and harmonised with systems across the bank, and there's also a downloadable historical record.

With this up-to-the-minute information and detailed reporting, BNP Paribas is confident that decisions on moving cash around have never been easier. It's a big step forward that could offer everything a busy treasury needs to help put company cash in the right place at the right time.

Uncompromising security

Security is not forgotten amid the innovation. Any information accessed through Connexis® is considered sensitive and uses an encrypted link to prevent eavesdropping, tampering and message forgery. The system also uses the secure principle of Single Sign On (SSO) where a user doesn't have to re-authenticate to access every application within Connexis®.

The BNP Paribas security infrastructure also comes with a password generator for both authentication and validation of payments, as well as data encryption, allowing segregation of user access rights by service or by account.

Efficient and smart

BNP Paribas and its Cash Management division work closely with company treasurers to improve services and products and reinforce the bank's claim to be at the cutting edge of innovation.

"Our work is far from finished. We'll be listening to customers so that we can continue to be at the forefront of liquidity management," says Laura.

Linn goes along with that: "BNP Paribas is showing us that they're committed to developing systems with flexibility and functionality, customised to our needs."

"We look for efficient and smart solutions from a bank. BNP Paribas gives us just that."

Cash management: a firm commitment to cash

Through its local presence on all continents, BNP Paribas provides cash management services to more than 40,000 corporate clients worldwide. A community of 2,500 experienced and committed cash management professionals operate across BNP Paribas' international network, in 208 business centres in 55 countries, covering more than 130 currencies.

Along with a streamlined international payments and foreign currency offering, BNP Paribas offers its clients customised liquidity management solutions, enhanced collections efficiency and a wide range of global and local connectivity and reporting services.

BNP Paribas was designated No. 1 Cash Management Bank in the European large corporate sector, in the latest Greenwich Associates survey.

For more information, please visit our website: **cashmanagement.bnpparibas.com**

BNP PARIBAS

From treasurer to CFO

Treasurers often aspire to move to a CFO role – but what obstacles should they be aware of and what steps can they take to improve their chances of success?

While many treasury professionals may aspire to the role of CFO, there are no guarantees that even a highly experienced treasurer will be successful in achieving this goal. While the two roles certainly share some common ground, treasurers should be aware that they may need to overcome some gaps in their skills and experience in order to be considered for a CFO role.

Mike Tucker, Managing Director of Cadence Search, points out that the responsibilities of the CFO are broad, encompassing all areas of financial management as well as a significant stake in leadership. "The role of the treasurer is increasingly varied but ultimately limited to the various financial risks the group is managing, be that cash, liquidity, FX, counterparty, etc," he says. "Insurance and pensions are also (often) found on the treasurer's table these days – and sometimes tax – but the profile is and always will be narrower than the CFO."

Jennifer Ceran, CFO of Smartsheet and the former treasurer of eBay, similarly notes that the biggest obstacle treasurers face is that of being viewed as too narrow in their experience. "The board and the CEO want a CFO with broad experience," she explains. "Sometimes you not only manage finance but also legal, IT and HR. If you have been a treasurer your entire career, not having other experience may hold you back from being considered."

Nevertheless, many treasury professionals do go on to become CFOs. While every individual's career path is unique, there are a number of steps that treasurers can take if they want to become CFO, from gaining business exposure to building confidence.

How the roles differ

Naturally there are a number of differences between the roles of treasurer and CFO. As Tucker points out, "at CFO level, you're more often than not sitting on the board with a key stake in the strategic decisions the group is taking or going to take. Whilst the profile of the treasurer has undoubtedly risen in recent times, your strategic influence at the top table is currently limited and your responsibilities directly affected by strategic decisions above."

According to Ceran, a treasurer needs "deep technical skills in the financial markets, a keen sense for risk and how to manage it, and a great partnership with the CFO." A CFO, meanwhile, "needs broader technical skills beyond just treasurer, a strong grasp of business operations and an ability to translate strategy into execution". She adds that all CFOs must also have a great partnership with the CEO.

Mustafa Kilic, CFO of Groupe SEB in Turkey, was previously head of regional treasury for Indesit. He cites a number of differences between the roles: "There are different skills and expertise required – yes, treasury is one of them, but planning, controlling and knowing the regulations and the environment is also quite important." He notes that the CFO

Making the move: points to consider

Pieter de Kiewit, Owner of De Kiewit Treasurer Search, says that the following points are often discussed in conversations about making the move from treasurer to CFO:

- If there are nine controllers for each treasurer, the treasurer has a less than 10% chance of making it to CFO.
- Being a treasurer within company A and becoming a CFO in company B is virtually impossible. So take care if you are in an organisation that enables such a promotion.
- There are many examples of treasurers making it to CFO, so it can be done.
- If treasury has been your single job type, consider a lateral move to accounting or control before moving up again.
- In board meetings, topics around management accounting, reporting and analysis get more attention. From a technical skill perspective, the aspiring CFO should cover these well to avoid being disqualified.
- From a personal skills perspective, the competition – group controllers and chief accountants – are often more experienced people managers and have experience in multi-disciplinary management team meetings. These skills are appreciated in a CFO.

role is more strategic, with greater interaction with other departments, from marketing to logistics. Treasury, in comparison, is "more isolated".

On a practical note, Kilic also points out that a CFO role requires more travel. "When I was working in treasury, I would not be meeting clients or suppliers very often – I was not that much involved with the other contracts that the business was signing," he says. "Right now I spend almost 10% of my time with clients, suppliers and representing the company with different platforms."

Nevertheless, there are also a number of similarities between the roles. Ceran says that both roles require an ability to sense risk around the corners and great communication skills – "particularly if one is a treasurer or CFO of a public company". She adds that both roles require the ability to recruit and retail great talent.

Preparation is key

Jason Wang, Group CFO of the largest Chinese baby nutrition company Biostime, previously held roles in treasury, including regional treasurer for Asia Pacific at Henkel. However, the leap from treasury to a CFO role did not happen in a single step.

"Before I became the CFO, I actually moved from a treasury role to a controller role, becoming the financial controller for China and Hong Kong at Henkel," he explains. "It was a very important and critical experience to gain direct exposure to the accounting and controlling work, and also to gain closer contacts with business and operations colleagues."

As well as taking the financial controller role, Wang also concurrently took a business role as interim general manager for Henkel's detergent business in China – a move which he says was invaluable as a means of gaining direct business management experience. He was subsequently appointed CFO, Greater China at Henkel.

Wang says that when it comes to moving to a CFO role, there are several steps that treasurers can take to acquire valuable skills, knowledge and experience. Firstly, he says that treasurers should make sure that they have the required professional accounting knowledge. "In my case I had both the AICPA and ACCA qualification, which was very helpful," he explains. "On the one hand, this put me in a better position when it came to making decisions about financial and accounting questions. It also enabled me to show a higher level of credibility in the organisation."

Wang also regards controlling experience as important for treasurers who are looking to make this type of career move. "Within the financial organisation, as well as traditional finance functions such as treasury, tax, purchase-to-pay and order-to-cash, I think the controlling function is very important right now. To me it's almost a must that you have this experience before you become the CFO. I have already encouraged all my treasury colleagues who want to become CFO to obtain this type of experience."

In addition, Wang recommends that treasurers should make sure they have business exposure – either directly or indirectly. "Indirect exposure could be involvement in working capital management, supply chain finance or FX hedging within the treasurer role – all of these areas include interactions with the business, which is valuable experience when it comes to understanding the whole company's value chain," he says. "If possible, it is also valuable to have direct experience, for example by moving into a business controller role where you are in charge of financial planning and analysis (FP&A) and you become like a chief of staff for the business manager."

Expanding horizons

Ceran agrees that treasurers should get their hands on experience in other areas, such as Accounting, FP&A, IR or a BU CFO role. "The IR and FP&A roles I held have helped me understand the bigger picture of the CFO role and prepared me to take on the role," she says. "I would seek out mentoring from other CFOs, who may ultimately help you land that first job, or make you realise it's not the job for you. I would also start building relationships with your potential future partners like auditors and legal firms."

Meanwhile, Kilic adds that while treasurers have a strong understanding of a company's cash flow, they should look beyond this to gain a better understanding of topics such as working capital, P&L and balance sheet management. "Most treasurers unfortunately may not have time to focus on the balance sheet and P&L side of the business, but this should be seen as essential," he says.

Stepping outside the comfort zone

Jennifer Ceran, CFO at Smartsheet

"I graduated college in 1985 and spent my first two years on Wall Street as a financial analyst. After attending business school and graduating in 1989, I joined the Sara Lee Corporation as a Senior Financial Analyst in Corporate Development. I did not know what I wanted to do back then from a long-term career perspective so every 12-18 months or so, I moved to a different role in finance to explore the opportunities.

"In 1992, I rotated into the treasury department, and it was there I discovered my passion for the role. I loved that the treasury team had the visibility and responsibility for taking care of the company's capital structure including its financial assets and liabilities all around the world, and associated risks. Essentially, I learned that the right capital structure is critical to a company functioning well in both good and bad economic times, and maximising shareholder value over the long term. Companies can have different optimal capital structures depending on their business model so it's a balancing act of many factors and I loved the challenge of trying to figure out how to optimise it.

"I made the decision at that time that I aspired to be a treasurer someday. So I spent the next ten years rotating within treasury and doing two international treasury assignments. I wanted to learn everything I could to be ready for an opportunity when it came along.

"In early 2003 a recruiter contacted me for the treasurer role of eBay; at that time the company had just surpassed $1bn in revenue. I felt this was the perfect opportunity for me to take my experience and scale. For the next seven years, I was their treasurer and revenues grew to $14bn during my nearly ten years there. It was an exciting time. We were helping the company expand globally, making bold acquisitions like PayPal and Skype, managing sizable and growing FX, interest rate and operating risks, and dealing with an unplanned global financial crisis in 2008. After seven years in treasury, and navigating through the financial crisis, I asked our CFO to consider me for other finance leadership opportunities as I was ready to learn something new. When he offered me the investor relations and financial planning and analysis roles in 2010, I jumped at the opportunity.

"Then in 2012, after spending 25 years at big, multinational companies and now living in Silicon Valley where start-ups were offering challenging opportunities in emerging technologies, I got the start-up bug. A chance meeting with the co-founder of Box led me to moving to the then $50m revenue, fast-growing start-up. I joined as a VP of Finance to help them scale and get ready for an IPO. Box went public in January 2015, and I had the opportunity to help the founders and leadership team ring the bell at the NYSE.

"For most of my career, I never thought about being a CFO but I sometimes wondered if I was selling myself short by not stepping out of my comfort zone. It was around the time Sheryl Sandberg's book 'Lean In' came out. She encouraged women to lean in and stop holding themselves back.

"In the summer of 2015 a recruiter contacted me about becoming the CFO of a sub $1bn market cap public company. I interviewed and got the job. Then nearly a year later, a recruiter called me about being the first CFO of Smartsheet, a small but fast private SaaS business in the emerging collaborative work management space. I loved the Smartsheet technology because it made it so much easier to do the work I do every day with my colleagues and partners. I joined Smartsheet to help them fulfil growing customer demand in a large market and to work with a very passionate and collaborative team."

In addition, while technical skills and experience are crucial, soft skills may also play a role in determining whether an individual is suitable for the role of CFO. Ceran points out that the board and CEO must see you "as a CFO". "There is an element of strong leadership, someone who can inspire and motivate," she notes. "It is a perception thing but it's important how you carry yourself.

"For me, I have also had to work on my self-confidence. You need to prepare yourself a bit for the discomfort of new things coming at you as a CFO and not having the answer right away. I have built a large network of former colleagues and other CFOs and rely on them for advice when I need it. They have been invaluable for me, and that is why I regularly help others when they call on me. It is a two way street."

Conclusion

Treasury professionals can certainly make it to CFO – however, it is clear that they may first need to overcome some obstacles. By making strategic lateral moves in good time, and by taking the time to gain the right sort of skills and business exposure, treasurers can greatly improve their chances of becoming CFO.

Indeed, with treasury becoming more visible over the last few years, treasurers are arguably in a better position to achieve this than in the past. As Tucker remarks, "in my opinion the group treasurer is increasingly well equipped to move into a CFO role. The nature of their work means they are forward thinking. In an increasingly unpredictable world, I believe this is a huge asset as they are often better equipped to deal with rapid change – unlike those who are approaching the CFO role from a more traditional background."

Finally, while many treasurers do have aspirations to advance to CFO, in the meantime it is worth remembering that the role of treasurer can itself be highly rewarding. As Ceran concludes, "the treasurer role is an extremely important and fulfilling one. Of all the functional roles below CFO, it was my favourite. It was my favourite because a lot of CFOs don't really know treasury that well so they really value you. It was also a role where you can make a very positive impact, while potentially having a better work/life balance than the CFO."

All action treasury

Marc Vandiepenbeeck
Vice President & Assistant Treasurer

When first offered a job in treasury, Marc Vandiepenbeeck, Vice President & Assistant Treasurer at Johnson Controls, decided it wasn't for him. Fifteen years later he is an integral part of one of the world's top treasury teams with a wealth of treasury experience under his belt. Building on this success, Vandiepenbeeck has ambitions to develop in his role and beyond.

Johnson Controls is a global diversified technology and multi-industrial leader serving customers in more than 150 countries. The company creates intelligent buildings, efficient energy solutions, integrated infrastructure and next generation transportation systems.

With his previous hobbies including racing cars and flying small planes, Marc Vandiepenbeeck, Vice President & Assistant Treasurer at Johnson Controls is not one to settle for the mundane. His desire to avoid the ordinary and take on new and exciting challenges is reflected in his career choices and his decision to carve out a stellar career working in corporate treasury.

It nearly didn't happen, though. Discussing the formative years of his career in the early 2000s, Vandiepenbeeck admits that he had a plan for what he wanted his future to look like – a plan that didn't include working in corporate treasury. "I was working at PwC in Belgium and the Johnson Controls treasury department was a big client of mine," he says. "The treasurer at that time approached me on multiple occasions

> What came out of the crisis though was a tremendous amount of learning and a changed perception of the treasury leadership role.

to see if I was interested in joining the team. But I kept saying no; it just wasn't something that I wanted to do."

For Vandiepenbeeck, the role of treasury didn't offer the challenges nor the excitement that he was looking for in his career. "At that time liquidity was abundant and banks were falling over themselves to provide it," he says. "Treasury, although an important function, simply had to find the cheapest source of funding and make sure the operation was running as smoothly as possible from a cash management perspective. It was all about penny-pinching, there was very little strategic input."

Changing opinion

Yet the chance to join the treasury department to work on a major M&A deal was an opportunity that Vandiepenbeeck couldn't resist. In 2005 he joined Johnson Controls to work on the acquisition of York International. "It was an exciting opportunity and one that I couldn't turn down as I had been looking for the chance to work on the inside of a big deal such as this for some time," says Vandiepenbeeck. "It was a challenge with a lot of moving parts. I was required to develop an intimate understanding of the treasury processes of both companies and look at ways to optimise and upgrade these."

Aside from being an interesting experience, the 18 months that Vandiepenbeeck spent in this role had a more important impact: they opened his eyes to the strategic importance of the treasury function. "I didn't realise this before I began working in the department," he says. "What I found most exciting was the potential for the role to develop and the chance to be at the forefront of this."

Little did he know this development would happen a lot quicker and more dramatically than he could ever imagine. "In 2007 I moved to Milwaukee to lead Johnson Controls' capital market and investment activity," he explains. "This was meant to be a short stint, but then the financial crisis happened."

Vandiepenbeeck says that working in treasury throughout the financial crisis was "scary to say the least". He notes that it was frightening to see experienced people with an intimate knowledge of the business concerned about how the company would make it through next day, let alone the entire crisis.

"Johnson Controls had significant exposure to cyclical automotive businesses and this created a great amount of risk," explains Vandiepenbeeck. "We had large clients going bankrupt and closing down; it was very stressful and conditions were changing every day. There were just so many unknowns, which from a treasury perspective is a worrying scenario.

"What came out of the crisis though was a tremendous amount of learning and a changed perception of the treasury leadership role," says Vandiepenbeeck. "Before companies would use the role as a transitional stop for finance leaders on rotation. The crisis highlighted that this was naïve and that companies needed a team of treasury professionals who understood the markets and also the business."

Cultural changes

After helping guide Johnson Controls through the crisis, Vandiepenbeeck stayed for another few years in Milwaukee looking after the capital market and investment activity for the company. But he knew that it was time to take on a new challenge: "I had worked through the crisis and all the challenges and excitement that came with it," he says. "To then go back to issuing bonds in a normal market and under normal conditions wasn't especially satisfying from a professional point of view."

Vandiepenbeeck therefore jumped at the opportunity to move to Hong Kong to head up the Group's Asia treasury centre in 2011. It was an appealing move not simply because of the chance to experience a new culture, but also because the company was investing heavily in the region and entering into numerous joint ventures (JVs) with local companies. "I knew this would provide a new challenge and that is what I was looking for," says Vandiepenbeeck.

He admits that he was surprised, however, at how much of a challenge this was. "Working with companies that were part of a JV was not something I was used to," he says. "And our JV partners often had completely different agendas to Johnson Controls, especially the state-owned companies in China, and this meant that I had to spend a lot of time talking to them and understanding their objectives and how these could align with our own."

Although a challenge, Vandiepenbeeck says that he thoroughly enjoyed his time in Asia. "Hong Kong and China are rapidly changing from a regulatory and business standpoint so you have to be on your toes and ready to deal with the unexpected," he says. "It is funny when I moved back to the US I really noticed the difference between east and west and did miss the fast-paced nature of Asia."

All change

It was in 2016, after spending four years in Asia, Vandiepenbeeck moved back to the US to assume his current role of Vice President & Assistant Treasurer at Johnson Controls. Again, the move was prompted by the desire to seek a new challenge.

In his current role, Vandiepenbeeck is once again responsible for leading the Group's capital market, banking and investment management operations as well as the more traditional treasury operations in North America. He doesn't feel like he is treading over old ground, however. "I moved back to the US because the company is undergoing a period of dramatic change," says Vandiepenbeeck, referring to the selling of the Group's facilities management business, the spin-off of its automotive division, the merger with Tyco and the signing of large JVs with Japanese and Chinese partners. "Treasury has a vital role to play in these deals, maintaining good processes and supporting the business."

Most crucially, Vandiepenbeeck has learnt that it is important for treasury to keep costs under control. "In a dramatically

changing environment like ours, a lot of unrealised costs can begin to emerge because you are busy working on the integration side of the deal, without taking a step back to look at the bigger picture," he says.

Vandiepenbeeck uses the example of urgent high-value payments to highlight this. "During M&A, you often end up making lots of these urgent payments – which are costly – because the team has not been able to keep up with a deluge of work that has landed on their desk," he explains. The remedy to this is strong treasury controls and central processes that help keep costs down. "It sounds basic, and in principle it is, but it is difficult to execute, especially in a changing environment," says Vandiepenbeeck.

> Ensuring treasurers can focus on value-adding work will be a necessity if the role of corporate treasury is to continue to become more strategic.

Open and frank discussions

Aside from locking down the treasury processes, Vandiepenbeeck notes that he has also been challenged when it comes to raising debt to finance these deals. "When a company is undergoing such a tremendous transformation, you need to make sure that your financing partners understand why this is happening and how it will benefit them to support the company in the long run," he says. "I have therefore spent a lot of time in recent months speaking to the banks and investors about what we are doing. The key, I believe, is to be open and transparent and thankfully they have been very responsive to this approach."

This open and transparent philosophy extends to broader dealing with Johnson Control's banking group, something Vandiepenbeeck says ultimately benefits all parties. "Our treasury policy dictates that we put all parts of the treasury business out for tender every three to five years," he explains. "This ensures that we keep the pricing honest, but more importantly it enables us to learn about any new products or developments that our current providers might not yet offer."

Vandiepenbeeck also notes that the treasury is very careful in selecting the banks it works with, making sure that those who offer credit are rewarded with ancillary business. "We want to make sure that one bank doesn't get a lot of our business without providing much credit in exchange," he says. "It is about creating a relationship and partnership that is positive for both us and them."

Evolving landscapes

Vandiepenbeeck has also been spending a lot of time talking to his banks about the changing regulatory landscape, an area he admits is becoming more of a challenge. "Regulation has increased the cost of doing business and slowed down a lot of processes," he says. "It has also created a lot more non-value adding work for the treasury team."

That being said, his feelings about regulation are ambivalent: "You just have to accept it and make it work," he says. "Thankfully these changes don't just happen overnight and there is a lot of time to prepare. Our philosophy at Johnson Controls has been to just accept the changes and set up the right processes internally and use technology where possible to automate and alleviate the regulatory burden. Yes, this comes at some cost, but it is worthwhile in the long run."

Striving to automate processes is something that Vandiepenbeeck is passionate about and Johnson Controls has been ahead of the technological curve. "We implemented SWIFTNet around ten years ago – we were one of the first companies to do this," he says. "Since then we have also implemented a central treasury management system and electronic trading platform. We are now looking to leverage the developments in the trade finance space and digitise our work here." For Vandiepenbeeck, the primary benefit of all this work is simple: it enables the treasury to operate with a lean team which is chiefly focused on value-adding work.

An eye on the future

Ensuring treasurers can focus on value-adding work will be a necessity if the role of corporate treasury is to continue to become more strategic. Vandiepenbeeck also believes that evolving market conditions will further boost the importance of treasury. He cites the rising rate environment as one example of this. "The cost of each investment dollar is going to become greater," he says. "It is therefore vital that treasurers become closer to the business so that capital can be allocated efficiently and in a cost-effective manner."

Treasurers must also keep a close eye on the broader macro-environment. Having worked through the crisis, Vandiepenbeeck is acutely aware that big macro-issues can easily be missed. "I think there are a lot of risks out there right now," he says. "If you look at the price of certain assets, many of which are at record highs, there could be a bubble that is forming. The question is, what impact would a market correction have? It might be small and easy to swallow, or it might have ripple effects like in 2007. It is nearly impossible to measure or forecast until it unfolds. This is scary when you are managing a pool of assets and are responsible for the liquidity of the company."

Moving on up

With all these risks and challenges to consider, Vandiepenbeeck unsurprisingly is still enjoying working in corporate treasury, especially the strategic side of the role. It does, of course, come with its stresses, but he has found a perfect tonic to this. "Spending time with my twin girls is the perfect way to unwind," he says. "I am a morning person so I often don't see them before I leave for work, but I make sure that I get home to see them in the evening. The little time I spend with them is more rewarding than anything else I can do in the day."

Looking further ahead, Vandiepenbeeck has ambitions to branch out and take a broader leadership responsibility within the organisation. "I am a numbers guy and I love finance, but I want to be a finance leader as well and perhaps become CFO," he concludes.

How to navigate emerging markets

From moving capital and managing foreign exchange to building partnerships with local banks, how should treasurers navigate emerging market risk and regulation?

Emerging markets have long been a critical part of the business mix and growth strategy of multinationals. For many, initial sales growth has been followed by acquisitions or has driven decisions to relocate production to emerging markets to match costs with sales growth. This trend is set to continue, despite the slowdown in global trade and mutterings of some multinationals retreating as domestic growth and interest rate hikes draw investment back to the US.

According to the Boston Consulting Group, some 300m additional households will enter the consuming class in emerging markets this decade. Populations in developing countries are also growing four times faster than those in developed countries so that by 2020, 6.4bn people out of 7.5bn people worldwide will be living in emerging economies.

Managing fast-growing trade in emerging markets is a top priority in corporate treasury at British ingredients maker Tate & Lyle. New consumers in China, Mexico, South Africa and Brazil are driving growth for the company's high margin, speciality ingredients that includes brands like Dolcia Prima, a low-calorie sugar, and Claria, a "clean label" starch range, free from artificial ingredients.

"We are currently spending a great deal of time making our emerging markets treasury proposition as good as our developed markets treasury proposition," says Oliver Whiddett, Head of Group Treasury at Tate & Lyle. "The business will look to make targeted acquisitions in speciality food businesses in emerging markets. This will drive treasury complexity and how we assess our local needs."

Managing trade and investment in emerging markets ushers in a new level of complexity for treasury, which is responsible for financing, hedging and safely steering the company's financial interests in these more challenging jurisdictions. Each country has unique risks, regulations and restrictions, be it around moving capital, managing foreign exchange or governing relationships with local banking partners. Different cultures and time zones add to the challenge. So where should fast-growing companies focus to ensure a strong emerging market treasury?

Get the FX right

Even if a corporation has a small exposure to emerging market currencies, exchange rate volatility can cause chaos, pushing up costs or evaporating margins. "FX plays a crucial role; get it wrong and it can have a big impact on corporate earnings," says Gerald Dannhaeuser, Head of Corporate Sales in Asia for Commerzbank.

Corporates tend to have fixed hedging programmes in developed market currencies. But when it comes to managing FX risk in emerging markets, where hedging is expensive because of transaction costs and interest rate differentials, a bespoke and dynamic approach can work best.

"In emerging markets, a corporate's hedging committee often decides to meet quarterly rather than have a definitive approach," says London-based Adrian Williams, Head of Corporate Solutions at Commerzbank who counsels a nimble approach. "If markets are illiquid, treasury may think the market is too thin to get an effective hedge. In more dollarised economies, corporate exposure may be moving more in line with the dollar and treasury could better react to changes in the market by putting up costs. Nor may a team always know in advance what specific derivatives to draw on, like forwards or options."

At Tate & Lyle, which hedges transactional FX exposure, reports in sterling and has its largest exposure in dollars, the most challenging aspect of currency risk is understanding where the company's FX exposures lies in its supply chain. "In a business with integrated supply chains, unpicking FX exposure is complex. It can also overlap with tax rules around transfer pricing like, for example, which entity is expected to bear the commercial risks," says Whiddett. "When a business is rapidly expanding, it could be that FX risk management is pushed down the list of priorities compared to building customer relationships or sales. But treasury has to keep up to speed to actively support the business, enabling its ambitions whilst ensuring that risks are managed to within acceptable limits."

Companies with growing trade in China will have to navigate a complex and volatile currency environment. According to SWIFT, the renminbi was the fourth most used currency for global payments behind the dollar, euro and sterling in 2015. That was the same year that treasury teams woke up to renminbi volatility following the currency's sudden devaluation by the Chinese central bank.

"Hedging renminbi risk requires a degree of sophistication," says Dannhaeuser, explaining that corporations can hedge renminbi onshore, offshore or in the NDF market. Deciding whether to manage a renminbi hedging policy on a centralised basis from head office, or to delegate decisions to subsidiaries, is an important consideration.

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>
> Oliver Whiddett, Head of Group Treasury, Tate & Lyle

"Hedging onshore requires an onshore presence, a greater level of documentation and administration," Dannhaeuser says. Corporations have no administrative risk hedging offshore, but will need to balance this against basis risk. "Offshore and onshore renminbi are highly correlated so they move in parallel; it is not a perfect hedge," he says, adding: "If corporates decentralise they can take advantage of onshore and offshore markets. In China we see most corporations with this two fold approach, hedging both from their headquarters, and using their local treasury centres to hedge onshore on the ground."

But not all emerging markets have this flexibility. "The Brazilian real isn't tradable so it could be cheaper for the subsidiary to do the hedging," says Williams. "Here corporates can opt for a non-deliverable hedge offshore, or deliverable and settled in Brazil, pricing between the two differentials."

Hub and spoke

How to structure treasury in emerging markets is the next question. In one model, multinationals are choosing to move their emerging market treasury to financial hubs in the region. Singapore serves Asia; the UAE serves Africa and the Middle East – and basing treasury in Miami serves markets in Latin America. It's a model that establishes "policy level" governance and regulatory coverage, and solves issues around time zones and the working week.

"A hub and spoke model is fairly common during a company's growth phase in emerging markets," says Navinder Duggal, Managing Director, Global Transaction Services, at DBS Bank. "Typically, the hub will be located in an international financial centre that has a well-defined regulatory regime, provides easy access to sophisticated banking services, and has good access to liquidity and FX capabilities as well as the skilled manpower to support a regional treasury operation. At the same time, having people on the ground in the main sales or manufacturing locations allows improved implementation of treasury functions."

He also observes that as companies become more proficient in emerging markets, so the local presence becomes less necessary. "For more mature industries, it is possible to operate entirely through a centralised regional treasury once the processes and responsibilities have been clearly established."

In other cases, companies may operate a devolved approach, delegating control to local entities in more challenging countries owing to in-country regulations, complexity of markets or limitations in the financial environment. On a small scale, this could mean a team sitting "in country" to support banking and funding activities, says David Stebbings, Head of Treasury Advisory at PwC.

He notes, however, that integrating treasury activities such as payments and daily cash management in emerging markets into a centralised shared services environment can be a challenge. "It is more difficult, and probably less cost effective, to take cash activities in, say, Angola and put them into a shared services. In emerging markets it would be more likely that these tasks were done in country."

It's a challenge that leads him to favour a tiered approach. The first tier would be focused on developed markets where risk and cash management activities can be more centralised, hedging more mechanical and processes more easily automated. Subsequent tiers then comprise less developed and emerging markets where treasury activities require more diversity and flexibility. In lower tiers, it may not be possible to hedge risks or move cash very easily. The actual standards will often depend upon regulation, costs and the banking infrastructure in relevant countries.

Stebbings adds that many emerging market countries should move up through the tiers over time. "For instance, in India treasurers are less restricted in how they can manage FX and cash risk than in the recent past, although there are still a number of significant constraints," he says.

Strong relationships

By ensuring broad expertise, product offerings and geographies in core banking relationships, treasuries can often tap the subsidiaries of their core banks in far flung jurisdictions. Yet this is not always possible, and local bank relationships also bring local market and industry expertise. Local banks also fulfil particular requirements, like cash payments to a local workforce, or providing a source of local funding if strategy has focused on limiting foreign capital going into an emerging market.

Although Tate & Lyle counts ten relationships in its core banking group, including Japanese, US and European banks, the company has still built strong local bank relationships in Brazil and South Africa. "We have a good diversity in our core banking group. But there are some areas where these banks don't operate and we need to branch out and build contacts with local banks," says Whiddett, who brought valuable bank contacts in emerging markets to Tate & Lyle when he joined six months ago from mining giant Anglo American.

It's an experience that leads him to advise treasury teams to develop banking relationships that are strong enough to

weather the bad times, not just the good. "If the ratings drop and the cash flows fall away, there are never so many banks knocking on the door," he observes. Good documentation is also important: "You think you'll never need that banking clause, but then it turns out that you do."

Working with banks in emerging markets adds a new level of counterparty risk. The mere thought of a local banking partner being unable to repay deposits made by its corporate clients, or renew a revolving credit facility, is enough to rattle boardrooms. "Global banks are stronger and less likely to go under," says Stebbings who advises treasury teams to approach only "top end local banks", carefully assess the extent to which local partners compliment their business, and be alert to early warning signs of bank distress.

Sovereign downgrades are a common hazard that can increase borrowing costs, shrink liquidity and put pressure on local banking systems. Global clients of Brazilian banks had a volatile ride when Brazil was downgraded to junk status in 2015, taking the credit rating of many local banks with it. Today, treasury at Tate & Lyle, which sets a strict risk appetite for the company in each country, is preparing for the impact on South African banks of a similar downgrade to the country's credit rating.

Local banks' ability to integrate technology is another consideration. Local banks may not have electronic banking platforms, relying instead on manual, administratively-heavy processes. This is in contrast to regional treasuries being "quite lean and having adopted technology to automate many of the functions," observes DBS's Duggall. He adds: "Corporations will need banking partners that can integrate seamlessly with their treasury operations, and can provide timely electronic information to enable faster, and more effective decision making."

It's a point that Emre Karter, Head of Treasury and Trade solutions at Citi, expands upon. The treasury trend towards automation, standardisation and centralisation doesn't stop at the door to emerging markets. Given the challenges of maintaining visibility and control while partnering with different banks in multiple, risky markets, it is more important than ever.

Bank-agnostic services like SWIFT, that enable corporates to exchange information with multiple banks using common channels and standard formats, have become the norm. Treasury in emerging markets needs to ensure it is working with banks that are adapting to this environment and can go beyond single-bank proprietary solutions to address global, multi-banking needs.

"Corporations don't want to manage bank relationships country by country," Karter says. "There is a shift towards streamlining bank relationships, whereby companies can plug-and-play bank connectivity between their home banks and network banks. Many businesses want better integration and now enterprise resource planning (ERP) and treasury management systems (TMS) are allowing this between banks, as well as host-to-host solutions for timely information and decision making in near real-time."

Rules and regulation

Navigating regulation in emerging markets is another priority. In an attempt to curb capital outflows or shore up foreign exchange reserves, governments in emerging markets go to regulatory lengths to stop companies taking money out of the country. For corporations with exposure to China, treasury needs to be prepared for policy makers to tighten capital controls with a suite of regulations when the pace of renminbi outflows accelerates.

Currency controls recently caused havoc in Nigeria's auto sector, where the likes of Ford, Toyota and Volkswagen have developed assembly plants with local partners. Currency policies and associated import controls, set up to conserve hard currency and boost local manufacturing by forcing Nigerians to buy local, starved the sector of inputs and led to a collapse in supplies of product lines from glass to rubber. Industry body OICA estimates that total new vehicle sales in Nigeria dropped by more than half in 2015 compared to 2014.

"Exchange controls demand day-to-day management and bring complexity against a political backdrop," says Karter. The problem manifests particularly in cash management, where cash trapped due to sudden, or unexpected currency or capital movement restrictions impacts access to working capital across emerging markets and through supply chains.

PwC's Stebbings says this leaves some treasury teams deciding to keep "as little cash as possible in the local market – just enough to meet local needs, taking every opportunity to reduce surpluses." Some corporates request that receivables be paid in another currency altogether, "collecting revenues offshore" with payments made in US dollars to circumvent the currency restrictions. In bilateral trade relationships, where a company both sells into and buys from an emerging market, trapped cash, currently owed as a receivable, could be used to settle accounts payable in that country.

A clear view of what cash the business needs, often difficult because the business is expanding, is crucial. "Trapped cash is the kind of instability that triggers liquidity problems and it demands quick thinking to manage distribution and supply chains," says Stebbings. "We are seeing key emerging trends from our clients as they get to grips with the process. They are using technology, tightening governance and managing their working capital to improve visibility and control."

Other regulation may be more mundane, but just as frustrating. Cross-border payments typically require additional documentation and, if mismanaged, can lead to significant delays in receipt of funds. The use of cheques, common in some markets, also poses challenges around the timely realisation of funds. "The regulatory environment in emerging markets does change fairly often and corporate treasuries need to constantly review and adapt their plans. At times, the changes can be quite sudden and the interpretation of the new requirements may need further clarification with the authorities," says Duggal.

Tate & Lyle's Whiddett pauses before considering the most important criteria for a strong treasury proposition in emerging markets. "Take, for example, a new customer in an emerging market," he says. "If treasury is involved halfway through the process, putting in place the infrastructure needed becomes rushed, and there is a sub optimal outcome. Ideally, we are one step ahead of the markets the company is focused on. We've already looked to our banking group or started conversations with new banks, and we are already across local regulations, capital restrictions and our hedging options." Anticipation, it seems, is the magic ingredient.

Photo by Daniel Lapeña Gómez

Exciting times ahead

Ebru Pakcan
Head of Treasury and Trade Solutions (TTS), EMEA

In November 2016, Ebru Pakcan was appointed as Citi's Head of Treasury and Trade Solutions (TTS) for the EMEA region. Based in London, Pakcan is responsible for leading and developing the EMEA TTS franchise and driving business throughout the region. Here she shares her experiences of her first few months in the role and outlines how Citi aims to build on its success in the region.

What have been your biggest findings in the first few months in your new role and what do you want to achieve going forward?

In my new role, I am required to look at the business and the relationships we have with our clients a lot more holistically than I have done previously. This has really opened my eyes to the scale of Citi's TTS business in EMEA and the many ways that we support our clients across 53 diverse markets in the region. This is very exciting and it has been great to get to know many of our clients across EMEA. The diversity of our own people and the vision they bring to the business is also very exciting.

I see similar diversity with our clients too: the relationships we have are both very deep and very wide, as evidenced by the range of solutions we offer. As a result, when I travel to the different markets and speak to our clients I often find myself not just talking to treasurers, but perhaps procurement heads and other areas of the business. This really highlights how we as a bank support our clients across the full spectrum of their

> We will focus on an ongoing dialogue and collaboration with clients while thinking about the next three to five years. This is about ensuring that our clients are aware that the world is changing and that they need to be prepared for the new technologies that are coming in.

activities. So while it sounds obvious, gaining a clearer view of the breadth of our relationships with our clients has been extremely positive and it makes me very proud that we have such relationships.

What do I want to achieve going forward? I think it is really about taking these relationships to the next level, in an environment where the world is changing at unprecedented speed there are lots of challenges, but also opportunities as well. I want TTS to work with our clients to find solutions that enable them to grow and take advantage of these opportunities.

How important is it to have a mix of talents within your team?

It's very important, especially in the TTS business. We have really strong product capabilities and it is critical to have the minds and skills that maintain the new product development culture. However, we also need the creativity and experiences of individuals to make sure that our solutions perfectly match our clients' requirements tailoring these solutions appropriately.

Over the last few years we started acquiring a lot of other skills in addition to traditional transaction banking. We all know the importance of technology and it is very interesting to engage people who might have perhaps worked for a fintech or a regulator. So the future is going to look a lot different and the individuals who are going to shape that future probably need to acquire new skills and to change themselves too. That change has already begun.

What are the key priorities of treasurers in the region? Have these priorities shifted at all in recent years?

There is a lot of geopolitical uncertainty, from the implications of Brexit for both the UK and Europe to upcoming elections in the EU. Combined with the new administration in the US, this is an environment where surprises are becoming commonplace. I think this really is driving the priorities for treasurers right now – but how should they prepare for the unexpected?

I think flexibility is key in this environment. Treasurers need to stay agile in terms of managing liquidity and currency risk. They also need flexibility in order to manage working capital and cash flow in an environment in which their business partners, sales partners, marketing and procurement partners may have potentially conflicting priorities. Treasurers need to react to new M&A opportunities pursued by their companies too, so I think the name of the game is to retain that flexibility.

If I have to summarise, I would say there are probably six areas of focus:

1. Adapting to changes in the regulations especially tax regulations such as BEPS.
2. Risk management, including financial as well as operational and emerging risks with use of new technologies, hedging strategies and the risk of fraud in its many guises.
3. Liquidity planning.
4. The need to maintain a close eye on the overall working capital of the company.
5. New technology in the short, medium and longer term.
6. Developing and nurturing talent for today as well as tomorrow and really thinking about the individuals who will be driving their businesses in the future. This is a long-term investment but one that will ultimately drive future success.

When I speak to treasurers, it is clear that managing all these competing priorities and challenges – and getting the resources needed to do this – is a huge task for them. Nowadays treasurers have so many day-to-day pressures that getting the fundamentals of the job done whilst also being strategic is a considerable challenge.

How is Citi supporting its clients in the region in light of these changing priorities?

I would break this into a few key work efforts. One of them is our investment in advisory services. This has enabled us to work with multinationals using tools, techniques and big data so that our clients can benchmark their treasuries and address the question "what does best practice look like?"

This has been very important for us and we continue this advisory dialogue in areas such as changes to tax regulation, supply chains, account structures, legal entities, double-taxation treaties and much more – it's a complete treasury advisory service which is evolving all the time and is a key differentiator for us. Brexit has also put this advisory offering in the spotlight again and many of our clients are turning to us and asking about the different scenarios and what they might mean for their business.

This advisory then feeds into our product development, especially around the innovation that we are doing in our labs. We make sure that when we develop new projects, we work with our clients to understand what they need, rather than what we think they need.

Our final focus is on building awareness regarding topics such as cyber-security – this is a big area of focus for all our clients. For the past year, we have hosted a lot of awareness and training sessions with our own cyber-security and information security experts, the objective being to make sure our clients are fully aware of the risks and the techniques and strategies to mitigate these.

What makes Citi a bank that corporates in EMEA should work with?

We have talked about the advisory and partnership role the bank fulfils, but I have not mentioned what makes Citi unique in being able to fulfil this role: our global network. This network brings local know-how, experience and natural diversity to our engagement with clients.

I think another important aspect to this is about being progressive. This doesn't always mean coming up with an entirely new product, but it does mean thinking about the new technologies which are out there and being willing to explore things that are of interest to our clients. I think the extent to which an institution engages in progressive thinking is very important. This is where I see a lot of drive and energy in our business; it makes me proud to work with people who are coming up with these great solutions and packaging them in a way that makes life easy for our clients.

I think that putting these different elements together to see what actually works for a client, rather than just putting it down together and saying "here is a solution, it might work for you," takes a certain creative mindset. It is about working with clients to lift the bonnet of their business, understand the mechanics and deliver the right solutions.

Broadly speaking, is everybody looking to adopt technology to make their lives easier?

At the end of the day, the industries our clients are in determine the pace at which they are looking at new technology. Most are investing in technology which makes treasury more efficient and better controlled, such as improving data integration, leveraging industry standard file formats and adopting virtual account structures and auto-reconciliation tools.

As you start building on that, there are other tools which are developing in the industry such as SWIFT's global payments initiative (gpi) in the cross-border payments space, which is bringing more transparency and information about the status of payments.

Another area is real-time payment infrastructures. Companies which receive payments from a lot of different consumers and which have developed ecommerce or online sales platforms may be looking at adopting real-time collection methods. This opens up a whole new universe of mobile payments, wallets and so on. So a company's customers and supply chain will determine the next set of tools that they want to leverage.

Then there is more game-changing use of technology that can fundamentally change business and operating models for companies in different industries and change how corporate treasuries need banking and financial services. The auto sector is one example of how companies are really pushing the boundaries of technology. Some companies are developing 'connected' vehicle strategies and digitising their business models to open up their cars to internet of things (IoT) features, such as enabling consumers to buy groceries while they are driving home. This, of course, presents an entirely new challenge for treasurers who are being asked to figure out how to handle such transactions.

So I think there is a very different world developing out there. Again, I see this as a co-creation journey with our clients as they think about these new business models, and as we think about what this means for the services we can help them with.

Looking to the next 12 months, what do you see as the major areas of focus for treasurers and how are you going to make sure Citi's plans align with these?

I would say we will be focusing on three broad areas.

The first is business as usual – the client experience and making it as efficient and effective as we possibly can across the various touch points we have with our clients. This is an obvious step, but given the breadth of the relationship that we have with our clients and the number of touch points that exist, this is very important.

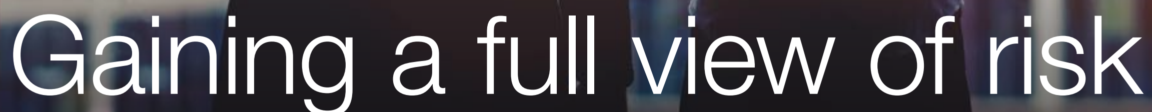
Second is a focus on the next 12-24 months as Brexit unfolds, acknowledging other major market changes that we may need to react to and any immediate impact on our customers' supply chains. This could lead to supply chain finance, sales financing, more effective hedging and liquidity structures – and, importantly, listening to our clients as they navigate this uncertain time.

Finally, we will focus on an ongoing dialogue and collaboration with clients while thinking about the next three to five years. This is about ensuring that our clients are aware that the world is changing and that they need to be prepared for the new technologies that are coming in. This is crucial if we are to continue to serve our clients as trusted advisors and develop the right strategies with them going forward.

I am keen to ensure we don't take our eyes off that future horizon while doing what we need to do in the short term.

Based in London, Ebru Pakcan is the Head of Treasury and Trade Solutions (TTS) EMEA. Before this, Ebru was the Head of Global Payments and Receivables for TTS and was based in New York for three years. Between 2008 and 2011, Ebru was the Head of Payments for EMEA. Ebru moved to the UK in 2004 to lead the Transaction Services EMEA Implementation team. Previously, Ebru was Securities Country Manager in Turkey, managing the Custody and Clearing Business. She joined Citi Turkey in 1997 and held various roles in Citi's local Business, Operations & Technology divisions.

Ebru holds a degree in Computer Engineering from Bogazici University in Istanbul, Turkey and serves as a Director on the Board of Citibank Europe plc in Ireland.



Gaining a full view of risk

It has never been more important for treasurers to have a full view of risk across the business. But how can treasurers achieve this, and how can technology help them manage their risks more effectively?

Managing risk has long been a core responsibility of the corporate treasurer – and recent events have only made risk a greater concern. From interest rate risk to cyber risk, treasurers are required to understand the implications of many different types of risk on the company's financial position and, where necessary, take appropriate action to mitigate those risks.

In many cases, this is an area where improvements are needed. "In a recent study FIS performed of treasury professionals, approximately half of respondents described their risk management strategies as either mediocre or poor," comments Steve Wiley, VP Treasury Solutions at FIS. "New regulations, recent fluctuations in foreign exchange prices and highly publicised hacks have put all areas of risk, including cyber risk, higher on the treasurer's radar than ever before."

In today's challenging environment, risk management is arguably second only to cash management where the treasurer's goals are concerned. PwC's 2017 Global Treasury Benchmark Survey placed financial risk management third on the treasurer's agenda after cash flow forecasting and cash management optimisation, while currency risk was found to be the second most important of the CFO's priorities for treasury. Altogether, the survey found that risk management represented 15% of the activity split for central treasury staff.

In practice, treasurers often manage a broad range of risks. Vivian Peng, Vice President & Asia Treasurer at Flextronics, points out that the traditional financial risks managed by treasurers include liquidity, forex and credit risk, but that other risks may be identified such as counterparty risk, industry risk and geographical risks, depending on the features of individual companies.

With so many risks to manage, how important is it for treasurers to gain a full view of risk across the business – and how can this be achieved in practice?

Evolving risk management environment

From political upheaval to high-profile cyber-attacks, the events of 2016 underlined the importance of expecting the unexpected. The UK's Brexit vote has had a significant and lasting effect on exchange rates, while attacks such as the Bangladesh Bank heist demonstrated the potential scale of cyber-attacks as fraudsters become ever more sophisticated in their approach.

Understanding the risk circle

In this climate, it is more important than ever to understand the nature of the risks faced by organisations. Paul Taylor, Head of Global Corporate Sales and Head of EMEA Sales for GTS at Bank of America Merrill Lynch, says that he regards risk management as a circle with four points flowing in a cycle.

"At the 12 o'clock position of the circle, you have geopolitical and macroeconomic events, which as we've seen in the last

Managing volatility

"As a treasurer, we have to worry about two kinds of volatility: the ones we know about and understand, and the ones we are not aware of," says Damian Glendinning, the Singapore-based treasurer of Lenovo. "For the first category, once we are aware of the issue, it is usually possible to collect the data on the underlying exposure, and take the necessary risk mitigation actions. These will usually be some form of hedging.

"Of course, it is better if the awareness of the risk does not come from a bad experience: we always try to get out ahead of these problems. The sad fact is that many organisations are only willing to make the necessary investment in gathering the data and enforcing the disciplines after they have learned the lesson the hard – and expensive – way.

"By definition, it is hard to prepare for the risks and the volatilities we are not aware of. This will often take the form of unexpected consequences: the funding crisis and the dramatic spike in overnight interest rates during the global financial crisis is a prime example. It might have been possible to foresee the collapse of a single bank – but no-one expected the chain reaction which ensued.

"For these cases, it is always best to make sure we have something in reserve. It is also very good to challenge your own assumptions. In many cases, our actions are based on an implied assumption that something cannot happen – it very often can."

12 months, can be surprising," he explains, noting that such events can have a considerable impact on financial markets, politics, consumers and economies. "Moving round the circle, that has created a much greater feeling among clients – whether they are institutions or consumers – of exposure to risk. This awareness is the second point on the circle."

The third point, Taylor continues, is the need for greater regulatory scrutiny and for market bodies to be appointed. "At one end, that means the regulators – but it also means activist investors, think tanks and quangos which provide scrutiny and oversight and highlight risk in a more detailed way than before."

Finally, Taylor says that banks represent the fourth point of the circle. "Banks have seen a dramatic shift in terms of how they view risk, how they measure risk and how they react to those risk measures," he says. "This feeds through into their appetite, their market selection and their client selection – and in turn, this ends up having an impact on economies and geopolitical situations, completing the circle."

Growth brings risks

Another catalyst in the current risk environment comes, perhaps counterintuitively, in the form of growth. Steve Elms, EMEA Sales Head, Corporate and Public Sector and Regional Marketing, Treasury and Trade Solutions at Citi, notes that growth is emerging as a key topic for 2017, with clients increasingly looking for opportunities to expand their businesses. "As they search for growth, this brings them to new markets, new counterparties and new relationships," he comments. "As such, risk continues to play a role even in the context of a very positive growth story."

Again, the geopolitical landscape is relevant to this theme. "While growth can be seen as positive, there is also a question mark about the impact of nationalism if this global trend continues," Elms comments. "My belief is that growth will continue to be a theme, but it does create a few slowing down factors."

Illustrating this point, Elms cites the long tail risks which have been evident following the shocks of 2016. "Following the UK's vote to leave the EU and the election results in the US, the volatility created in the market was significant – especially in relation to FX rates," he says. "Many had hedging programmes in place, but as hedges roll off the real impact of currency devaluation has hit home. Earnings volatility is therefore becoming more of a priority for corporates."

Know your risks

In this environment, what steps can treasurers take to manage their risks as effectively as possible? First and foremost, treasurers need to have a full view of risk across the business. "It is critically important for treasurers to have transparency into their financial exposures and the risks that could affect them," says Bob Stark, VP Strategy at Kyriba. "Making decisions without a full view of risk is like only looking in one direction before crossing the street."

Taylor says that the first step is to be as precise as possible when understanding the risks to the business. He points out that every business and industry segment has its own risk profile, so some businesses will prioritise certain risks above others: "If you are an oil major, for example, you will be considering different risks to a technology company."

As well as having a clear understanding of the risks which impact the business, Taylor says it is essential to have the tools, mechanisms and technology needed to manage those risks on a real-time basis. At the same time, it is increasingly important for treasurers to take a broad, strategic view of the different risks they face. "Nowadays, treasurers play a much broader and more strategic role in the running of the company and how the company operates," he says. "In that sense, treasurers are obliged to take into account risk considerations which go much further within the company than just within the finance or treasury function."

Responsibility for risk management

However, gaining a full view of risk across the business can be challenging, and it is important to note that treasurers may not be directly responsible for managing every risk that affects the business. That said, even risks which do not fall under the treasurer's remit will still need to be considered. "Treasury are normally involved in financial risks, not business risk," comments Flextronics' Peng. "But business risks should be factored into financial results. How treasury could help business to factor business risk into the development of

strategy and negotiation with customers would be an interesting topic."

Taylor notes that almost all forms of risk impact the treasurer, whether directly or indirectly. "A good example of that would be technology risk or cyber-security risk," he explains. "I'm not sure that in most companies this would fall to the treasurer to manage, but clearly technology and cyber-security risk have a massive bearing on the role of the treasurer."

Another area where treasurers may see indirect impacts is with geopolitical events such as Brexit in the UK, the change of administration in the US and political upheaval in the Middle East. "I don't know if any treasurer feels that they directly own any of those elements as far as the overall company's response is concerned," says Taylor. "But clearly each one of those is going to have a ripple effect on the company's finances and its ability to manage its working capital." As such, Taylor says that even if these areas of risk are not 'owned' by the treasurer, the treasurer will still be directly responsible for managing certain elements of them.

In some cases, this responsibility will be shared with other parts of the business. "There are some risks that treasurers manage alone – such as liquidity, currency and interest rate risk," observes Stark. "There are others that treasurers support in collaboration with other teams – such as the impacts of regulatory change on tax or the impacts of globalisation on the supply chain, and sovereign risk impact to top line financial KPIs of their organisations." Stark points out that for treasurers who don't play a role in tax strategy, reducing risk in the supply chain or external influences on business performance, "it is a lost opportunity that will limit their career progression."

Role of technology

When it comes to managing risk, technology has an important role to play – but this doesn't negate the need for a clear view of the risks faced by the company. As Stark says, "a treasurer cannot manage risk without technology. Yet nothing can be achieved with technology before treasurers understand the business impacts of managing risk."

With a clear understanding of the impact of risk on their cash flows, positions and opportunities to borrow and invest, Stark says that treasurers can leverage technology "to improve visibility into risk exposures, make better hedging and risk mitigation decisions, and manage regulatory compliance." He notes that while a reactive treasurer will use technology to get everything done, "a proactive treasurer will leverage technology to analyse the effectiveness of what they are doing and how they can continue to improve."

Treasury management solutions can play a key role in helping treasurers understand their risks and manage everything from interest rate hedging to liquidity risk. Functionalities such as business continuity and the ability to enforce segregation of duties can enable businesses to mitigate their operational risks.

"Treasury technology allows treasurers to centralise global foreign exchange exposures, track hedging instruments, automate risk analytics and reporting," comments FIS' Wiley. He notes that treasury technology can also protect company assets through access to the strongest levels of cyber-security by specialised treasury technology providers.

"Additionally, risk management technology allows for the treasury function to be more effective in decision-making processes related to the hedging of risk, by automating the collation and analysis reporting of data, which deliver more timely, complete and accurate information."

At the same time, treasurers should be monitoring how new and emerging technology can be used to enhance their risk management practices across different areas of risk. "It's a new technological environment in addition to being a new risk environment," comments Elms. Where receivables are concerned, Elms says that the use of machine learning to match invoices is a "significant trend" which can enable corporates to reconcile their receivables processes in a much more automated way. "This brings not only improvements to working capital, but also risk mitigation," he adds.

Meanwhile, Elms points out that the arrival of PSD2 is helping to drive some developments, such as the use of application programming interfaces (APIs), thereby enabling an event-driven rather than demand-driven flow of information. "So rather than requesting data, information is being pushed to the recipient who will be the consumer of that data," says Elms. "For example, as a collection comes in, that automatically generates an impact to the balance of that account to be shared on a real-time basis." Such developments can play an important role in arming treasurers with the information they need to gain a clearer view of risks.

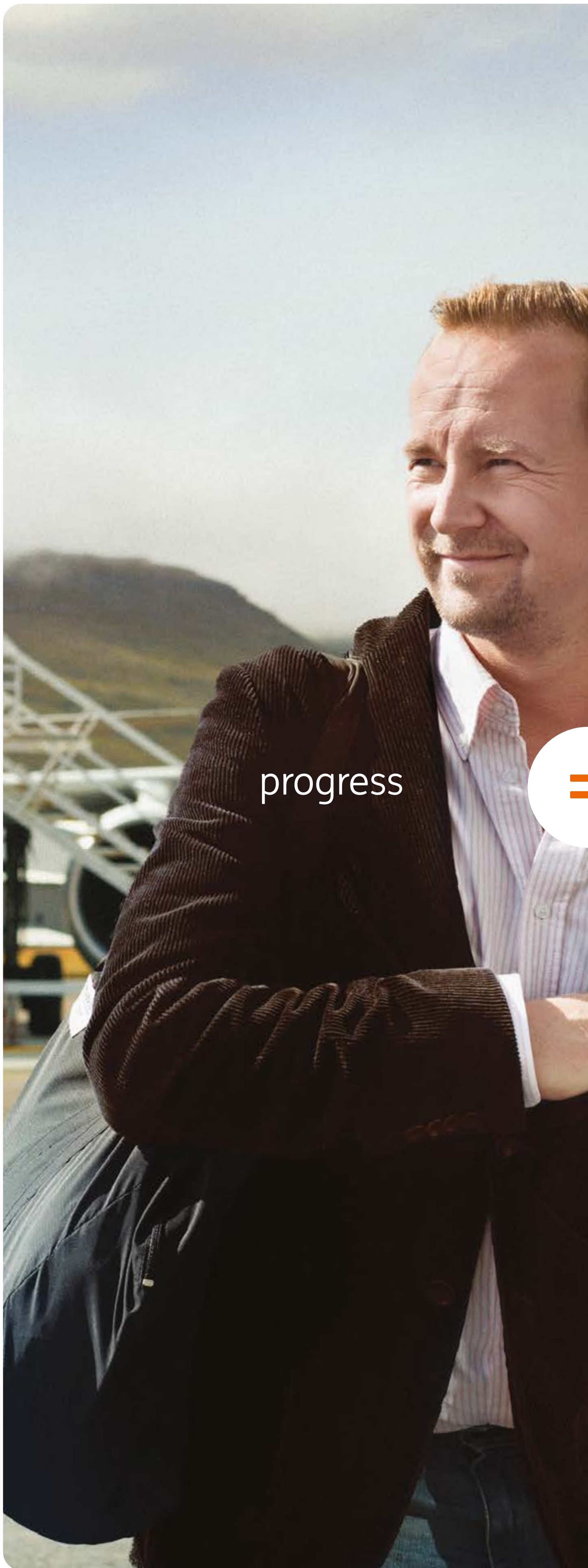
Taylor says that robotics could increasingly play a role in helping treasurers manage their risks more effectively by enabling more processes to become automated. "Anyone can run a spreadsheet and it can produce results, but what do we do when we have to make emergency payments, or when a market event has a knock-on impact to the ability of a company or a market to function?" Taylor asks. "Are there newly automatable processes which would not only enable companies to manage this in an automated way, but which would actually increase the company's speed of response to those events – and thereby dramatically reduce their risk?"

As banks invest in areas such as big data and robotics to bolster their own processes, they are also looking at ways in which this type of technology can be used to benefit their corporate clients. "We've certainly done that in terms of our CashPro or virtual account management platforms, and by rolling out robotics in our retail presence in the United States," says Taylor. "I think banks can play a big role in that technology – but I think technology itself has a much bigger role to play in supporting the treasurer."

Conclusion

If the events of 2016 taught treasurers anything, it is that unexpected events can and do happen. "Ironically, the market's reaction for tail risk is becoming much less," notes Elms. "People are getting used to the unexpected. Of course we'll continue to see volatile events – but where day to day events are concerned, we're moving into a new normal."

Nevertheless, understanding and managing risks is a higher priority than ever for corporate treasurers. As innovation continues, treasurers should welcome any developments that might enable them to manage risks more effectively – while also leveraging the full range of functionalities offered by existing solutions.



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Wholesale Banking

21st century KYC

Using blockchain and private wallets, KYC-Chain believes it has developed the solution that will finally drag the antiquated process of KYC into the 21st century. Here, Edmund Lowell, Founder and CEO explains how.

Edmund Lowell
CEO & Founder

Tell us a bit about yourself and your background. How did you get into fintech and what has made you want to solve the KYC challenge?

My background spans law, technology and finance. After graduating from Northeastern University I set up a company that offered outsourced corporate secretarial services to companies setting up their operations. Part of this role included opening bank accounts and I remember being amazed how it took banks 28 days to perform KYC checks that we would be able to complete in one day. It was especially onerous when doing this across borders and it was here that I started thinking about how the KYC space could be improved through the use of technology.

Before founding KYC-Chain I worked across numerous roles and industries including being CFO for a company with over 100 employees. I know enough about finance to be dangerous. I have also established some successful technology start-ups that proved to be very good learning experiences. In more recent years I have become fascinated with distributed ledger technology and the opportunities that this provides to make financial services more secure, transparent and efficient.

In marrying all these experiences together, I established KYC-Chain in 2016. KYC is an interesting and very complex area and because I do not come from a banking background I feel that I can look at some of the processes through a different lens. We can kill some sacred cows. What is most obvious when working with banks is that their focus is on incremental change – and there is a good reason for this, they work in a highly-regulated environment and are risk averse. But with KYC-Chain we believe that we can partner with banks to drive revolutionary change and make the KYC experience exponentially better for banks and their clients.

What makes fintech such an exciting space to work in?

You just have to look at the pace of change and how the corporate and financial landscape is changing. Take Ant Financial, this is a spin off from Alibaba Group and it is valued more than Goldman Sachs despite being just a few years old. What has facilitated this? Technology. In the right hands technology has the power to facilitate exponential change.

The relationship between technology and finance is speeding up. For a long time, there has been technology component in finance but the environment is changing at a rapid pace where some technology companies that have got into finance are now bigger than the banks. See Ant Financial, Ping An Insurance and disruptor banks in the UK – these are technology companies at their core. People need banking services but they don't necessarily need them from a bank. Banks should partner with technology firms to stay relevant, especially those that will enable them to serve their customers better. It may come to a point where if it's easier (or less annoying) to do KYC with one bank, then they have a competitive advantage over other banks.

Do you think that the banks see fintech as friends or foe?

The mindset is changing though and banks are increasingly seeing the fintech community, even those companies that position themselves as disruptors, as an industry that they should begin working with.

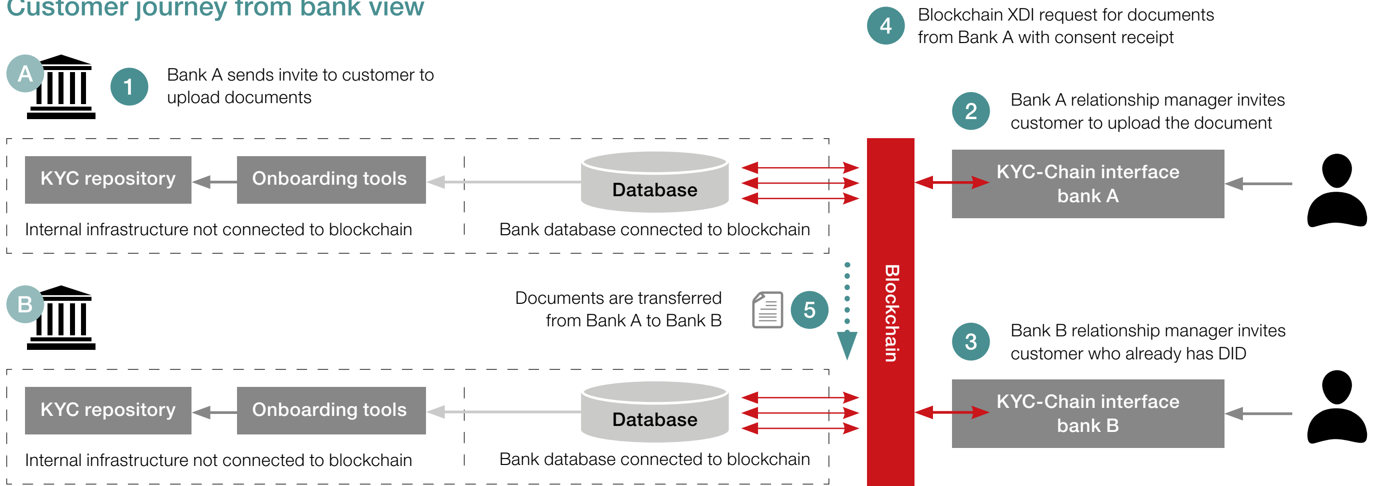
What other challenges exist for fintechs today?

This depends on the market that the company is operating in, a company operating in the payments space will have different challenges to us. Regulation, for example, worries some companies because it could theoretically impede a lot of what the company is trying to do. At KYC-Chain, however, we like regulation, it facilitates our business model.

More broadly speaking, though, there is a fear that regulators will always side with established financial organisations if there is ever conflict between fintech and banks. Regulators have a hard job balancing competing interests, but ultimately, they have long-standing relationships with banks so human nature says they will back these instead of fintech.

The other challenge for fintech is that the landscape will continue to change. Companies will come and go and there will be consolidation in the market. We have seen this happen since the dot com boom and it will happen in fintech as well.

Jan 2014	May 2014	Dec 2015	Jan 2016	Apr 2016
Published whitepaper on KYC on blockchain	Prototyped on Bitcoin	Started recruiting team	Founded KYC-Chain	Prototyped on Hyperledger



KYC 2.0

"The world we want to move into is one that is more transparent, more private and more secure," says Edmund Lowell, Founder and CEO at KYC-Chain. "At present KYC is the polar opposite of this. It still relies on paper, the processes around it haven't been standardised and the information is not easily shared from one person or institution to another. The fact that there are still scans of passports moving around the world in unsecured email and snailmail is almost embarrassing when you consider the technological progress made in other areas."

It is this legacy world that Lowell and KYC-Chain are trying to solve. "We want to make the document and data information exchange between the end client and the financial institution easier and more efficient for all parties," he says.

Solution in action

The customer of the bank controls this information at all times in a private wallet that is secured by a set of private keys. Through this wallet, the customer is then able to permission its banks to view the information they need when they need it. The data rests within the banks servers, but the user retains control and access.

"Unlike traditional KYC processes, this really puts the control of the document exchange bank in the hands of the customer where it should be," says Lowell.

In practice, this means that no longer will customers have to deliver physical proof of identity to the bank when opening a bank account. There will also be no wait time between delivering these documents and having access to the account, as the private wallet has an authentication layer that will enable the customer to access the bank account right away.

In an effort to drive further security, KYC-Chain employs agent software that allows two siloed data sets to talk to each other using cryptographic keys. What this allows is for documents to be shared in the traditional manner (the full document) or identity can also be confirmed through a zero-knowledge based proof.

"This shares the least amount of information satisfied to meet requirements," says Lowell. "For instance, if you simply need to show that you are over a certain age, you could choose to share only that bit of information, as opposed to sharing more than is needed. Traditionally you would have to show a government issued ID which would also reveal other items like your address, sex or exact date of birth."

Solution delivery

Although there are numerous ways that this solution can be deployed, right now, KYC-Chain is offered as a dockerised SaaS application to the banks who then provide their own branded interface to customers. "It makes sense to offer the solution this way because it is the banks that are asking for this KYC information, not KYC-Chain," says Lowell.

But what he believes is crucial is that blockchain isn't a centralised store of information, meaning that the customer's data is not hosted on KYC-Chain's servers, or the blockchain itself – unlike some of the other companies who are working in this space. "The data is hosted on the bank's servers, but it is locked down and only the customer can decide when this information can be accessed," adds Lowell.

Treasury interest

Any solution that can go some way to solving the KYC burden is bound to gain the attention of the treasury community. "The benefits to corporates are clear, it can help make their information more secure, private and give them more control."

The next step for KYC-Chain, says Lowell, is the continued development of the authentication layer within the platform. "There is a natural synergy between what we are doing now and acting as an authentication layer," he says. "It will happen as a natural evolution and utilise tokens and biometrics." This will potentially eliminate the need for treasurers to carry around multiple authentication devices to access their banks, something that all in the corporate community will welcome.

Aug 2016	Sep 2016	Oct 2016	Jan 2017	Apr 2017
KYC-Chain joins Accenture Fintech Lab	Setup HK office	Prototyped on Sovrin Blockchain	Competes in Fintech Finals 17 as finalist	POC with Standard Chartered Bank

Best in class payments and collections

Many treasury departments already benefit from payment and receivables on behalf of (POBO and ROBO) structures. However, many others are still striving to reach this level of sophistication. Here, we go back to basics to find out how these structures work and how treasury teams can adopt them.

Payments and collections are bread and butter processes for treasury departments around the world. Yet for many treasury teams, these processes still remain burdensome, costly and inefficient.

There is good reason for this: payments and collections are riddled with complexity, especially when the organisation is operating in multiple jurisdictions with many bank accounts and currencies. But there are solutions that, in some parts of the world, have enabled corporates to centralise their payments and (sometimes) collections processes to drive efficiency and cost savings.

On behalf of structures (OBO) are not a new concept, especially to those organisations that have centralised their treasury operations in an effort to drive efficiency. But it is a space that is evolving and a structure that many corporates could benefit from.

In focus: OBO

A payment on behalf of (POBO) or receivables on behalf of (ROBO) – sometimes also known as collections on behalf of (COBO) – structure is a single point of payment or collection, which is set up as a separate entity and administered from a commercially convenient location for the benefit of other entities within a group of companies.

Instead of each entity owning and operating its own external bank accounts, a single legal entity sits at the heart of the company, often supported by an in-house bank (IHB) that manages collections and all payments on behalf of participating entities. The structure enables treasurers to consolidate bank accounts and transactions across the group by using a standard payments process and streamlined bank account structure.

"OBO structures are typically introduced within many corporates with the objective of cutting costs by significantly reducing the number of bank accounts they operate," explains Cédric Derras, Global Head of Cash Management at UniCredit. "Forward thinking organisations will also use this as an opportunity to better manage their liquidity as money will be concentrated in one physical account without the need to use pooling structures and without the costs and haste of making intercompany transactions."

As a result of these benefits, OBO structures have crept up the corporate to do list, especially since the financial crisis. Derras notes that regulatory developments have also facilitated the proliferation of OBO, especially in Europe.

"SEPA really triggered this trend," he says. "It gave corporates the opportunity to standardise and rationalise their multiple bank accounts and payments formats, potentially down to just one for the entire SEPA zone." Increased automation of payments processes has become a very real prospect under SEPA too, especially with the homogenisation of electronic direct debits and credit transfers facilitated by the across-the-board adoption of ISO 20022/XML payments standards.

In Asia Pacific (APAC) there has also been movement in the direction of POBO/ROBO, with numerous international banks helping their most sophisticated clients adopt the structure – although this is not without its challenges.

The journey to OBO

As companies develop, collections and payments commonly start with local execution by subsidiaries. From here, regional centres of liquidity may evolve to include shared service centres (SSCs). An IHB banking structure may extend the centralisation programme, replacing most or all external bank accounts for subsidiaries with one in-house operation.

With the technical and operational structure of an IHB in place, the next logical move is to establish a regional payment factory. With a change in the internal bank account structure, a POBO operation may be deployed so that the company can make payments using a single bank account per currency or country for all participating group entities.

"POBO/ROBO are tools that can be deployed in structuring treasury flows which can bring about tremendous benefits for treasurers," says Shirish Wadivkar, Global Head of Payments and Receivables at Standard Chartered. "POBO is really the penultimate step on the journey – one account for payments in one currency is a very neat structure. ROBO is the last leg, although very few corporates, even in Europe, are there yet. Such initiatives typically require a deep understanding of the client's corporate structure and various local regulations."

"Whilst there is a common path to putting in place an OBO structure, there is no one route. "How these structures look and how they are used is very much dependent on how the group is organised in the first place, its business model and level of treasury sophistication," says Jeffrey Ngui, Head of Regional Sales Asia, Cash Management at BNP Paribas.

The problem with POBO

Despite delivering numerous benefits, POBO is still not the complete solution that corporates are seeking – even in Europe, notes Francisco de Barros, EMEA Regional Treasurer at AbbVie.

Following the spin-off of AbbVie from Abbot Laboratories in 2013, the company inherited over 500 bank accounts spread across over 25 banking partners. Payments were typically managed at a local level by affiliates. This was clearly inefficient on many levels and the treasury set a goal: to create a simple and streamlined best in class treasury organisation that allowed our affiliates to focus on their core competencies." The team set about doing this by building an IHB that included local accounts for each of the major currencies used by the company.

Surprising difficulties

Core to AbbVie's plans was a POBO structure. The treasury had many positive conversations about the solution and its benefits with its banking partners and peers. However, when implementing the solution, de Barros admits that he was surprised by some of the limitations that exist around POBO, even within the Single European Payments Area (SEPA). Even more surprising was that these were not discovered until the structure was being implemented. "Most of the banks, which are big advocates of the solution, or papers on the topic, often don't talk about these limitations or how to address them," comments de Barros.

Within the SEPA region, the main problem arose from the fact that some institutions in a number of countries, including Italy, Portugal and Spain, do not allow or recognise payments made on behalf of by a sister company.

These are mainly payments related to taxes, regulatory agencies or payroll related items, says de Barros. "Also, despite the SEPA mandate, we still see some of the local institutions mandating older legacy formats or payments being made from accounts in-country, meaning that these cannot be included in our POBO structure."

Outside of SEPA, the hurdles around OBO structures are more well known, but de Barros found that these were still not well communicated by advocates of the solution. "A good example is China where under certain structures cross-border POBO is allowed, but domestic POBO is still regulated," he explains. "Also, the standardisation around bank coding and payment formats needs to be improved and standardised further for this to be truly effective for corporate treasury. In fact, across many of the emerging markets, the regulatory environment is one of the key impediments for POBO."

Taking the solution forward

The result of these issues is a solution that doesn't deliver on all its promises. And for de Barros it may take some time for these to be resolved because there is "little to no open discussion with the different authorities to find a path forward".

"By now most treasury organisations are aware of POBO and its advantages. We now need to move towards highlighting the issues so the discussions around the topic can start," says de Barros. "At this point, however, I have not seen any discussions around the issue, nor workgroups to attempt to address it." He also calls for more standardisation in payment formats and regulation so that the needs of corporate treasuries can be better met.

"Simply putting an OBO structure in place without considering how it might impact all areas of the business is unwise, as the change can be drastic and it will shock the organisation."

Setting it up

Therefore, before undertaking any OBO project a number of elements should be in place to ensure success. Having a centralised treasury and all participating entities on the same IT systems is nice to have, but not essential. What is critical, though, is to ensure that all the centralised payments and reconciliations processes are standardised and controlled by one process owner.

The starting point of a POBO operation will usually be a payments factory, which manages a centralised standard payments process for participant entities. With the technical infrastructure and processes in place, a single legal entity will be established to pay the third-party debt obligations of another legal entity in the group. The process requires the exchange of external bank accounts owned by the group entities for IHB accounts (owned by the payment factory) per country and/or currency.

ROBO has a similar structure, requiring entities to substitute external accounts for IHB accounts. In this set-up, a central collections factory initiates a claim on behalf of a group entity for payment from a third party. The third party will make the payment into the relevant central account for the currency country.

Corporates must also consider the tax implications of their OBO structures. Some areas to consider include assessing whether withholding tax and thin capitalisation rules are applicable for a proposed OBO operation. There may also be issues around transfer pricing and Controlled Foreign Companies legislation. In addition, VAT and stamp duty may impact the feasibility of an operation or the entities it covers.

"To put either a POBO or ROBO structure in place, the corporate needs to work closely with a bank who understands the structure of the corporation and how it operates," notes Derras. "There are so many nuances involved – especially when doing this in multiple countries – that it is vital that the banks understand relationships between the holding companies and subsidiaries, their legal structures, and what the group is trying to achieve overall."

Virtual accounts

When talking about OBO, it is hard to avoid a discussion about virtual accounts, a solution that all banks are currently keen on discussing. And there is good reason: they facilitate OBO structures.

Although virtual account solutions vary slightly from bank to bank, with some nuanced functionality, they largely operate in the same way. Essentially each account is a 'subsidiary' or sub-account of the client's own physical account with the bank; they cannot exist outside of that immediate relationship, hence they are virtual. The key to a virtual account is thus the virtual account number/identifier.

"We have virtual IBANs in every country that we have a branch in," says Dick Oskam, Global Head of Sales for Transaction Services at ING. "These enable our clients to route their payments from their main bank account through these virtual IBANs. This means that the payment is still centralised but the routing mechanism makes it look like it is a domestic payment from a domestic account, so the supplier can understand better who is paying them."

Virtual accounts can also help on the collections side. "ROBO is more challenging for corporates because of the reconciliation issues that exist," says Oskam. "We have therefore deployed our virtual account solution to enable our clients' customers to pay to local IBANs, which then route the payment directly to the corporates header account. This includes information about who has paid and for what."

Regulatory complexity

Even if a company has a highly sophisticated IT structure, uses a centralised treasury function with a highly streamlined bank account structure and is leveraging virtual accounts, it doesn't mean that OBO will definitely be possible. This is especially true in APAC where the regulatory and taxation landscape prohibits OBO structures in many of the region's markets as it translates to inter-company borrowing. Further if the OBO structure is envisaged to be cross-border then it ends creating cross-border capital flows too. "If it is hard to set up an OBO structure in Europe, it is more challenging in Asia," says Standard Chartered's Wadivkar.

"If you look across the markets in Asia there are only a few that are liberal in nature," adds Shi Wei Ong, Global Head, Cash Liquidity Management Products at Standard Chartered. "So whilst you can do OBO to some degree in Singapore, Hong Kong, Australia and Japan, it is nearly impossible to get the full benefit by setting up a regional programme."

The regulatory challenges differ from one country to another. Some have capital controls, for example. Others come with onerous conditions, such as per-transaction reporting, that add another layer of complexity to an already complex structure. "We support numerous regional treasury centres in Asia and very few are in the POBO/ROBO space," says Ong. "It is the holy grail in Asia."

BNP Paribas's Ngui agrees that true POBO/ROBO is hard to achieve in Asia. The bank has clients which operate hybrid structures whereby true OBO structures are deployed in the countries where this is possible. "In the more restricted markets where POBO is not allowed, 'payments in the name of 'can be applied," he says. "This is quite similar to POBO and sees them operate an account belonging to the entity in the country from a centralised location. This doesn't offer the full benefits of POBO but it does help, to an extent, and there are savings in terms of resource, IT deployment and economies of scale because it is still a shared service centre style model."

Making the change

OBO clearly has many benefits if done correctly. But the big issue for corporates is the sheer amount of work required to get there. And although this is a solution that can benefit many corporates, it may just be one step too far for some.

Ultimately though, the decision to head in this direction should be made as part of a broader structural overhaul of the company. The project will touch all corners of the business and all impacted departments must be intimately involved from the start if it is to deliver the desired results. But if the work is put in, the reward may be a truly best in class treasury department.

Nordic and Baltic challenges

What challenges have corporate treasurers based in the Nordic and Baltic regions faced in the last 12 months and what solutions/strategies are they using to overcome these?

Erik Seifert

Head of Cash Management Sales

Nordea Sweden

The depths of winter in Stockholm is certainly not the best time of year to entice customers out of self-imposed office hibernation and into the city for a treasury seminar. But in January 2017, the topic we presented to our corporate customers saw a record number of treasurers and CFOs in attendance to hear about the latest developments in payments and what the future payment landscape might look like.

And yes, over the last 12 months we have seen consistent and perhaps even increased interest from treasury in a range of topics such as working capital management, compliance, automation/digitalisation in the treasury mid- and back-office and the new strategic demands of the treasury at C-suite level and in achieving overall business goals. However, these topics have been on the agenda for quite a while and will continue to be so for the foreseeable future.

But if we focus on the last year, it really has been the increased speed of development in the payment space that has come to dominate the agenda. Treasurers are now faced with a multitude of payment channels, a lack of standardisation and an increasing requirement that they become the "procurement" hub in terms of digital financial infrastructure. To be successful across these areas, they need to be completely on top of the digital agenda and have a solid vision of the future payment landscape.

The main driver is changing consumer behaviours, where the expectation of the seamless, digital experience is moving from the high street to treasury departments. This is forcing treasurers to recognise that payments are not just the moving of funds from A to B, but rather that they have become an integral part of the experience of their own end customers. Consequently, treasurers have been forced to look at novel ways of managing payment flows and consolidating flows from a variety of different channels into one manageable stream.

In our recent Future of Payments survey and report, customers ranked a lack of standardisation as their greatest concern and indicated a preference for third-party and fintech solutions in payments to be delivered to them by banks, rather than having to deal with external providers. This desire for a simplified and standardised structure is something we are working towards providing and see Nordea acting as a "digital banking superstore" or one-stop-shop for customers in the future. To arrive at this point, we are working in close collaboration with our customers from idea stage through piloting and on to launch so that we co-develop solutions and new service methods that we know answer their needs and industry needs.

This year, for instance, we launched an automated hedging solution, AutoFX, that came about when we were approached by a customer with a specific need. We then involved a small group of other customers as we developed and piloted the solution before full release. Then, in terms of standardisation and delivering the optimum solution to customers in the most user-friendly way, we see Nordea as a future one-stop-shop that provides the best of home-grown, co-created and third-party solutions.

Ultimately, customer demands and expectations will dictate which new services are developed and integrated into the final, user-facing solution. Banks will most likely continue to become increasingly like tech and IT companies, by turning their platforms into agile plug-and-play hubs that deliver optimum, smart solutions in a one-stop-shop for customers. And that's a future worth braving the Stockholm winter to hear.

Julia Persson

Head of Cash Management

Swedbank

Like all players in the financial markets, corporate treasurers are affected by the major increase in financial regulation that has been ongoing for some time. This increase has meant that banks must invest considerable amounts in compliance, leaving them with less flexibility to meet the needs of their clients. As a result, the requirements of corporate treasurers are changing constantly; now they need to not only take care of funds but also support management in decision-making.

Corporate treasurers can, however, benefit from the increased regulations, for example, as banks increase their transparency and it becomes easier to make informed decisions about their banking relationships. The industry is in a period of constant change; the regulatory factors driving the banks are now almost as important as shifts in the market.

The compliance pressure on corporates is also mounting and they are feeling increasing pressure to bring in more resources, which takes away from their core business. The situation has intensified during the past five years, and there is no reason that this will change soon. Banks now need to request more extensive documentation from their clients in order to meet the regulatory demands, and even clients operating within a single country may be asked for different

types of documentation. For those operating in multiple countries, the efforts needed to ensure regulatory compliance are even greater. We see it as a "must" for banks to simplify documentation within the cash management area in order to free up resources for both themselves and their clients.

In addition to issues related to regulations and compliance, corporate treasurers are dealing with other challenges as well. For example, it remains difficult to fully capitalise on the implicit potential of standard payment products for Europe. Although the introduction of the Single Euro Payments Area (SEPA) has provided a standard for EUR payments, many markets have evolved local variations or market expectations on payments. Further, non-euro countries have been slow to offer new SEPA-like payment types for their currencies. For treasurers, this means in practice that the market is almost as fragmented as it was before from an account-holding perspective, as the need for local accounts remains unchanged.

Another major challenge for treasurers has been how to handle the excess liquidity in a negative deposit rate environment. Those who are cash-rich have few alternatives for how to invest in the current situation. Therefore, it is important to re-evaluate investment policy and whether the excess liquidity should be used in a different way, such as increasing dividends, investing in research and development, or acquiring other businesses. Another driver for finding alternatives for excess liquidity is the Basel III regulation, which stipulates that these types of deposits are very likely to have a high outflow in a stressed scenario and makes it costlier to hold corporate excess liquidity — both for the bank and for the client.

In addition to these challenges, geographical strategy is at the top of the agenda for many international corporates today. Consistency within geographies is important; corporates need to know what kind of trusted partners they have in all the geographies where they are present. Here in the Nordic-Baltic region, working with an established bank with deep roots and a focus on local knowledge means that the client can be confident that the bank is a trusted, reliable partner throughout all the markets where they operate.

Frank Palser

Director, Treasury & Trade Solutions

Citi Sweden

Twenty years ago the word 'Scandinavian' conjured up images of sturdy (if slightly boring) cars, seafood-heavy diets and smiling Eurovision winners. Fast forward a generation and the image has turned: homes from Vancouver to Vladivostok contain Nordic furniture, millions download music through a Scandinavian platform and property owners aspire to offer Danish 'hygge'. And no self-respecting fiction reader or TV viewer can survive the winter without regular immersion in Nordic Noir.

But what about the more prosaic world of corporate treasury? Are we talking about an 'old school' Nordic operation – dependable but sticking to the tried and tested – or a funky Södermalm hipster leveraging the latest technology and looking to lead rather than follow? The truth lies somewhere in between – leveraging the best of both.

In reality, the challenges facing corporate treasurers globally have never been greater. For those in the Nordics and Baltics this is equally true – arguably more so given the stable economic and political environment which has prevailed for years. Facing the combined threats of geopolitical upheaval (sharply brought into focus by the recent Stockholm incident), negative rates, ever accelerating changes in industrial practices and consumer behaviour, it has been informative to witness how treasurers have become ever more laser-focused in their activities – whilst at the same time adaptable to external factors and opportunities. Three broad themes emerge: visibility, control and working capital management.

Visibility has always been at the heart of a treasurer's armoury – as the adage goes 'if you can't measure it, it's not worth doing'. But our surveys and dialogue would suggest that it is more important than ever to know where corporate cash is sitting and how it can be accessed and optimised.

The same can be said for control, with the emerging impact of global initiatives such as BEPS and Basel III, traditional liquidity management techniques (cash concentration and notional pooling) are under increased scrutiny by tax authorities but remain at the heart of most Nordic cash optimisation structures. And where funds cannot be pooled, corporates are actively looking to maximise their return or at least minimise cost. Tools such as dynamic discounting are now being used as a means of leveraging surplus cash and simultaneously supporting suppliers by providing access to favourable finance terms.

Working capital management whilst once peripheral to some treasurers is now seen as a core competency and has instigated far greater partnership between the treasurer and the underlying business. Scandinavian treasurers have long seen the benefit of corporate card programmes but are now extending these into a wider B2B context by introducing P-Card programmes. And whilst supply chain finance has been available for years, many if not most large Nordic groups now have at least one such programme in place: many opting to extend the number of finance providers to reward relationship banks and simultaneously diversify credit risk.

In summary, the Nordic and Baltic corporate treasurer is a far more 'street savvy' and adaptable operator than his or her predecessor – a business necessity rather than a style choice.

Next question:

"With the IFRS 9 deadline now very much on the horizon, what benefits will this bring and are corporates ready for the changes?"

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

Geopolitical storms

Watching the people get lairy, it's not very pretty I tell thee, walking through town is quite scary, it's not very sensible either, I predict a riot, I predict a riot – Kaiser Chiefs.

This 2005 hit song was about a night out in Leeds, UK but the lyrics could just as well have been written about today's global political landscape. Many are under the spell of populism, nationalism, isolationism, and various other worrying isms. Incessant social media rants polarise and add fuel to the fire, as does the focus of the media on negative events and developments.

The truth is that on average the global population has never had it this good. People live longer, are richer, healthier, and better educated than ever before. At the same time, large sections of the population view the world as an increasingly scary place. Numerous 'first world people' are turning towards inward-looking movements, freaked out by today's frightening mix of declining truth, declining western values, declining order and increasing uncertainty.

The ruling elite and its cosmopolitan globalisation ideals are under a lot of pressure. Populists are tapping a bountiful reservoir. After all, what characterises this era is a deep-seated belief that the times are getting worse. Many voters think the elites will do little or nothing to make things better. This thinking is known as declinism. In fact, we have seen this declinism in America for a number of decades and even under presidents that one would not immediately associate with such an attitude. For instance, Bill Clinton would refer to REstarting, REnewal and so on. His theme was social decline and he would be the one to turn the tide. Even Obama alluded to deep-seated fears that decline was inevitable.

Trump's MO is essentially a generic step-by-step plan for populists: encourage declinism, squarely put the blame on the establishment, and present yourself as the solution. Declinism often goes hand in hand with apathy towards politics – "why would I vote, nothing will change, and I do not have any influence".

When it comes to Europe, politicians have a lot to explain to their voters. Europe has not delivered. Citizens were left with the impression that whereas the banks were saved, young people and workers paid the price for the financial-economic crisis. Plus, the European 'community of values' could not put a stop to the authoritarian tendencies within Europe and at its borders. It is also evident that many countries and politicians don't think they need to stick to the EU rules. On the other hand, most voters would like to keep the EU and the euro whereas they think it should be improved.

One thing is certain: Europe will continue to be a thorny business for most national politicians. This is to a large extent linked to the legitimacy crisis facing globalisation. Many people believe that globalisation has nothing to offer them any more.

Dani Rodrik's globalisation trilemma offers a useful framework. Owing to globalisation, countries are hemmed in between democracy, economic integration, and national sovereignty. These three goals cannot be achieved simultaneously. Democracy can only be combined with national sovereignty if globalisation is kept in check. And if globalisation is the highest goal and the nation state is to be preserved, democracy will fall by the wayside. To achieve democracy plus globalisation, the nation state needs to be abolished and a 'world government' is needed.

We are currently seeing a general tendency to focus on nationalism and direct democracy whereas economic integration is going down the drain. The resistance against

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globalisation is intimately connected to a resurgent inclination among people to protect their 'own' culture and the tendency to exclude other groups. Social, cultural and economic changes that are influenced by globalisation and technological progress have simply unfolded too rapidly. Many people feel that their very survival is at risk. And whereas the social contracts between the haves and have nots (and the cans and cannots) are obsolete, a new contract does not seem to be on the cards.

Uncertainty and angst has risen to great heights. Simultaneously, both dissatisfied citizens and populist leaders think the existing institutions will need to be destroyed before they can be 'saved'. Trump's main strategist Steve Bannon literally said so. He claims that at the top of Trump's agenda is "the deconstruction of the administrative state". Earlier Bannon stated that, "Lenin wanted to destroy the state, and that's my goal too. I want to bring everything crashing down, and destroy all of today's establishment."

Such messages can easily take root in a world of growing ethnical nationalism, waning confidence in democracy, calls for isolationist security and trade policies, a crumbling international order, and an economic recovery that seems to pass many by. Numerous people think that the social rules of play are no longer mutually beneficial to the elite and to the rest. Worse, they feel the establishment is just circumventing the rules whereas ordinary folk come off worse if they observe the rules. The result is a poisonous cocktail of envy, humiliation and powerlessness.

Voters have a point. As history professor Michael Kazin wrote about America, "populism has had an unruly past… But Americans have found no more powerful way to demand that their political elites live up to the ideals of equal opportunity and democratic rule to which they pay lip service during campaign seasons. Populism can be dangerous, but it may also be necessary."

Perhaps this is indeed a 'moment of truth'. Political parties are too much alike. The complications arising from free trade and open borders have been ignored for too long. National politicians often appear powerless whereas national governments have transferred a lot of their powers to international institutions. Unelected actors such as central bankers and multinationals seem to be more important than the democratically elected representatives while the shortcomings of politicians are expatiated upon online and in countless media channels.

So perhaps the time has come to shake up the established political order. The big question is, when will the scales tip toward unnecessary and dangerous torment? Populism, as championed by Trump and Wilders does not just take aim at the political and sometimes corporate elites but is also based on a very narrow (implied) definition of who "the people" actually are. Trumpism may not be automatically anti-democratic but it is evidently illiberal. To quote populism expert Cas Mudde, "The populist surge is an illiberal democratic response to decades of undemocratic liberal policies."

The 'moderate forces' are busily trying to find an answer to illiberal democratic populism (which has turned into illiberal authoritarianism in countries such as Turkey and Russia). The answer does not seem to be available right now. Pessimists can take to heart Leonard Cohen's lyrics for The Future:

Things are going to slide (slide) in all directions,
Won't be nothing (won't be),
Nothing you can measure anymore,
The blizzard, the blizzard of the world,
Has crossed the threshold.

The world is indeed sliding faster than it has done in a long time. Nevertheless, we doubt if the political storm that has blown up is strong enough to topple the EU and Eurozone. However, the dissatisfaction among voters could increase if they get the impression that politicians will view election results in which populists didn't emerge as number one, as signals that they can more or less carry on in the same old vein as before. There have merely been "riots" so far but unless the establishment pays heed to the electorate's worries, Cohen's lyrics could still hold water:

There'll be the breaking of the ancient western code,
Your private life will suddenly explode,
There'll be phantoms, there'll be fires on the road.

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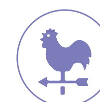
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