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AI: threat or opportunity?

Artificial intelligence (AI) is slowly moving into the mainstream. Should we start bowing to our new robot overlords now, or get ready for an era of far greater productivity and job satisfaction? We look at the strengths, weaknesses, threats and opportunities that treasurers can expect from this technology.

The Corporate View

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Group Treasurer

Renewi plc

Women in Treasury

Yeng Butler

Senior Managing Director,
Global Head of Cash Business

State Street Global Advisors

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The rise of the reasonable treasurer

"The reasonable man adapts himself to the world; the unreasonable one persists to adapt the world to himself. Therefore, all progress depends on the unreasonable man."

George Bernard Shaw

With conference season well under way, few could fail to notice the pre-occupation of the event organisers with the march of technology.

With the promise of robotic process automation (RPA) to take care of low-value repetitive tasks, and artificial intelligence (AI) set to handle decision-making using infinitely complex sources of data, it might start to feel a little like treasury as a profession could disappear in a few decades.

The same could be said for other professions, especially the legal trade where RPA and AI are already helping practitioners sift through many more documents than they otherwise would have the capacity to do.

As events around the world gather the experts and the evidence, there is a mounting sense that the pace is picking up. Whilst few if any treasurers would claim to be using AI and RPA on an everyday basis, the level of media-driven discussion around the opportunities (and it is generally an opportunity, not a threat) suggests that we are in the midst of great change.

As the debate gathers momentum, in this issue, we discuss the role of AI and how it could impact the world of work (page 5). And it will.

Indeed, it has been suggested that 85% of the jobs that will exist in 2030 haven't been invented yet. This comes from a report authored by the US-based not-for-profit think tank, the Institute for the Future, and a panel of 20 technology, business and academic experts from around the world.

In January 2017, McKinsey reported that about 30% of tasks in 60% of occupations could be computerised. Even the Bank of England's chief economist has said that about 80m US and 15m UK jobs could be taken over by robots.

In the treasury world, some will choose to ignore the conversation. Some will see it as going in the wrong direction. Many will be told by their senior management that the money is not available to experiment with such tools even if they were interested. But a few will be quietly making progress for themselves.

Having listened to the experts and seen the evidence, they are adapting their approach to fit; these are the 'reasonable' men and women of treasury for whom technological progress is an opportunity. They are not hopelessly trying to control the ebb and flow of the tide but instead they are recognising that their jobs will be redefined by it, and responding accordingly, even to the extent that non-bank players such as Google are being considered as partners in this hitherto conservative space (as our feature on page 24 shows).

With the pace of change picking up, the treasury conferences and exhibitions will continue to keep technology firmly on the agenda. And rightly so. But we are not witnessing the beginning of the end but instead the rise of the 'reasonable treasurer' with a lifelong commitment learning. With our industry focus, Treasury Today will continue to deliver the content long after the sessions have ended, helping you to achieve your goals.

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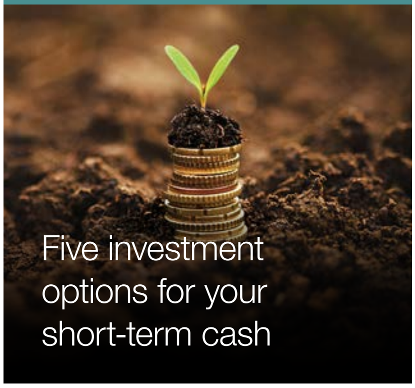

Yeng Butler

Senior Managing Director, Global Head of Cash Business

STATE STREET GLOBAL ADVISORS

Yeng Butler is Senior Managing Director, Global Head of Cash Business at State Street Global Advisors. Personal development has been a strong theme throughout her career. With a strong belief in the power of self-reflection, she uses an understanding of her own successes and failures to drive continuous self-development.

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Managed Services is more than outsourcing; it is about delivering modular services capable of improving the clients' operations and reducing costs, says Serrala's Mickey Vonckx.

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The winner takes it all? Not quite in the battle between fintech vs banks

This piece looks at how fintech companies are picking off key parts of banks' traditional and profitable corporate treasury offerings. It suggests ways banks can fight back by leveraging the information they hold and their sector expertise to offer more, higher value services.

In the first part of Treasury Today and Bank of America Merrill Lynch's Executive Series, a range of topics in the treasury context are explored, from the rise of artificial intelligence to the importance of measuring environmental, social and governance factors.

Bank of America Merrill Lynch

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The FX Code of Conduct is based on principles, not detailed rules. It aims to raise FX conduct standards. Should you sign up? Shell's Frances Hinden and Thomson Reuters' Neill Penney discuss.

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IN THIS ISSUE

AI will not take your job

Depending on what report you read, we are either all about to be usurped by robot overlords or enjoy far greater productivity and job satisfaction with technology's help. Although not yet mainstream in treasury or corporate banking, what should we make of the threat/opportunity that is artificial intelligence?

The truth about any situation when monumental change is predicted is often surrounded by equal parts hype and fear. The reality, usually, turns out to be somewhere in between. The use of artificial intelligence (AI) in business has risen up the agenda in recent times and is now a fixture with content providers in many sectors. But for those at the sharp end of treasury, is it a threat or an opportunity?

AI is sometimes seen as an all-knowing, all-conquering conscious mind; something to be feared. But worrying about AI taking over our lives is the equivalent of worrying about pollution and over-population on Mars, according to AI expert Andrew Ng, Chief Scientist at Chinese web search giant, Baidu, and an Associate Professor at Stanford University. We are, Ng writes, a very long way from facing up to the killer robots. Thoughts of this kind, he has concluded, are "an unnecessary distraction" to progress in this field of endeavour.

AI today

AI at the moment is not much more than a complex mathematical equation, says Matt Armstrong-Barnes, Chief Technologist, Hewlett Packard Enterprise. Asked if AI will change business processes, he responds with an emphatic 'no'. "AI today is a tool that ingests a lot of information and uses machine learning to provide a critical input for humans to make a decision." The emphasis here, he says, is on 'human' decision-making.

Of course, it can be hard to work out the reality of AI through all the noise. But whoever or whatever is taking the decisions, one thing is certain and that is "AI is revolutionising every industry and is transforming our lives", says Alex Housley Founder and CEO, Seldon, an open-source machine-learning framework vendor.

Housley concurs with Andrew Ng's belief that AI is "the new electricity". Indeed, he says, with the ready availability of some "fantastic tools", businesses should now be taking advantage of what AI can offer. But AI has been around since the 1950s (and arguably even before then), so why is it only now coming to prominence?

For Kristian Luoma, Head of financial services firm, OP Financial Group's OP Lab, the stars have now aligned. Key 'stars' include the availability now of so much more data, the pace of technological development at the heart of computing (particularly CPUs and GPUs), and consumer behaviour trending massively towards digital channels. The importance of the latter should not be underestimated.

Luoma agrees with Armstrong-Barnes that, for business, back office processes won't be subject to wholesale change. However, he does see an opportunity for certain processes or interfaces to be replaced by the introduction of what he calls "maths-based recommendations". Currently, this notion is serving to reduce the amount of time consumers must spend interacting with the services being created for them, increasing their satisfaction – and expectation – levels. As more is expected from the digital experience, it will play a significant driver for the uptake and eventual cross-over into business applications.

Indeed, for Husayn Kassai, CEO of identity verification software company, Onfido, the need for businesses to address customer satisfaction is one of the drivers for why AI is now coming to the fore. The capacity, for example, for banks to on-board customers quickly and cost effectively in an environment where fraud is such a huge regulatory issue, will increasingly rely on AI-based tools to keep them engaged, he believes.

Light and dark

Despite Ng's reassurances, with the acceleration in the past couple of years of 'deep' machine-learning capabilities, and the increasing pools of data from which AI can derive answers, people do worry about it. Less about evil super-intelligence perhaps but certainly about losing their jobs and their place in the labour market to machine-learning technology.

The increasing presence of AI as an agent of change has seen opinions polarise. PwC research has shown that AI is a commercial opportunity that could boost global economic output by 14%. This, it noted, equates to GDP gains of US$15.7trn, making it "the biggest commercial opportunity in today's fast changing economy". Furthermore, US-based not-for-profit think tank, the Institute for the Future, and its panel of 20 technology, business and academic experts from around the world, expectantly suggests that 85% of the jobs that will exist in 2030 haven't been invented yet, so there is much to look forward to.

But then McKinsey reported the darker side of AI. Using conclusions drawn from detailed analysis of 2,000-plus work activities for more than 800 occupations, it reports that about 30% of tasks in 60% of occupations could be automated using current technologies. "As automation advances in capability, jobs involving higher skills will probably be automated at increasingly high rates," it warned. Realisations of this nature have led to Bank of England Chief Economist, Andy Haldane, to claim that in the US and UK alone, about 80m and 15m jobs respectively could be taken over by robots.

Hope and fear, it seems, are pedalled freely. In the treasury space, because AI is yet to be adopted with any real vigour, the facts are few and far between. Here, readers of a certain age may be reminded of the battle between VHS and Betamax video formats; consumers and producers followed one or the other trend, initially the outcome being difficult to predict. Eventually VHS came out on top and was everywhere, at least until that too was superseded.

The point is that following the 'right' technology can be a gamble at the early stages – precisely where we are with AI in the context of treasury and corporate banking. The talk is loud but the action limited as the ideas and use cases jostle for position. Making a point of understanding the trends has great value because those heeding the advanced warnings will have a clear advantage over those who do not.

Consumer driver

Just as it has with the advance of mobile technology, the consumer space is likely to lead the march of AI into the realm of business adoption. The advent of High Performance Computing and massive leaps forward in GPU and CPU technology has enabled the vast data processing and presentational needs of AI to be met in non-specialised environments.

The consumer world now abounds, for example, with online chatbots using powerful and quick-learning AI technology to steer sales conversations to a positive conclusion. As Armstrong-Barnes points out, in the insurance sector, chatbots are more successful at selling than their human counterparts. With the so-called millennials more aligned with the culture of messaging than previous generations, he argues that this format will only grow in strength.

That's not to say the corporate space is not without its adventures in AI. Some banks are offering a practical nod to its adoption with applications handling banking back office operations, trading, risk management, fraud detection and KYC compliance. Others have deployed AI in the realm of customer services, having recognised the need to reduce the time customers spend interacting with online portals.

Bank of America Merrill Lynch and Wells Fargo, for example, are using 'virtual assistants' to help deliver a quicker and more relevant service to their retail customers, so how long will it be before the more complex needs of corporate clients are tackled in this way?

It is true that a treasurer presiding over multiple accounts, multiple locations and currencies, and even multiple access rights, is a much bigger challenge. But just as mobile has ridden high on a consumer wave that is now breaking over the commercial space, the use of AI tools in retail seems to be a warm up exercise for the committed bankers of corporates – and not just as a risk management tool.

J.P. Morgan is said to spend around 40% of its US$10.8bn annual technology budget on new technology including AI, RPA and blockchain. It has already rolled out mobile apps for its trading community, and now it is deploying Amazon's voice-activated assistant, Alexa, to give its investment banking clients an easier AI-driven way to use its research database.

The plan is eventually to enable AI to help its treasury clients navigate the bank's online portal and be able to ask an online assistant for balance information. By continuously learning from user questions and online behaviour, the so-far nameless system, which the bank reports as being in pilot mode, is expected one day to be able to offer clients alerts and actionable options based on predictions.

AI at the cusp

The stage AI is at now makes it a useful tool to manage vast quantities of data. It has the capacity to tackle highly complex business processes and to create new opportunities, offering the kind of rapid insight – including behavioural and pattern analysis – that otherwise would not be possible. This, says Housley, could be a vital boost for treasurers who lack immediate insight into how efficiently subsidiaries are using cash, for example, with this data subsequently fuelling improvements in their working capital, forecasting and funding models.

Through the identification of patterns and characteristics within increasingly vast data pools, AI can also begin to move beyond simple insights and start to assist the improvement of processes. For treasury, a prescriptive model is envisioned where the dynamic use of data – on cash flows, balances and so on – can be turned not just into warnings on limits but also suggestions to optimally route payments, for example.

Virtual assistants could even be used to provide help with supplier negotiations or make bespoke recommendations for certain FX exposures. The transaction banking community's oft-repeated claim that its advisory role is taking a bold step forward would certainly be supported by such tools.

A question of ethics

As with most forms of data use, AI is subject to ethical and social enquiry. For Housley, the need to maintain

> AI is a tool and it is one that needs to be used effectively; you need to choose and to plan how you use it and it needs to be part of a wider strategy.
>
> Matt Armstrong-Barnes, Chief Technologist, Hewlett Packard Enterprise

'explainability' of decisions is a vital consideration. As data users use AI to move away from hand-crafted rules-based processing, and simple ways of drawing conclusions, and start to hand over decisions to "highly complex and uninterpretable black boxes", he feels there is a risk of not being able to offer clear reasoning for the decisions being returned (why was this loan not granted?), a state that is not acceptable under GDPR, for example.

Armstrong-Barnes argues that the discipline of "algorithmic accountability", dissecting how an answer was arrived at, is something that must be fully developed as decisions become more reliant upon AI. This is essential to address any notion that business is entering a dark age where "the computer says no" and that's the end of it.

AI decisions can be based on extremely complex data manipulations and their formation, he notes, can become almost impenetrable for normal human intellect. "If we get to the point where we can't understand and explain the complexity of the machine-learning algorithms, we have to build something that will understand them."

Both Kassai and Housley raise the idea that bias exists in most data sets. Even if sensitive fields are removed, machine-learning algorithms can find patterns elsewhere in the data, or make assumptions based on insufficient data, inadvertently reintroducing those biases. Machine learning programmers need to be mindful of such cognitive bias, just as those interpreting output need to avoid applying their own partial readings, if the output is to be of any use.

As a mark of the seriousness with which this is taken, Microsoft has formed an academic team, FATE – Fairness, Accountability, Transparency and Ethics in AI – to try to tackle this issue. "As we move toward relying on intelligent agents in our everyday lives, how do we ensure that individuals and communities can trust these systems?", it asks.

For OP Financial Group's Luoma, the opportunity to derive more from data, whether that's using data in medical research to detect problems ahead of time or in banking to reduce fraud, the advantages to all stakeholders can be compelling. However, he says, even though protection regimes such as Europe's GDPR offer "sound principals on how privacy is taken care of", it will be quite a "balancing act" between function and fairness going forward.

Human after all

"AI needs a human being," states Armstrong-Barnes. As a defence against an unlawful decision, for example, "the computer told me to" is unlikely to be acceptable, he notes. "AI is a tool and it is one that needs to be used effectively; you need to choose and to plan how you use it and it needs to be part of a wider strategy."

As with any data source, whatever is put in, dictates what you will get out. As Armstrong-Barnes has said, AI is just a mathematical algorithm: "we need to make sure that humans beings are the decision-making entity".

For Kassai too, "the importance of human judgement should never be forgotten". As such, he believes that it must be possible for data-related issues to be dealt with as exceptions by small teams of highly skilled individuals, not large teams of unskilled personnel. The implication for professional treasurers is clear; expertise will always be required.

Job or not?

Ultimately, will AI lead to job losses? Most likely it will: "fewer resources with higher skills, but becoming a lot more effective", explains Luoma. With treasurers typically operating in lean teams and almost always charged with doing more with less, AI presents an opportunity to remove many or all mundane, repetitive tasks. This can enable treasurers to focus on adding value, tackling more complex and unexpected situations, where experience is essential. As McKinsey has said, "the majority of the benefits may come not from reducing labour costs but from raising productivity".

AI's raison d'être is, arguably, to learn and take over certain tasks from humans. For some professions the human touch remains essential to the task. Just as few today would be happy to know that the commercial plane they are travelling in at 38,000 ft has no pilot (the basic technology to fly planes without pilots already exists), so removing the human element when it comes to an organisation's financial existence would unsettle all but the most committed.

'Turn it off and turn it on again' is common but often-experienced reality when working with technology. This is a somewhat flippant argument perhaps, but the fact is, human intervention will always be necessary. Direct contact with the situation (an airline pilot correcting computer error, for example) is often required for successful decisions to be made.

This is perhaps why the concept of Expert Automation and Augmentation Software (EAAS) may offer the right balance that Luoma talks about. EAAS uses machine learning to seek out highly complex patterns in data and to automate tasks, leaving the human to step in where professional skills can be applied to context.

Whilst tomorrow's treasurer may have a whole new approach to that intervention, preparation for what is to come should start now. The future of the profession lies not in worrying about being replaced, but in accepting the challenge to keep up to date with the skills, knowledge and the technologies that are on the horizon today. The rules of progress then are simple: first start, then keep moving, but make sure skilled humans keep a watching brief.

This much I know

Yeng Butler

Senior Managing Director, Global Head of Cash Business

STATE STREET GLOBAL ADVISORS

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

To make sure that you proactively manage your career. This means mapping your goals – not necessarily for the course of your entire career, but over a few years – and taking proactive steps to meet them. The goals you set don't always have to be based around changing your role or the company you work for; they can be about learning a new skill or gaining knowledge about a different industry. The key is to make sure you are always moving forward in a methodical and purposeful way.

How much opportunity is there for career progression in the financial industry?

There are many opportunities. However, they don't always come to you directly; you must be open to identifying opportunities in the least likely places. This may sometimes mean taking a lateral step. It is important for women to understand that a career is a journey and not necessarily an upward trajectory all the time.

What has helped me is taking the time to sit down and map out my skills to see where they are applicable. This task also helps you understand your weaknesses and what you must do to get that promotion. You must be courageous in your decisions and willing to take a risk every now and again.

It is also crucial to find advocates throughout your career. I have been fortunate to have strong managers who have mentored me and sponsored my path towards running a team of my own. These people can help your career progress that much smoother. My advice to anyone with managers that aren't championing your career progression is to look for other ways to gain new skills or exposure to other teams and consider using mentorship programmes.

What is the most important lesson you've learned in your career to date?

To act with humility. In a professional context, this includes being open to learning from other people's points of view that differ from your own. Everyone has different experiences, understanding these allow us to arrive at the best solution. It also means admitting when you are wrong and coming up with a plan to fix it.

I believe in this so much; humility is a crucial attribute I look for when I am hiring for my team. I ask candidates what their biggest mistake or biggest challenge has been. It is a big red flag if they cannot provide an honest answer. It's important for me to see that they can self-reflect as that attribute allows the broader team to perform at its best.

I must stress that being humble doesn't mean not advocating for yourself. It means showing that you are human and able to self-reflect.

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

Women tend to be held to a higher standard in industries where we are outnumbered by men. Because of this it is crucial for women to clearly articulate their ideas. My advice, therefore, is to take a public speaking course as this will help you clearly and coherently express the good ideas that you have. People often think that impressive public speakers have an innate gift. They don't. It takes practice and is a skill that must be nurtured.

"Being humble doesn't mean not advocating for yourself. It means showing that you are human and able to self-reflect."

ONLINE

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

Yeng Butler, Senior Managing Director, Global Head of Cash Business at State Street Global Advisors, believes in the power of self-reflection. She spends time considering not just her successes, but also her failures. The objective of this is to drive continuous self-development to ensure she can meet her next career aim. Yeng summarises this with a simple, yet powerful motto: "Pause, reflect and onwards and upwards."

Personal development has been a strong theme throughout Yeng's career, which began at Merrill Lynch. Yeng confesses that as a political science graduate she knew little about the industry at the time and joined the bank's professional development programme to "learn something new". It turned out to be a good choice, as Yeng has become a successful leader in her industry.

After spending two years rotating through the bank, Yeng settled in the institutional asset management business, focusing on short-term fixed income. Her career took an interesting detour when she decided to move to work in micro-finance in Western Samoa, providing small loans to women to help them start their own businesses. Reflecting upon this decision, Yeng notes that she felt, and still feels, passionately about women being given a chance to succeed. "My mother was an entrepreneur and it is a tough business," she says. "I took this role to act on that passion and help give these fantastic women a chance to flourish."

Today, Yeng leads State Street Global Advisors' cash business, after spending the last eight years leading its strategic expansion. She explains that the past eight years have been immensely satisfying on many fronts, but what stands out is the team that she has built and the way in which it works together. "To see the team working to their full potential and utilising the skills they have is very gratifying," she says. "I believe this is one of the main reasons that last year we were one of a few top institutional cash managers to gain market share, something I am very proud of."

Setting an example

As a highly respected female leader in finance, Yeng believes that she has a responsibility to help shape a better workplace. Most importantly, she wants to create a frictionless pathway for women to meet their career ambitions.

Yeng believes there's already been progress in this regard. "I remember early in my career when a female colleague received a promotion and a gentleman next to me quipped that she only received the promotion because she was a woman," says Yeng. "Comments like these were commonplace back then. Today, this doesn't happen as much, if at all, and there are plenty of strong female leaders blazing a trail, which is a sign of how far we have come."

That being said, some legacy issues remain. For example, Yeng says that women sometimes find it difficult to strike the optimal work-life balance. This is something Yeng admits falling foul of once or twice in her career. "I remember when I was on maternity leave and decided that I would check in with work for a few hours every week," she says. "I didn't need to do this; I had a newborn to focus on and it was very hard to zoom in and out of work at the same time. It was unfair on my child and on me."

Most importantly, Yeng felt like this didn't set a good example for other women in her team, something she is keen to do. "I remember feeling uneasy about it at the time because I didn't want to be perceived as a 'supermum' that could do everything at once because that is unrealistic," she says. "I was just trying to keep in touch with what was happening in the office."

Indeed, setting an example and elevating the level of conversation around diversity in the workplace is a major objective for Yeng in the years ahead. "Through our work internally at State Street Global Advisors, and with Treasury Today's Women in Treasury initiative, we are trying to do something impactful and play our part in creating a better world," she concludes. "I am deeply passionate about this, and determined to make a difference."

Yeng Butler is a Senior Managing Director, Global Head of Cash Business at State Street Global Advisors, and a member of the Senior Leadership Team. Joining the firm in 2010 as Head of US Cash, Yeng shaped the vision for the business and delivered expanded market share, despite the challenging market environment. She built a global sales team, ensuring a seamless and highly differentiated client experience to State Street Global Advisors' institutional and multinational corporate cash clients. Her career started at Merrill Lynch, joining State Street from State Farm Insurance. Yeng earned her BA from Dartmouth College and an MA in Public Administration from Harvard University. She is a member of the Investment Company Institute's Money Market Funds Advisory Committee. She serves on the Board of Trustees of Esperanza Academy in Lawrence, MA, a tuition-free independent middle school where girls of modest means are welcomed into an empowering learning community. Yeng also holds FINRA Series 6, 7 and 63 licenses.

Five investment options for your short-term cash

With the short-term investment landscape in a period of flux, many treasurers are reviewing how they invest their company's cash. Treasury Today investigates some of the trending options available to corporates.

The short-term investment landscape is in a period of flux. This is largely being driven by the arrival of several conflicting regulations. First, there is Basel III, which is seeing banks charging more for (or being unwilling to hold) non-operational deposits. Then there is the reform in the US and European money fund industry which is causing headaches for treasurers who use money market funds (MMFs) alongside, or as an alternative to, bank deposits.

To complicate matters, corporations around the world are holding more cash on the balance sheet than ever. As a result, finding a secure home for this cash becomes increasingly important. And that is before treasurers think about yield in this time of historically low interest rates.

These are certainly challenging times for the corporate short-term investor, but there is also an opportunity. It's all too easy for short-term investors to follow the status quo and use less-than-optimal solutions. Treasurers, therefore, should ideally be looking to review their investment policy now, to ensure they are aligning their short-term investment objectives with their company's goals. They should also be reviewing the products they are using and consider alternatives that might better help them meet their investment objectives.

Here are some of the latest trending short-term investment options.

MMFs

MMFs are designed to preserve capital while providing liquidity and an attractive rate of income relative to short-term interest rates. These attributes make MMFs an important tool in many corporates' short-term investment strategies.

MMFs offer numerous benefits to corporates, says Kim Hochfeld, Head of EMEA Liquidity Distribution at Morgan Stanley Investment Management. "They provide corporates with a secure, diversified investment option," she says. "This is especially important at critical times, such as year-end when banks are reluctant to take short-dated cash on the balance sheet. Beyond this, using MMFs rather than deposits also frees up credit capacity with relationship banks. Corporates can use this credit capacity for more complex transactions, such as derivatives, FX and lending activity."

After some negative press and an incident during the financial crisis where the reserve fund "broke the buck", MMFs were subject to heightened scrutiny by the US and European regulators. In the intervening years, US and European regulators have sought to strengthen MMFs and to increase transparency for investors, resulting in changes to how these funds operate.

Some of the most notable changes that the new regulations have brought about in the US and EMEA are the requirement for floating net asset values for certain fund types and the provision for liquidity fees and/or redemption gates based upon certain triggers for specific funds.

In the US, institutional prime and tax-exempt MMFs must transact at a floating NAV and have the potential for trigger-based fees and gates. Government MMFs can maintain a stable NAV and do not have fees/gates. Meanwhile, in Europe, there are three new fund structures – public debt CNAV, LVNAV and VNAV. Public Debt CNAV and LVNAV offer the closest operational utility to MMFs today, but are subject to trigger-based fees and gates and LVNAV funds must trade within certain collars to maintain the constant NAV. VNAV funds utilise market-based pricing and are not subject to trigger-based fees and gates.

In the US, the new rules, which were introduced last year, led to significant outflows from prime MMFs, with clients moving into government funds to avoid fees and gates. Money has since started to trickle back into prime funds as corporates have become more comfortable with the new product landscape.

In Europe, the new rules come into force in January 2019 for existing funds. And while industry experts don't expect the impact to be quite as extreme as in the US, there is debate amongst the investor community around how money funds will be used going forward.

Investors in Europe shouldn't be concerned, says Hochfeld. "The changes should enhance the appeal of MMFs," she says. "The products will continue to provide daily liquidity, yield, diversification and outsourced credit analysis to corporate investors but with enhanced transparency and investor protection."

Hochfeld adds that the new rules will also provide corporates with more choice. "There are short-term and standard VNAV funds for yield-driven investors and CNAV and LVNAV for those looking for operational simplicity and stable NAV. This will enable treasurers to pick a product that more closely matches their investment objectives."

Hochfeld expects MMFs to remain a key investment option for corporates post-January 2019 due to these factors. "Many corporates rely on the utility offered by MMFs," she says.

"They will struggle to find alternative investments that provide the same credit diversification, capacity and liquidity."

Separately managed accounts

Separately managed accounts (SMAs) can provide corporates with a personalised approach to investing. When using these products, a treasurer mandates a fund manager to buy and hold securities on the company's behalf. This is unlike a MMF where a corporation is a shareholder of a fund which owns the securities.

First offered in the 1970s, SMAs were developed to accommodate the needs of investors whose objectives did not fit within the constrictions of a mutual fund investment. This remains the product's primary function today. "SMAs are bespoke products built to meet the investment objectives of an individual corporate," says Jim Fuell, Managing Director, Head of Global Liquidity Sales, International at J.P. Morgan Asset Management. "They provide all the benefits of professional money management, combined with the flexibility, control and transparency of owning individual securities."

They may also enable corporates to achieve greater returns. In fact, the desire to achieve greater returns is a key driver behind the growing corporate interest in SMAs. Fuell says SMAs are especially useful for those companies able to achieve good visibility over their cash, and segment it strategically. "They can then comfortably place some of this cash into an SMA to achieve greater returns, while taking a level of risk which is closely aligned to what is permitted in their own investment policy," he says.

Corporates are also turning to SMAs because of Central Bank policy. Fuell explains that in Europe, many corporates are averse to negative rates. "Several companies are looking to overcome negative rates by taking on more risk," he says. "This enables them to generate yield above zero. They are finding SMAs to be a vehicle that enables them to achieve this."

The benefits offered by SMAs come at a cost, however. For instance, the bespoke nature of the product means that fund management fees may be higher than those in MMFs. There is also a minimum investment amount that fund managers request. This varies from fund manager to fund manager but typically is between US$25m to US$100m. Companies looking to use SMAs will need to appoint a custodian to hold the purchased securities and will also need to execute an investment management agreement with their asset manager.

Aside from the cost, setting up an SMA will typically require significantly more lead time to establish than an off the shelf fund offering. Fuell explains that it is crucial that the fund manager clearly understands the corporate's investment objectives and risk parameters. "Doing this correctly takes time," he says. "It's also not a one-way street. The best fund managers will advise when the yield they are seeking is not in line with the risk appetite they have, for example. It is a true collaboration, and it's important to get it right."

Exchange traded funds

Unlike MMFs and SMAs which have existed for some time, exchange traded funds (ETFs) are an emerging tool that treasurers can use for their short-term investment needs. As the name implies, ETFs are investment funds traded on a stock exchange. These often 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 to gain exposure to a particular index or market. Unlike mutual funds, which are priced once a day, ETFs can be traded intraday.

> "MMFs are designed to preserve capital while providing liquidity and an attractive rate of income relative to short-term interest rates. These attributes make MMFs an important tool in many corporates' short-term investment strategies.

These products have become popular with investors in recent years, as cost and transparency have become a bigger consideration. ETF holdings are published every day and provide intra-day valuations with live pricing on exchange. ETFs also often carry lower fees than managed funds.

Despite their popularity, corporate treasurers are not typical users of ETFs. "Early adoption can take time as institutions become comfortable with a new product," says Ashley Curtis, Head of iShares EMEA Fixed Income Markets and Sales at BlackRock. "Corporate treasuries are no different and incorporating new investment wrappers can help bring efficiencies that may not have been available before."

Curtis is seeing mounting interest, however. "Corporate pension ETF usage has grown quickly," he says. "Also, those corporates with more flexibility in their strategic cash buckets are considering investing in short duration and floating rate credit ETFs. These enable them to ease balance sheet pressures and potentially earn better returns in comparison to cash-like investments."

Interest will only increase through education. "There is a need for treasurers to better understand the mechanics of ETFs," says Curtis. "Doing so will allow them to find ETFs suitable for their cash management needs. This will naturally increase the usage of the product."

The industry is also evolving to meet the needs of corporates. This includes the development of ETF products which provide shorter creation and redemption settlement than the standard T+2. "Because of this development, ETFs will provide a complementary tool to more traditional cash or short-term investment products," says Curtis. "This will allow for more flexibility in different market environments."

Repurchase agreements

Another option for a company with surplus cash is to enter into a repurchase agreement (repo). Put succinctly, repos are financial instruments that enable a corporate treasurer to exchange overnight or short-term cash for high-quality security. The corporate holds this security until the original

> Anecdotally, many treasurers have or are considering updating investment policies and are looking at alternatives to bank deposits and CNAV MMFs.

owner of the collateral repurchases it. More often than not, corporates will appoint a third party to manage the collateral. This structure is called a tri-party repo.

Although agreements between banks dominate the repo market, some corporates have found them to be a useful tool. A key reason for this is that corporates can adjust the 'risk-and-return' equation on their investment to match their internal investment policy. This is because corporates can decide on the spectrum of assets they wish to hold. Corporates can take high-quality relatively secure assets, such as German Bunds, and receive little return. Or they can generate a greater yield by taking corporate bonds or equities.

Repos are also a good tool for a corporate to use if it wishes to reduce its number of counterparties. By securing the investments with collateral, corporates do not have to worry about losing their investment if the bank collapses. This feature also means corporates can use repos to support strategic corporate actions, such as depositing a large amount of cash on the back of a sale.

However, there are high barriers to entry for corporates considering repos. One barrier is the Global Master Repurchase Agreement (GMRA), which governs the repo market. Although defined as an 'industry standard', it requires lengthy negotiation with each counterparty to iron out the specifics within the agreement. Corporates with little knowledge of the secured financing world, legal capacity or expertise in the repo market, can find the process time-consuming and off-putting.

Like SMAs, repos also require corporates to commit a significant amount of cash to the transaction. This is because the banks are used to dealing with large amounts of cash on their side of the equation, so corporates need to match these levels. As a result, repos are largely the domain of the multinationals.

Supplier finance

Investing in the supply chain is an alternative option for corporates wondering where to put their surplus cash. Whilst not a new concept, supplier finance, not to be confused with bank-offered supply chain finance, is capturing the attention of short-term investors. This is due to it being essentially risk-free and providing corporates with the opportunity to achieve a tidy return on their cash investment.

As a quick reminder, supplier finance is where a corporation uses its cash (or sometimes cash from a third party) to finance suppliers. It does so by paying approved invoices ahead of the due date in return for a discount. In theory, this creates a win-win; buyers save money on the goods purchased and suppliers can access a cheaper source of funding than they would from alternative sources. Supplier finance is generally regarded by suppliers as the easiest form of finance to access and it's available to all businesses, regardless of size or geography, and with no cumbersome on-boarding process.

The discounts that corporate buyers can achieve using supplier financing – and thus the yield they gain on their cash investment – can be substantial. Colin Sharp, SVP EMEA at C2FO, says its clients are achieving between 7% and 8% APR return on their investments into the supply chain while at the same time reducing the cost of finance for their suppliers.

"This is because suppliers, especially those down the mid- to long-end of the supply chain, need cash for working capital or to invest in the business," he says. "Suppliers can offer a rate that's appropriate to them (there is significant price elasticity) and C2FO's market can blend these offers to achieve the target yield required by the corporate."

Unlike other investment options, supplier financing also offers treasury the platform to act strategically within the organisation. "By working with procurement to offer supplier financing, treasury can help safeguard the supply chain," he says. "It can also position the company as a preferred customer, enabling it to achieve exclusive deals and better pricing. It may also provide suppliers with the cash they need to innovate, thus resulting in your company receiving better products from them."

Despite all the benefits that supplier financing can provide, it is arguably a more complex short-term investment solution than those already discussed. This is because, by its very nature, supplier financing is a cross-functional project that requires the buy-in of multiple stakeholders. This can be difficult to achieve in larger corporations, especially if treasury and procurement, for example, are working towards conflicting KPIs.

Sharp says ultimately the benefits are worth the effort, believing that supplier financing will only deliver more benefits as interest rates rise around the world. "As rates rise, companies will be forced to pay an even higher price for working capital," says Sharp. "Corporate buyers can support their suppliers through this by providing supplier financing. At the same time, the corporate buyer will pick up enhanced yield on their own cash investment. It is a win-win."

Flexibility is key

As the short-term investment environment continues to evolve, the impetus for corporate treasurers to change their thinking around short-term investments grows ever greater. Ensuring the investment policy is flexible is crucial, and treasurers may wish to establish the ability to use a wide variety of different investment options – even if they do not plan on using them immediately.

This process of adaptation appears to be already well under way. Anecdotally, many treasurers have or are considering updating investment policies and are looking at alternatives to bank deposits and CNAV MMFs.

Treasurers are also focusing on achieving a more accurate cash forecast and prudently segmenting cash. Doing so enables them to be more strategic in how they allocate cash, allowing them to use a wider range of products to meet the company's investment objectives.

NO-DEAL BREXIT:
THINKING THE UNTHINKABLE

August saw the issue of a series of UK government papers outlining its thinking of how 'business as usual' can be maintained after 29th March 2019. Should we be worried?

Whitehall's thinking

News that the UK Treasury has started putting together plans to support the City if the exit occurs before new terms governing trade in financial services are in place suggests that corporates should perhaps prepare for the worst case scenario.

According to The Times, the department maintains that its core planning still assumes that there will be a two-year managed exit, but acknowledges there is an increasing readiness for other scenarios and "the government will ensure a workable legal regime… whatever the outcome of negotiations."

What this is likely to mean in effect is that UK regulators will take over the additional rule-making powers that were held by bodies in the EU during our period of membership and a licensing regime will be set up to allow European companies to continue operating in the UK.

In August, a series of 84 papers were scheduled to appear over the coming weeks, detailing how the government intends to help other key sectors of the UK economy maintain business as usual if the no-deal scenario becomes a reality. Coming several months after the European Commission published its own set of reports on the legal and technical issues affecting EU companies, website BuzzFeed reports that topics range from blood safety to broadcasting and even the graphic photographs used on cigarette packets for persuading smokers to kick the habit.

The site adds that the 84 reports result from a cross-Whitehall initiative that was ordered by the former Brexit secretary David Davis, since replaced by Dominic Raab. Around half cover issues overseen by either the Department for the Environment, Food and Rural Affairs (Defra) or the Department for Business, Energy and Industrial Strategy (BEIS). Others are the province of the Department for Transport or Her Majesty's Revenue and Customs (HMRC).

Topics of particular relevance to treasury departments include company law; competition; consumer protection; customs and borders; e-commerce; export control regulation; financial services; insolvency; intellectual property; procurement; trade remedies; and VAT. The tone of their content is understood to be factual and neutral.

However, frustration at the continuing uncertainty and slow pace of negotiations has already persuaded several industries to develop their own hard Brexit/no deal contingency plans. The Rail Delivery Group (RDG) a body representing many of the UK's rail companies is alarmed by the prospect that customs declarations on rail freight inside the EU will become a requirement upon the UK's departure on 29th March next year.

The RDG proposes the setting up of a series of railway customs areas (RCAs) to provide a single border checkpoint to minimise the risk that congestion will develop as trains are held up on both sides of the Channel.

Individual companies have also been assessing the consequences of a no-deal Brexit. Recently, aircraft manufacturer Bombardier reported that stockpiling to mitigate the impact would cost its Belfast plant between £25m and £30m. The plant, which manufactures wings for the Airbus A220 and uses hundreds of components, operates a 'just in time' supply policy to avoid the expense of surplus inventory.

Michael Ryan, head of the group's Northern Ireland operations, said that spending millions to store goods is "not how we can afford to run a business" and is "cash that I don't have" but that diverting funds from new product development or R&D to stockpiling might prove the only way to fulfil customers' expectations.

J.P.Morgan
Asset Management

When is a money market fund not a money market fund?

The answer to the headline question is no laughing matter for today's short-term investor. New money market fund regulations are muddying the waters when it comes to discovering what 'money market fund' really means. Kerrie Mitchener-Nissen, Head of Product Development, International, Global Liquidity, J.P. Morgan Asset Management, casts a welcome light on the shifting short-term landscape.

Kerrie Mitchener-Nissen
Head of Product Development, International, Global Liquidity, J.P. Morgan Asset Management

Treasurers must start asking more questions of their fund providers if they are to optimise their cash investments. It's a succinct message but one that carries much weight in today's evolving short-term landscape.

With the new money market fund (MMF) regulations, which must be implemented by managers by 21st January 2019, it will open up the category to include some products that could leave unwary investors short on their security or liquidity requirements. Investment decisions in this space may no longer be as obvious as they once were. Indeed, if short-term alternatives are also considered as part of the mix, finding a balance between the sometimes-conflicting treasury needs of security, liquidity and yield, demands a new level of treasury due diligence from the outset when choosing a fund.

Time is of the essence

For most treasurers, especially those in the UK, a MMF is what the European Securities and Markets Authority (ESMA) calls a short-term MMF. However, ESMA also use the term 'money market fund', intending to distinguish between the short-term variant and its longer weighted average maturity (WAM) counterpart.

Historically, the latter product has mostly been for continental consumption, and less focused on a treasury client base. Under the new regulation, both ESMA definitions disappear. Short- and longer-term products will now respectively be called 'Short-term Money Market Funds' and 'Standard Money Market Funds'.

The clarity of distinction is somewhat nuanced to the point where it could be especially confusing for UK treasurers, many of whom will now be faced with an option, where (to all intents and purposes) one did not previously exist. "This creates the potential for an unpleasant surprise," comments Kerrie Mitchener-Nissen, Head of Product Development, International, Global Liquidity, J.P. Morgan Asset Management. For the sake of liquidity, understanding product differences is now essential.

Previously, treasurers allocating cash for investment have used short-term MMFs, deposits and, depending on their level of sophistication and appetite for involvement, possibly repurchase agreements (repos) too. In a bid to optimise their investments, the last few years has seen an increasing appetite for segmenting cash.

Common definitions of its use include 'operational' or day-to-day cash; medium-term 'reserve' cash; and longer-term 'strategic' cash. Working backwards, each state requires increasing levels of liquidity. Under the new regulatory classifications, the subtle distinction between 'short-term' and 'standard' could mean the unaware treasurer runs the risk of making an inappropriate investment decision.

The 'short-term MMF' is still the fund that most corporate treasurers have in mind when investing their operating cash, says Mitchener-Nissen. The term 'standard MMF' is therefore potentially confusing. But it is a longer-dated product and is less liquid, sometimes holding instruments out to two years in a portfolio that has a WAM of six months, rather than the 60 days WAM of a short-term portfolio. The proportion of the standard MMF portfolio that matures within one day and one week may also be significantly lower than a treasury manager expects. "It is important for treasurers to be aware of the distinction, so they know what they are buying," she states. "There's nothing inherently wrong with the standard MMF as an asset class, it just needs to be used correctly."

Importance of segmentation

In this light, it should be easy to see the importance of segmenting the highly liquid needs of working capital, and other cash segments that can be put further out on the curve. Segmenting can open up a discussion on the range of options for each cash-type, says Mitchener-Nissen.

A standard MMF carries less liquidity but may well be a desirable product if it fits the corporate's cash segmentation profile. Indeed, few would willingly pay for unnecessary liquidity. However, it is vital to understand the new regulatory classifications of MMFs to avoid investing in a fund that unexpectedly adds risk (a fund that could, for example, be using derivatives, deploying leverage, or investing in a currency other than the one required by the investor, where that exposure has to be hedged back).

"It's down to the treasurer to be specific about what they're looking for," says Mitchener-Nissen. This only comes from understanding of their own investment needs; an understanding derived largely from segmentation. "But they also need to look closely under the hood of every MMF they are thinking of investing in."

Research required

An awareness of the risks that the new regulatory classifications can present – or rather, the risks that confusing the new terms can create – should lead to more attentive reading of the fund manager prospectuses. This should be done in conjunction with treasury's own investment policy to fully understand what is acceptable.

"It's important for treasurers to start thinking about this now," says Mitchener-Nissen. Action should typically take the form of a review of investment policy, ensuring it is at the very least updated to take account of the options under the new rules. Ideally, revisions should be mindful not only of current needs, but also of incorporating sufficient flexibility to take advantage of an evolving short-term market.

Wider options

The traditional stable or constant net asset value (CNAV) fund has been the go-to MMF for most treasurers. Under the new regulation this broadens out with the arrival of a low volatility net asset value (LVNAV), a variable net asset value (VNAV), and a public debt CNAV. LVNAV and public debt CNAV are short-term MMFs only but VNAVs offer short-term or standard options.

Which product is deemed most suitable will be dependent upon a number of variables such as investment objectives, business goals and the cash cycles to which a business is subject, says Mitchener-Nissen. But having the flexibility to be able to respond to liquidity requirements and being able, at a policy level, to invest in any of the new options will go some way to optimising corporate cash.

Whilst MMFs may be part of an investment plan, treasurers could also feasibly include alternatives such as short-duration fixed income funds, longer-dated deposits, or separately managed accounts (SMAs) if a bespoke investment policy is desired.

Private investigations

It should be apparent by now that understanding the new terminology plays an important role in making the right investment decisions. Standard and short term may be confusing but the use of historical terms attached to other fund types, such as 'cash plus' or 'enhanced cash', demands that treasurers fully investigate what these funds are doing and how performance is achieved.

The suggestion that a fund may deliver 'extra' return is perhaps an agreeable one for many investors. "But treasurers need to be aware of the incremental risk that they may have to take in order to generate that extra yield," says Mitchener-Nissen. "Watching out for that terminology and understanding that there is no standardised definition for their use is important." It's not an issue of right or wrong, she adds, "it is simply one of being aware of what the underlying investment is".

Asking questions

The new MMF regulation requires fund managers to be transparent with their clients about how their fund operates. On a weekly basis, for example, WAM and WAL and the fund's top investments must be disclosed. "There is a lot of information available for investors now," says Mitchener-Nissen. "We publish a lot of this on a daily basis including mark-to-market NAV and liquidity levels. This really helps clients understand their investments."

Even with resources such as J.P. Morgan Global Liquidity **European Money Market Regulations Resource Centre**, she advises treasurers to ask as many questions as they feel necessary to understand a product. "This will help them feel comfortable with what their fund managers are doing to achieve their results, understand the distinguishing features of each product, and gain awareness of the new opportunities delivered by the new regulation."

How to find out what you are really investing in

1. How does the fund achieve its yield?
2. Does the fund use leverage to achieve its liquidity?
3. Does the fund invest in other funds? If yes, what do these funds invest in?
4. Does the fund invest in currencies other than the base currency of the fund?
5. Does the fund use derivatives?
6. Does the fund use independent third-party pricing to value its portfolio?

Helping hand

With deadlines for the new regulation looming, J.P. Morgan Global Liquidity is working closely with clients to ensure they are regulation ready. In accessing the resource centre, clients can search for impartial guidance and papers on a number of related topics.

However, she reports that a number of treasurers are now asking for practical assistance with reviewing their investment policies and board presentational materials. Naturally, this is forthcoming, she says. "It's all about ensuring that the client transition to the new MMF regulations is as smooth as possible."

To find out more please visit our European MMF Regulations Resource Centre at **www.jpmgloballiquidity.com** or you can contact us at any time with your questions at **jpm_global_liquidity@jpmorgan.com**

Short-term MMF vs Standard MMF

	Short-term MMF			Standard MMF
	Public debt CNAV	**LVNAV**	**VNAV**	**VNAV**
Permitted investments	Government exposure	Government or credit exposure	Government or credit exposure	Government or credit exposure
Max WAM	60 days	60 days	60 days	6 months
Max WAL	120 days	120 days	120 days	12 months
Max maturity	397 days	397 days	397 days	2 years, with 397 days reset
Daily liquid assets	10%	10%	7.5%	7.5%
Weekly liquid assets	30%	30%	15%	15%

Source: J.P. Morgan Asset Management, as at August 2018.

The treasury transformer

Adam Richford
Group Treasurer, Renewi plc

Driven by an interest in corporate transformations, Adam Richford, Group Treasurer, Renewi plc, is now changing the treasury of a company operating at the heart of the 'circular' economy. Starting the financial year with ten key treasury projects, progress for him remains a motivating force.

Renewi plc is a market leader in European waste management. The FTSE 250 firm is the result of a 2017 merger between UK-based Shanks and the Netherlands' Van Gansewinkel. The combined group generated revenues of €1.56bn in its first year from activities including the collection, sorting, processing, re-use and recycling of waste products and the production of lower-carbon alternatives to fossil fuels.

When Adam Richford joined Shanks Group at the beginning of 2016, immediately prior to its acquisition of Van Gansewinkel Groep, it marked the beginning of a treasury transformation that has seen him and his team barely pause for breath since.

Today, Richford is Group Treasurer of the result of that merger, Renewi plc. He heads up a small central team that supports four divisions: Commercial Waste, Hazardous Waste, Monostreams and Municipal. Together, they manage banking facilities in the region of €0.8bn, with an additional €0.3bn of guarantee facilities and €0.5bn of PFI/PPP facilities.

The team also recently completed the underwritten acquisition finance with a new €0.6bn bank facility with a reconstitution of its six-strong banking group. Renewi is now well-supported by the Benelux banks across the bulk of its operations in the region, and a major global institution in the UK. The process saw the renegotiation of around 30 bilateral derivative, cash management, invoice discounting and guarantee facilities, many of which are linked to an innovative common Global Guarantee Deed.

This year, Renewi further transformed its financing with a conversion of its main banking facility into a green loan and the introduction of a margin discount aimed at further improving its critical sustainability measures. Further leasing funding is now planned for investment in Renewi's new Euro VI truck fleet. This is a €150m programme over three years, aimed at improving the group's environmental impact through the reduction of nitrogen oxides (NOx) and particulates emissions on its waste collections activity.

As part of the post-merger integration, treasury has set about transforming its cash management approach. This will see it migrate from divisionally-led ownership, established under former Shanks Group control, to a centralised cash management approach. This, notes Richford, will save the Group €1m a year in interest expense resulting from idle cash.

As part of the programme to support this, levels of automation and consistency across treasury's cash processes are being increased with the roll-out of a group treasury management system, Bellin TM5, to each of its four divisions.

Unsurprisingly, with these increased responsibilities, treasury has increased its headcount to a (still modest) team of four treasury professionals. With so much capital markets activity in the country, the UK headquarters will remain an important hub, sharing group functions with offices in the Netherlands, but the set-up is now fully capable of dynamically responding to market needs.

Path to treasury

All this suggests more than a little skill has been accumulated over the years by Richford. "I came into treasury following a focus on turnaround and working capital advisory, after ACA qualification in audit at EY," recalls Richford. "Many turnaround situations heighten the focus on cash and funding and heavily involve the treasury teams in those organisations, so this provided my first exposure to corporate treasuries."

His first line responsibility for treasury came at communications firm, Energis. Having completed his AMCT exams whilst there, Richford progressed to his first dedicated treasury role at GE Capital where he was responsible for real estate in Europe. After GE, he moved to betting and gaming firm Gala Coral, completing his MCT qualifications. Here, he supported the sale of Gala bingo halls business, and looked at various exit scenarios of Coral for its private equity investors, including the eventual reverse takeover of Ladbrokes plc. The call from Shanks Group at the beginning of 2016 signalled Richford's first listed Group Treasurer position, this morphing not long after into today's combined Renewi Group.

Managing mergers

With two mergers under his belt to get to where he is today, Richford is well placed to offer a view on the process. "Listed company mergers and takeovers are complicated," he observes. "The Gala Coral and Shanks transactions were both reverse takeovers, meaning the target was bigger than the listed entity in certain ways, and both involved Competition and Markets Authority (CMA) approvals at different levels."

Working on different sides of the equation in these transactions – Gala Coral being private and Shanks being public – has afforded Richford some valuable commercial perspectives, not least in his exposure to the equity capital markets (ECM) and debt capital markets (DCM).

On the ECM side, there were multiple prospectuses, rights issues, placings, consideration shares, a share suspension and all the associated verifications that accompany these documents. "The debt quantum and covenants feed into the prospectus and associated working capital report and other verification, so it's clearly an important aspect of the overall ECM process, as well as being the balancing item to fund the total consideration of the transaction."

DCM activity saw treasury arrange a fully-underwritten debt finance package for the creation of Renewi. Gaining the right level of support saw treasury working closely with the underwriting bank and more broadly with its relationship banks. In addition to the obvious requirement to secure a good debt finance package – the key requirement – the additional key risk to manage in this undertaking was to ensure that the debt funding workstream, as part of the overall transaction, didn't become an obstacle to the closing of the transaction.

A sense of good timing in relation to all the other simultaneous workstreams naturally demands a high degree of co-ordination and co-operation, explains Richford. "Communication is critical; we have to be able to resolve issues as they arise but also be in a position to escalate any significant risks throughout the closing process." Another essential requirement, he says, is to be well-advised, the firm having assembled a strong team of lawyers, financial advisors and banking partners.

There is no doubt that the workload demands placed on treasury by a merger are heavy, comments Richford. "Firms undergoing this process don't typically expand their resourcing availability; you just have to expand the time available to fit the task," he says. "When you look back, although you will have worked hard, you will see that you have achieved something incredible. It's very rewarding."

The show must go on

Post-merger, the work continues. Within the context of 'essential integration activities', Richford started this financial year with ten key treasury projects, including green financing, truck leasing, cash management transformation, further funding optimisation, and the strengthening of the treasury function. "We're working hard towards completing this ambitious list and making good progress so far," he says.

For Renewi, the overriding focus is on delivering against its synergy targets which, as a listed business, it has committed to the city. The aim is to transform the EBITDA profile of the group by €40m over three years, towards a level of around €200m. This will be supplemented by a second wave which will target margin expansion through continuous improvement and commercial effectiveness. A third wave will target strategic expansion. "Treasury has a key role in supporting a number of these initiatives across the group," says Richford.

To support the integration, Renewi's leverage ratio has risen as it invests in accessing the synergies, rebranding and completing the operational integration. The EBITDA benefits will then come through and subsequently enable deleveraging. For Richford, "this is a critical phase from a treasury perspective as we monitor, closely manage and communicate regularly with our key stakeholders".

Strategic treasury

In describing these ongoing processes, it is apparent that Renewi's treasury operates at a strategic level. "It's something I fully recognise," says Richford. "In fact, the majority of my time is focused on 'strategic' aspects which transform the treasury function and the company."

Having played a key role in deciding how group leverage will change over time, structuring the debt package to fit, Richford says there is now a need to think holistically in terms of the transformation of the treasury function and the company. The function now needs to ensure that the support is available for the business, whether it is for M&A, delivering post-merger integration synergies or engaging in innovative transactions such as green finance.

Sustainable future

Indeed, taking a holistic and innovative approach to funding by linking debt pricing to Renewi's corporate social responsibility (CSR) KPIs through green finance, treasury is both supporting thre firm's corporate strategy to be a "pure play sustainability-focused company at the heart of the circular economy", and getting a good deal. This has been possible due to the strong support of Renewi's banking group.

Indeed, two of the leading Dutch banks acted as Renewi's sustainability co-ordinators on the recent green finance transaction, with the other four banks stepping up to support this approach in their facilities too. "Being an all-lender decision, as it relates to margin, we needed to have full support from every one of them, otherwise we wouldn't have been able to do it."

Of course, at a commercial level, the benefit of being a sustainability-focused company goes well beyond debt pricing. "It is an important discussion point with our existing and potential new equity investors, many of whom are focused on Socially Responsible Investing," explains Richford.

So convinced is Richford of the value of green finance, that he believes all businesses should consider using it "wherever possible, as a differentiator to investments that do not contribute environmentally or socially". Over time, he feels that this should result in more capital being deployed for positive impact.

As a pure play issuer, the costs and complexity are "minimal". By strengthening the internal connection between finance and the company's CSR credentials, its helps tell the broader equity story, positively positioning the business within its market place and with its stakeholders. "I don't see any real downside," Richford concludes.

Technology the enabler

Having inherited a somewhat fractured Excel-based treasury function upon his arrival at Shanks, Richford set about ensuring that, through the deployment of technology, including the TMS, the merged business would have almost immediate full visibility of its day-to-day cash balances. Preparing the ground in this way allowed the team to create the business case for further transforming its cash management approach.

Across the group, Renewi has deployed financial shared services centres, using "a few robots" within these to take on various routine cash processing activities "that humans aren't very good at because they lose concentration". The robots have been "well received" and are "delivering the expected benefits".

Technology, he says, "is an important part of being able to make the transition from just being able to see the balances or make transactions across the banking infrastructure, to being able to forecast the cash position, aggregate that data and manage the accounting entries that come out of that, and to begin creating group-wide process homogeneity that should give us a more resilient environment."

Human power

The robots may be a useful part of Richford's treasury but the human element remains core to its success. For him, the most important human skills and characteristics – those that are enabling treasury to deliver so much with a small team – are the ability to focus and seek continuous improvement. "There is always a need to ruthlessly prioritise the available opportunities, constantly improving and simplifying processes, eliminating waste and freeing up time for the most valuable aspects," he says.

Formal education has played a part of his success, even if "every time I've said I will never do another exam again". Being both FCA and FCT qualified are fundamental to his current role, he believes. "I'll always benefit from being able to talk debits and credits with our accounting teams, but it is the treasury qualifications that support me every day."

The value he sees in formal training extends to his team. "This has been a prerequisite for most positions I've hired over the past ten years. It's not just the qualification itself but the commitment to continued professional development and learning that it signals that is most relevant."

With treasurers taking on strategic importance and increasingly being called upon to work closely with professionals from other functions, Richford is also an advocate of developing the so-called 'soft skills'. Although these are often seen as the poor relation to their technical counterpart, it is an area of development that he feels should be progressed in the individual "at similar pace".

It is certainly something he subscribes to himself. "I've been working closely with an executive coach over the past year to focus on some of the soft skills, to complement my technical understandings, and this has been invaluable," he explains. "At all stages of a treasurer's career, the opportunity to take feedback from those around you, understand your strengths and weaknesses, and then to shape this into actionable development areas, is a vital part of building the future leadership skills required as your career progresses."

For those just starting out, in addition to formal qualifications, Richford's advice is to "try to work in a succession of roles that you love", develop the technical skills and soft skills in parallel and "to have as much fun in the office as you can".

It helps to have fun outside work too, he says. For him that often centres on charity sporting challenges such as marathons, cycling sportives and triathlons. Having already raised significant sums for cancer charities, he says he is now "looking for the next challenge". This is perhaps unsurprising: as the treasury transformations continue, this quest characterises his approach to treasury too.

Outsourcing with wings

"When Serrala created its Managed Services group in early 2018, its aim was to deliver a suite of modular services capable of improving the clients' operations and reducing their costs," says Mickey Vonckx, the group's VP. Can that really work for specialised treasury functions?

Mickey Vonckx
VP Managed Services

SERRALA

Most treasurers will recognise this scenario: the need for specialised resources are urgent but the competitive differentiation derived from the task is, at best, moderate. It's a hard sell when it comes to creating a business case for something that, in the eyes of senior management, won't make that much difference. And yet the truth, as most treasurers will also recognise, is that outsourcing some of the basic operational tasks around payments, for example, would free up time for real business-wide value-adding activities.

But is outsourcing, traditionally based on a 'time and materials' (T&M) type contract, a suitable model for treasury activities, where knowledge and expertise are still required? It is when the old T&M approach is replaced by one of an "outcome-based relationship" that is capable of rapidly delivering readily available services governed by clear service level agreements (SLAs), says Mickey Vonckx, VP Managed Services, Serrala.

Vonckx advocates a 'managed services' model for treasurers, especially those beating a path to digitisation. "They want to benefit from new software solutions immediately, not engage in lengthy implementation cycles," he explains.

The desire for instant access is a result perhaps of how, as consumers, many of us have got used to going online and having "everything available at our fingertips", notes Vonckx. That same level of expectation is feeding into the finance functions – including treasury – of the corporate world.

But with intense competition from many other functions travelling the path, treasury's access to the internal technical resources needed to help deliver a digital transformation can be limited. The creation of Serrala's managed services group presents a "readily available and flexible means of addressing treasury's pain-points".

Indeed, by bundling Serrala's expertise and experience, Vonckx says clients can benefit from quickly integrating cloud-based micro-services within their own business processes. This can be achieved either with Serrala's own payments, receivables and treasury software, or supplementing software from third-party providers. "Feature-function is important but it's increasingly important to have flexibility around the fast and seamless integration into the processes of the customer," he says.

Responsive to change

For a global treasury, the need for change – driven internally and externally – can be constant, says Vonckx. Existing within this dynamic environment means being able to respond quickly to change. A treasury with global and local banking partners will, for example, wish to substitute one institution for another or bring on board an additional one. If a need has been defined, treasury will want to have its new accounts operational in the shortest possible timeframe.

In a managed services context, the speed with which new connectivity and transactional services are delivered will be governed by the SLA. But the SLAs offered by Serrala precisely define delivery not only in terms of the initial set-up but also for managing changes in the bank formats, bank connectivity, banking partners and so forth. As Vonckx says, with the ongoing demand to keep ahead of the curve, fighting over project delivery times is a distraction most treasurers could do without.

What's more, with the arrival of developments such as open banking, APIs, instant payments and SWIFT challengers such as Ripple, corporates need to stay alert, taking up the challenge where it suits. But treasurers also need to consider whether they can and will adequately develop and maintain the necessary skills within the team to manage such changes or use a third party to act as its on-call skills-centre. For Vonckx, a third-party service provider that can deliver all these changes with the backing of an SLA for each should be a serious consideration.

Tackling pain-points

One of the major pain-points for treasuries today is around connectivity, says Vonckx. This includes essential but potentially time-consuming sub-processes such as payment format handling which can require some niche skill-sets, depending on factors such as location, bank and payment type.

Indeed, whilst target formatting for a corporate moving in-country from one provider to another is a relatively simple process, the same corporate opening a bank account in overseas countries can experience a serious challenge when seeking to understand different payment types.

With treasury needing to ramp up its local knowledge every time the business moves into a new jurisdiction, Vonckx says it can be a lengthy process assessing and understanding what is required before payments can be made and received. "With the number of accounts typically needed by a large international corporate, it's easy to see how the complexity of this task increases," he says. "Treasurers should be asking if they really want to build up that expertise as a series of one-offs or if they can hand it over to a specialist provider."

For Serrala, having built up and continually developed its experience and expertise of both core and niche treasury processes with multiple corporate customers and banks, in multiple locations globally, there is a cumulative benefit that can be enjoyed by all clients, says Vonckx.

Another domain in which inefficiencies and challenges often exist is receivables. Although banks can provide EBS and lockbox statement details, there are still a lot of paper-based remittances provided by customers that cannot be processed automatically, says Vonckx.

As such, he believes in the increasing relevance of cloud-based services that can, for example, automatically combine information received in a statement with invoice and remittance details. "Often these documents need to be interpreted, sometimes using OCR technology or predefined templates," he notes. "Having this done on an outsourced basis, being provided with a streamlined file that can be automatically uploaded into the ERP, is a huge benefit."

This opportunity extends downstream, notes Vonckx. Accurate information on paid invoices means credit lines are more effectively cleared, enhancing sales streams. Perhaps even more advantageous is the way in which same-day visibility on paid invoices enhances working capital management and forecasting accuracy.

Business case

Whilst employing third-party services will present a new cost, Vonckx argues that taking this path actually delivers cost efficiencies. Retaining processes such as format conversion and remittance handling in-house creates a number of hidden costs that can quickly add up, he says. Having prepared many business cases for customers he is in a position to know that "significant gains" can be made when using the right managed services provider.

There is a logic to this; in offering services to multiple customers, economies of scale apply. In Serrala's case, these are translated into its pricing model. A treasurer required to present a business case for taking this path can be assisted in its creation, with supporting qualitative and quantitative data stacking favourably against the costs of in-house processing which often lack transparency, says Vonckx.

Furthermore, as part of the consultative approach, the Serrala team will assist the client in defining process best-practice, this being benchmarked against the many implementations it has already carried out.

In staking his claim that Serrala aims to give its clients a "best in class process that is a lot more efficient and transparent", Vonckx confirms that 'transparency' relates not only to the SLAs that ensure correct delivery but also to the pricing of those services. "Clients always know what to expect so that if their service needs grow, they will know exactly how it will impact their costing structure. Treasurers using internal resources will find this aspect much more difficult to assess."

Making the difference

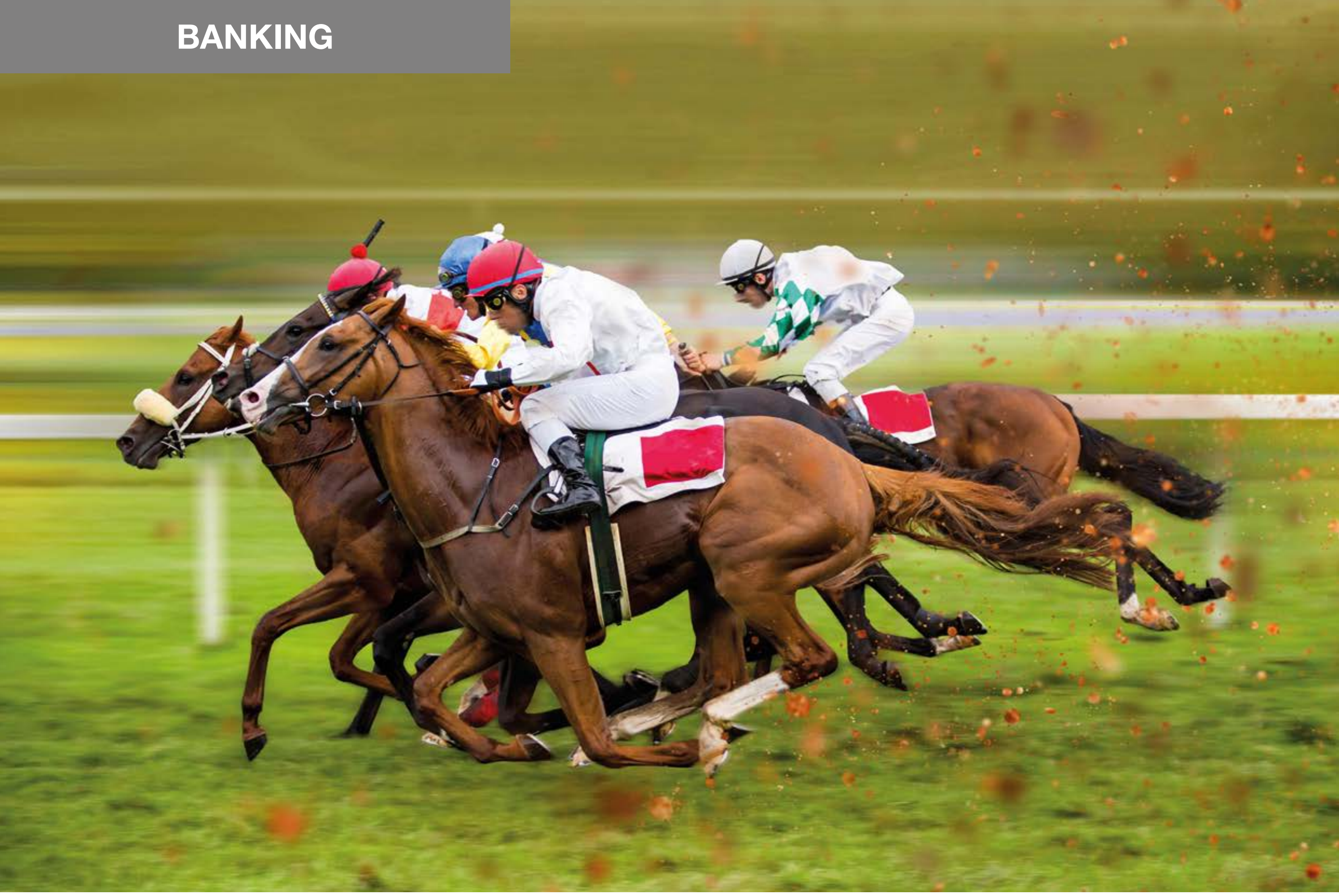
Of course, managed services and classic outsourcing providers all claim a USP. Serrala appears to have one that really does have mileage. In the past few years, the company has extended its product portfolio to cover the entire accounts payable, accounts receivable, treasury, data analytics and document management functions.

In doing so, it has built what Vonckx describes as a "comprehensive end-to-end service for incoming and outgoing payments and related financial processes". This, he adds, not only manages format handling and bank connectivity but all workflows from invoice to payment, and remittance to cash application.

One of the additional advantages of an end-to-end service is that it can play a key role in the essential fight against payments fraud. "If a service provider focuses on a single function within that chain, it is difficult for them to capture and control information outside of that process," comments Vonckx. "By covering the entire process, we are in a better position to manage our clients' security, fraud and compliance concerns."

Of course, as clients' demands evolve and demand new services, Serrala is continually developing its solution set to meet their evolving needs. Following an intense period of acquisition and integration, enabling "strong emphasis on end-to-end service provision", it underwent a rebranding earlier this year.

Now, in addition to accelerating the extension of its work in the multi-ERP space to include all the main platforms, Vonckx reports "full commitment to extending Serrala's functionality in the cloud and the creation of additional managed services". The quest to improve niche treasury operations and reduce costs is not only possible, with the managed services model it is now a proposition that has wings.



The winner takes it all? Not quite in the battle of fintechs vs banks

The notion that corporates may one day do all their banking with tech groups seems entirely possible. It's forcing an urgent revaluation between banks and their corporate clients of where the true value in their relationship rests. From the outside, corporate banking looks as vulnerable of falling victim to the internet as its retail cousin; look a bit closer and banks still have important advantages.

Two years ago Omnicom Group, the global marketing and communications company, introduced a centralised payments function within its US and European treasury divisions. It swapped a laborious, decentralised system involving processing payments through 500 separate accounts in the two regions, for non-bank technology from fintech company Pelican.

The new system gathers daily payment data from every Omnicom entity and aggregates those payments into a single file that is then processed through one bank account. "Banks are trying to do something similar but they're not quite there yet," says Maeve Robinson, Assistant Treasurer at Omnicom who spoke to multiple software providers before choosing Pelican. "The centralised disbursement system is more efficient and allows us to focus on strategic activities like cash flow forecasting, managing our debt and investment maturities, interest rate risk management, and ultimately promote shareholder value."

Banks have been losing sections of their business to tech companies for a while, as sophisticated treasury teams switch to new software to improve their cost base and efficiencies. But the trend of fintechs picking off key parts of banks' value chain to offer specific services is gathering apace. The churn of new applications and software means the outsourcing or unbundling of treasury services to fintech groups is constantly encroaching on banks' traditional and profitable corporate offering, spanning everything from payments to foreign exchange and small company lending.

It is also happening much faster than banks, saddled with legacy technology and struggling to change the pipes while the water is still running, can adapt or compete. The notion that corporates may one day do all their banking with tech groups, particularly the big ones like Google or Amazon, seems entirely possible. It's forcing an urgent revaluation between banks and their corporate clients of where the true value in their relationship rests. From the outside, corporate banking looks as vulnerable to falling victim to the internet as its retail cousin; look a bit closer and banks still have important advantages.

Unbundling rolls on

The unbundling trend is everywhere. SWIFT's payment system offering corporates direct access to its platform to avoid transacting through multiple banks is the most obvious example. "We've just started using SWIFT because we needed technology that was independent from banks to meet our growing number of transactions and desire for independence," says Tim de Knegt, Manager, Strategic Finance and Treasury at the Port of Rotterdam in the Netherlands. The raft of new know your customer (KYC) service providers which have sprung up offering the Holy Grail of standardised, automated KYC in contrast to onboarding with individual banks is another.

In one trend, tech companies are now introducing multi-bank portals for a much broader range of organisations, changing the way they can interact with banks as big corporate treasury already has. Non-banks like Kyriba and Finestra are introducing software that offers multi-bank portal interfaces directly, allowing more companies to carry out transfers, access information, compare prices and execute trades through their platform across multiple banks. "It's an important trend that is making it much more transparent for the treasuer," says Thomas Olsen, a partner in Bain & Company's Singapore office.

Bank of Amazon

Technology companies are also bypassing banks to interact directly with corporates to cause disintermediation. This is most notable around supply chain finance and working capital solutions offered by cloud-based specialists like PrimeRevenue or Tradeshift. Similarly, Amazon and Alibaba now offer supply chain finance to the vast ecosystem of merchants selling through their sites. "This is the kind of financing down the supply chain that banks would have done in the past," says Olsen.

Tech giants' access to buyers and sellers' data fuels their ability to offer working capital solutions. Amazon's data gathering on the retail and consumer goods companies using its site spans things like information on their suppliers to how frequently they sell to large corporations; trade flows and details of destination and origination markets. Admittedly, it's only one area of data and doesn't reveal a holistic picture of a companies' treasury policies around issues like foreign exchange hedging or overall cashflows, but it is more than enough to build new products and solutions around.

Indeed, it's not just corporates outsourcing to tech companies. Banks themselves are throwing in the towel and outsourcing to fintechs, particularly around payment processes. Witness Commerzbank recently outsourcing all of its payments processing in the single euro payments area (SEPA) to French tech group equensWorldline. The ten-year contract will see equensWorldline take over all SEPA instant, multi-currency, and domestic payments – equating to 4bn transactions per year – on behalf of the bank, migrating legacy inhouse architecture to the equensWordline platform.

> "The centralised disbursement system is more efficient and allows us to focus on strategic activities like cash flow forecasting, managing our debt and investment maturities, interest rate risk management, and ultimately promote shareholder value.
>
> Maeve Robinson, Assistant Treasurer, Omnicom

The loss of profitable services means less fees for banks and could result in banks charging more for large financings. An ongoing transaction banking and working capital relationship allows banks to build a credit profile when it comes to raising debt for new services and solutions. If companies only come to banks for bigger financing solutions, it will cost more.

Client is king

But tech companies' encroachment on banks' corporate business offering doesn't extend into one important area – yet: the valuable relationship banks have with their corporate clients. Whether treasury divisions are investing in their own software solutions, outsourcing to third parties or using a third-party service through their bank, banks are still banking their clients. "Technology companies are playing a role in the corporate banking value chain, but corporates are unlikely to switch their core relationship to tech companies," says Olsen.

One reason is because fintechs are not actually trying to compete with banks on everything because much of what banks do isn't their area of expertise. This could involve providing a large credit facility, require a banking licence, or the ability to implement transactions in a regulatory environment. Platforms will face increasing regulation the more they venture into banks territory and although fintechs are cash rich, it remains to be seen whether they have the appetite to take on the costs associated with compliance. "A large corporate bank does many things, much of which a technology company wouldn't want to do," says Olsen.

Data danger

And corporate treasury is similarly reticent to embrace tech firms as their new bankers. It all comes down to trust. Companies are wary of how tech companies are already

> Technology companies are playing a role in the corporate banking value chain, but corporates are unlikely to switch their core relationship to tech companies.
>
> Thomas Olsen, Partner,
> Bain & Company

storing and using their data, nor do they trust them to manage their deposits or keep their assets safe. "I wouldn't give a tech company a penny of our deposits because I don't want to do anything that would put our assets at risk," says Omnicom's Robinson. "The Federal Reserve sits behind US banks; tech companies don't have that because they are not banks." She adds that choosing a third-party provider to implement the company's new centralised disbursement technology involved a leap of faith. Two years on, and she would still rather the technology sat behind her banks' firewall. "I would be more comfortable with banks' level of security, systems and data centres, but they can't do it right now," she says. It's a mistrust evident in her insistence that the daily payment data comes back in-house, enabling a "last look" before treasury sends it to the bank for processing – rather than Pelican mail the file direct, host to host.

Nor do treasurers like the thought of being sold services off the back of data gathered by tech companies. "I know that a bank will not use my data to predict what type of services they can sell to me," says de Knegt, who explains that his concern that tech companies might use the Port's data in this way is already manifesting in treasury strategy. "We are considering to what extent we should use technology in our financial processes from tech firms because the information we give them is much more valuable than the service their technology performs for us."

Advisory wins

Indeed, he wants his banks to do much more to leverage the information they hold and their sector expertise, to offer more, higher value services. Alerts to risk in the Port's complex supply chain that stretches to over 20,000 companies, is a key area in which he'd like some help. "We will invest more than €2bn in the port area over the next five years and if a small customer or supplier is in financial trouble it could mean the difference between a finished project, or a delay of several years." He welcomes signs that some of his relationship banks are beginning to adapt and offer client analysis, like ING's data company Suburbia.

The call on banks to make more of their corporate relationships, and translate their customer knowledge into new services, opportunities and profit, is coming loudest from within the banking community, especially while fintech still lacks the institutional history and access to flows needed to inform the advisory expertise that corporates say they value most. "The relationship is wasted unless banks leverage their knowledge of the client and turn it into a value proposition," says Citi's EMEA Treasury Solutions Head, Ebru Pakcan. It's a process that should see banks get their hands dirty with new technologies, experimenting with clients around AI and data science, and worrying less about the immediate application of technologies. "Banks need to be able to pick up a piece of technology and understand how it works and what it does," she says.

She draws on Citi's adoption of blockchain, where the hype often overshadows the realistic application, as an example of the approach in action. Rather than exploring ways to make payments on blockchain itself, Citi is looking at how its clients which are adopting blockchain can connect to traditional payments and financial services within the bank. "We have concentrated on how the bank can connect to the blockchain ledger of a corporate client and receive instructions and send information. We currently have one live client and are talking to others. It comes down to asking what problem are we trying to solve for our clients and what new services are needed?"

It also requires looking at what a business will look like in five years' time, she says. Banks need to examine how companies' changing business models will require different technology. For example, application programme interfaces (APIs) may not make much sense for a traditional treasury, but if a business switches from a distribution model to selling direct to consumers and selling more on-line, the real time benefit of API connectivity comes into play.

In another development that could work in banks' favour, some fintech's are struggling to sell their services direct to corporates, especially those plying data information technology to improve cash optimisation. It means these firms are increasingly coming to banks to help them break into corporate treasury. Citi's recent collaboration with US-based fintech HighRadius illustrates the point, says Pakcan. "Many of these tech companies don't require banking partners and they could go direct to the corporate. However, they need that introduction and access to the flows, and partnering with us makes integration smoother for the corporate," she says. Viewed through this lens, the new financial services landscape shifts from competition to cooperation in a win-win for tech companies, banks and corporate treasury.

Unbundling may also slow down. Of course, technology erodes many inefficiencies, but the more third parties a corporate works with, the more unwieldy and potentially costly the proposition; unbundling also breaks with the two-decade trend in rationalising corporate treasury and one-stop shopping with large banks. "There is a fine balance in terms of how many third parties you want to partner with, ensuring that the benefits of these relationships don't suddenly become costly and inefficient," argues Pakcan who notes that companies expanding into emerging markets particularly benefit from a comprehensive single solution because working with individual providers is difficult.

Treasury is using technology to access banks' services more efficiently, and new software is allowing corporates to change the way they interact with their banks. Yet ask most companies if they'll start banking with a fintech and the answer is no: they depend on banks to keep their money safe in different pockets of the world and depend on technology providers for the software and applications they provide. "The difference between banks and IT companies is black and white," concludes Robinson.

Bank of America Merrill Lynch

The Executive Series

Drawing upon its position as a leading global bank, Bank of America Merrill Lynch (BofAML) has a comprehensive and global view of the issues affecting today's treasurers. In the first part of Treasury Today and Bank of America Merrill Lynch's Executive Series experts from the bank joined a roundtable discussion hosted by Treasury Today Chair, Richard Parkinson, to provide their insights into a diverse range of topics, from the rise of artificial intelligence (AI) in treasury management systems to the importance of measuring environmental, social and governance (ESG) factors for companies.

Participants

Matthew Davies

Head of Global Transaction Services EMEA

Bank of America Merrill Lynch

Stephanie Wolf

Global Head of Financial Institutions & Public Sector Banking for Global Transaction Services

Bank of America Merrill Lynch

Hubert J.P. Jolly

Global Head of Financing and Channels, Global Transaction Services

Bank of America Merrill Lynch

Moderator

Richard Parkinson

Chair

Treasury Today Group

treasurytoday group
research | insight | analysis

> I am very much of the view that transaction banking is going to change more in the next five years than it has in the last 35 years.

Matthew Davies, Head of Global Transaction Services EMEA: Matthew heads up the global transaction services business for BofAML for Europe, Middle East and Africa. We spend a huge amount of time with our US client base, but we also have significant international relationships with our European, Asian and Latin American headquartered clients. Some of those perspectives differ, so I want to try and share some of those today.

Stephanie Wolf, Global Head of Financial Institutions & Public Sector Banking for Global Transaction Services: I run our global financial services franchise from a client-coverage perspective. That includes traditional financial institutions, our correspondent bank clients and non-bank financial institutions, as well as global government entities, around the world.

Hubert J.P. Jolly, Global Head of Financing and Channels, Global Transaction Services: J.P. has responsibility for financing and channels, which includes BofAML's trade and supply chain business, cards and payables. This is a comprehensive solution set, so pre-paid and commercial cards, digital channels, online mobile direct connectivity and innovation all fall within my domain.

What is going on in corporate treasury today? Are the fundamentals changing and what are the key trends you are seeing?

Matthew Davies: There has been quite a shift since the global financial crisis. Up until that point, the focus was very much on traditional areas of treasury. That focus continues today but what has changed is that the role of the treasurer has become so much broader. Treasurers have had to develop new skillsets to spread the reach of treasury much further across the company.

J.P. Jolly: Corporates are also looking to drive operating efficiency from technology, which includes digitising the treasury function. Digitisation is driving treasurers to review their supply chains, and how they can help their partners in procurement and manufacturing be more efficient. This includes how they should pay their suppliers and how they can get capital to suppliers who may require it. Last but not least, they are exploring how they can help their companies collect payments more efficiently.

Resources in corporate treasury are always limited. So how do you see corporates coping with the need to digitise?

Matthew Davies: Introducing automation through the use of robotics can enable treasury to become much more efficient. This offers a great opportunity for corporate treasuries to gain that efficiency so they can use the resources that they have much more effectively on strategic initiatives.

J.P. Jolly: I think there is an opportunity to free up working capital, particularly given rising interest rates in the US and other markets. We are seeing some corporates deploying supply chain finance when they haven't done so before.

We are also combining supply chain finance with virtual purchasing cards in order to provide clients with a seamless solution. For example, by leveraging the data that we have, we may be able to determine that a company's smaller suppliers could benefit from a virtual P-Card.

Meanwhile, treasurers are focusing on extending days payables outstanding (DPO) in order to free up working capital for their corporations, drive benefits and, in turn, get more investments into the treasury.

Stephanie Wolf: We have a whole generation of treasurers and treasury departments who have not lived through a rising interest rate environment. So we spend a lot of time with our clients talking about how that environment impacts the deposit rates, the borrowing rates and the working capital cycle as a whole.

J.P. Jolly: I think treasurers also need to look at their inflows and ask how they can leverage technology to reduce outstanding receipts and collect cash faster. So it's all about maximising your inflows, collecting faster, leveraging bank tools to pay your suppliers later, extending your cash flow and improving your working capital.

Stephanie Wolf: On the inflow side, we have used AI to help when receivables come in. We have a global product used by many of our clients where, as the receipt is confirmed, we use artificial intelligence to determine where those receivables should be applied.

Matthew Davies: We have some clients that previously had automated match rates of 30-35% for their incoming receivables. By deploying this type of technology, they have been able to increase the match rate to 75-80%. That is a major efficiency gain which can free up a significant amount of resources.

Which trends should corporates be watching right now?

Matthew Davies: Corporate treasurers should be focused on the automation opportunities that we are talking about. Beyond that, it is really about how fintechs can help drive change in the broader market place.

Top five priorities for corporates over the next 12-18 months

1. Cash flow forecasting
2. Foreign exchange risk management/hedging
3. Improving cash management/ cash pooling structure
4. Funding/credit lines
5. Security, fraud and cyber-security

Extract from the findings of Treasury Today's Voice of Corporate Treasury Study 2017


Stephanie Wolf

> One thing that is constant is change. Treasurers have to be willing to look at the landscape, take all the information they can and apply to their specific circumstances.

Stephanie just gave the example around intelligent receivables, where we partnered with a fintech – I think it is interesting to watch how banks are partnering with fintechs and what that is enabling them to bring to market. We are seeing much more collaboration in the bank/fintech space.

J.P. Jolly: Treasurers are looking to their banking partners to innovate to help them work smarter and more efficiently. This could mean propriety bank products or partnering with fintechs.

Staying on top of market trends and priorities is so important to innovation. Last year, we worked with Treasury Today on the Voice of the Corporate Treasury Global Study. The study provided insight on corporate treasurer's priorities over the next 12-18 months. Truly understanding trends and our clients' needs is key to delivering the right solutions.

Stephanie Wolf: Of course, cybersecurity is applicable to every single one of our clients and it is applicable to all of us personally. So, we at BofAML have taken a global position that we are here to share information on how we think about cybersecurity – and, where we can, offer advice.

Matthew Davies: You can imagine that as a large global bank, we have to spend a huge amount of time, money and resources protecting the bank every minute of every day. We try to leverage that expertise to give advice to our clients on how we protect ourselves, because it is equally applicable to them.

Stephanie Wolf: And technology helps the 'knowing your client' relationship work much better. We have used technology to build databases that give us information on what a particular client or industry of clients or region of clients are doing. What type of receipts are we seeing? What type of payments? What is the gap between a receipt and a payment? What means of executing a payment is being used? We meet with our clients regularly and then we bring that knowledge to achieve more efficient execution.

Almost an element of benchmarking there?

Stephanie Wolf: It is very interesting when you try to find a comparison. Not every company is comparable to the company you might think they would be compared to. I'll give you an example. One company might simply be a manufacturer of a product. Another might be a global manufacturer of that same product as well as six others. They are very different companies. So we try to look at their

When assessing bank relationships, corporates rate the following factors as the highest priorities

Extract from the findings of Treasury Today's Voice of Corporate Treasury Study 2017

behaviour, rather than just the industry sector. That is where you start to find commonality.

Let's turn to regulation. Obviously, there are enormous regulatory pressures on your industry and, in turn, on your clients.

Stephanie Wolf: I look at regulation as an opportunity for us to evolve. When I think about PSD2, the second payment services directive out of the EU – what did we do when faced with that regulation? We created an entirely new way to connect with our clients via API connectivity.

Matthew Davies: Regulation is both a challenge and an opportunity. It is a challenge for all banks to be able to fund growth whilst staying compliant. But the opportunity is significant and we have seen many examples of regulation driving positive change.

Faster payments came to the UK and it was driving a better consumer experience. We have now seen this transition towards real-time payments on a global basis. If you have full open banking and you have full real-time payments, you will probably think very differently about which banks you pick to work with in a number of different jurisdictions.

J.P. Jolly: Speaking of real-time payments and APIs, this really is an opportunity for corporates on the collections and receivables end. This enables them to take a real-time approach when it comes to collecting money. They may also be able to leverage APIs to connect to whichever system their clients are using and source the information they need to reconcile invoices.

Matthew Davies: That is a great point. We spend a lot of time talking about the speed of the payment. Actually, one of the biggest benefits from real-time payments is the increased level of information that can be passed alongside the transaction.

Is there an impact on cash flow forecasting here as well?

Stephanie Wolf: Most definitely. Certainty is of great value to corporate treasurers around the world and as J.P. was saying, we are spending our technology dollars on ways to

> Digitisation helps us improve the client experience that we provide to our clients.

offer our clients better cash flow forecasting tools. Indeed, respondents to the Treasury Today Voice of Corporate Treasury Global Study said that the most valued service their financial services partners provide is greater transparency in the cash flow forecasting process.

Matthew Davies: A number of corporate clients are thinking very differently about how they can use technology for cash flow forecasting. For example, one company has taken its bank statements and open item files from SAP, and all its history from its ERP systems, and loaded them into Watson, the cloud service from IBM. Then Watson uses AI and machine learning to deliver cash flow forecasting for the company.

Now this is early stages, but it is very interesting to see what you can now do with the cloud-based artificial intelligence solutions that are on the market.

On a different note, another business trend is the measurement of ESG factors. How important is this and what should corporate treasury be doing in this space?

Matthew Davies: You can look at this a couple of ways. I think we see it as important because for us it is very much linked with responsible growth. This means making sure we are the best employer for our employees, and using the significant resources that we have around the world to do the right thing for our clients and the communities that we operate in.

Recently we have started to look at our customers and try to build an ESG scorecard. Interestingly, when you look at it, around 50% of corporate treasurers are involved with and engaged in ESG programmes within their organisations. The other 50% really don't know anything about it. And I really do think for corporate treasurers, it will be increasingly important to focus on this area – firstly because it is the right thing to do, but also because investors are focused on this topic too.

What do you see as some of the winning factors for modern corporate treasury?

Stephanie Wolf: The key is to stay nimble, look at how your group is organised, review the technology you use and get your processes to change as your systems change – then you will be far more successful.

And a second aspect that I see in the clients who are most successful, is the ability to take in information across the landscape and to have designated experts, both externally and internally.

Matthew Davies: Yes, you need good advisors around you and to make sure you have got the right relationships with the right banks that give you the right level of advice and service. I also think the modern treasurer needs to be both proactive and intellectually curious.

J.P. Jolly: People are very focused on running a proposal process and maybe on selecting the best price – but that is not always the best indicator in terms of how easy it is going to be do business with a particular provider.

What else should corporates be watching?

Stephanie Wolf: Technology is a must in this day and age. If you are a treasury group that is not technologically proficient, you will fail.

Another important industry trend is open banking, which is leading to more cross-border low-value payments. Beyond technology, the biggest change for my clients over the next five or six years is going to be low-value, cross-border, cross-currency payments becoming cost effective and, therefore, more prevalent.

So corporate treasury has to be curious, nimble, but also proactive. How do you help your clients do that?

J.P. Jolly: Well, I think some of our most successful clients in terms of freeing up working capital are the ones who partner with procurement in a collaborative way. Traditional banks look at these three products – supply chain, payments and cards – as three separate silos. We don't. We take an integrated approach to include all of a company's suppliers in a single implementation.

Stephanie Wolf: The first time we implemented our Digital Disbursements solution, it came out of a whiteboard session where we spent an entire afternoon sitting with an insurance company's department head, thinking about the future of paying insurance claims. And that led to the execution of a particular solution – which, in turn, led to a rather dramatic change in the industry as to how claims are paid as well as unearned premiums.

Matthew Davies: In another case, really understanding some of the challenges of the sales organisation was key. The company's sales organisation had a number of clients that wanted to buy a lot more products – but the sales organisation was unable to sell more products to them because of customer limits which were included in the internal credit policy.

Of course, if you can identify the cash and apply it quicker, you can free up that credit limit quicker and therefore sell more product. But it's also important to consider what you know about your customers and whether you have the right view and the right limits in place.

By looking at how the company's clients paid, the company was able to adjust its credit limits and sell more,

Top five areas in need of improvement in terms of the use of existing technology

1. Cash flow forecasting solutions
2. Improving visibility over the company's cash
3. Accounting
4. Risk management (interest rate/FX)
5. Electronic/internet banking standards and file formats

Extract from the findings of Treasury Today's Voice of Corporate Treasury Study 2017

> Technology is a must in this day and age. If you are a treasury group that is not technologically proficient, you will fail.
>
> Stephanie Wolf, Global Head of Financial Institutions for Global Transaction Services, Bank of America Merrill Lynch

while still maintaining the same risk profile that it had previously. This is a great example of a treasurer taking a commercial view and helping the organisation be more successful in selling to its clients.

I would like you to summarise. What are the key takeaways that you would like to leave with the reader?

Matthew Davies: I am very much of the view that transaction banking is going to change more in the next five years than it has in the last 35 years.

There will be significant opportunity for efficiency gains, cost reductions, greater transparency and better advice driven by data. We'll continue to do our part in providing advice on a consistent basis across all of these areas, but I think there has got to be that intellectual curiosity there.

Stephanie Wolf: One thing that is constant is change. Treasurers have to be willing to look at the landscape, take all the information they can and apply it to their specific circumstances.

J.P. Jolly: The right approach is to look at how digitisation helps us improve the client experience that we provide to our clients.

Whenever I meet with my colleagues in operations, service, fulfilments or implementation, they measure themselves based on client delight. So, one major trend that treasurers should look at is what are my banks doing to make it easier for me to do business with them?

This discussion highlights that while customer needs and the client experience remain paramount, recent developments and the evolving landscape are continuing to change the needs and challenges faced by treasurers. It's clear that corporate treasurers are operating in interesting, not just difficult, times and that the coming years will see the arrival of many more examples of innovation and collaborative solutions.

Treasury Today's Voice of Corporate Treasury Study 2017 was conducted from February to April and attracted over 600 responses from a broad universe in terms of company size, industry sector and geography.

Bringing cash home

US tax reform has prompted many companies to review their cash repatriation policies. But how and why does cash become 'trapped' in overseas markets, what are the benefits of bringing cash home – and when is it preferable to leave cash where it is?

Companies around the world are continuing to hold high levels of cash. Mark Smith, head of Global Liquidity for Global Transaction Services at Bank of America Merrill Lynch, comments that since the financial crisis, corporates have increasingly aimed to carry more cash on their balance sheets in order to build a more significant buffer against unforeseen circumstances. At the same time, low interest rates have prompted some companies to issue debt for large acquisitions, rather than make use of that cash. "In other words, there has been a build-up of cash from a defensive standpoint, and there hasn't been any need to deploy that cash urgently because debt has been so cheap," he says.

But while a cash buffer can provide a sense of security, in practice not all of the cash held by a multinational company may be readily accessible. From stringent foreign exchange controls to tax considerations, there are many factors which can make it difficult for treasurers to bring cash home from overseas offices.

For corporate treasurers, one perennial goal is to overcome these obstacles and reduce the amount of cash trapped in other markets. This is certainly the case for George Dessing, Senior Vice President, Treasury & Risk at global information, software, and services company Wolters Kluwer. "We want to provide value for stakeholders, which means that we want to limit the amount of trapped cash, or restricted cash as we refer to it, and therefore maximise the cash which is repatriated to the central parent level in the Netherlands," he explains.

At the end of 2017, the company's restricted cash amounted to around €17m, down from €29m in 2016. As Dessing comments, "Most of the restrictions we face are due to local exchange control regulation on exporting cash and capital out

> In this way, factors that should not normally lead to a trapped cash problem can contribute to the outcome.
>
> Yera Hagopian, Head of Liquidity Services, Barclays Corporate Banking

of the country – and we even mention that explicitly in the notes to our annual report, so it's definitely a topic receiving a certain amount of attention in our financials."

Challenging markets

Where Wolters Kluwer is concerned, Dessing says that restrictions can be found in a number of markets, including countries where exchange controls are prevalent – such as China, India and Brazil – as well as other emerging markets and some Eastern European countries.

"China has always been a challenge in this landscape although the authorities have over recent years made a number of attempts to allow more movement, albeit sometimes for certain periods before reimposing restrictions," comments Yera Hagopian, Head of Liquidity Services, Barclays Corporate Banking. "Certain Latin American countries such as Brazil, Argentina and Venezuela also present challenges alongside other Asian countries like India, Thailand, and South Korea." She adds that Russia and Turkey "are still in the more challenging space when it comes to free movement of cash".

But tax and regulatory factors are not the only reasons why companies may have issues around trapped cash. "Poor visibility or inaccurate data can impede efficient cash management," says Hagopian. "Zero balancing may need to be watered down to target balancing, with substantial local buffers if there is the risk of overdrawing the local account and incurring a hefty local overdraft charge. Similarly, organisational factors may have some bearing on how cash is managed."

Hagopian points out that in organisations where payments are decentralised across different markets, local operations will require a degree of control over their cash flows, as well as the certainty that their payments have adequate access to funding on an intraday basis. "In this way, factors that should not normally lead to a trapped cash problem can contribute to the outcome."

Weighing the risks

As Hagopian explains, there is a dilemma in that the markets which present the most challenging environments for cash repatriation "often present the greatest concern regarding country risk". As such, she says that these considerations are best contemplated at the outset when investment in a particular market is being reviewed.

"The decision to invest may still be upheld, but the capital and funding structure of the local operation may be different as a result of a holistic review, given the reliance on dividends and royalties as the primary mechanism for repatriating cash. In addition, the attraction of a taxation rate for profits has to be weighed against the restrictions upon repatriation."

Naturally, there's no one size fits all when it comes to managing cash effectively. Where Wolters Kluwer is concerned, Dessing says that the group faces a variety of financial risks, including liquidity risk, market risk and credit risk, all of which are managed via a strict financial framework, policies and procedures. Against this backdrop, the company's total debt is around €2bn – "and therefore you want to reduce that by having access to all available cash on a global basis."

Dessing says that Wolters Kluwer tackles this task via a three-pronged approach. "First of all, we are using global cash pooling structures to gain access to cash, even in countries which have certain limitations," he says. "Secondly, our intra-group financing includes certain netting and settlement structures that we use internally. And finally, we reduce the restricted cash via our internal dividend policy."

Impact of the US tax reform

While the issue of trapped cash has long been a concern for treasurers, conditions in specific markets can and do change over time. One notable development in recent months has been the US tax reform: as well as cutting corporation tax from 35% to 21%, the reform set out to encourage US corporations to repatriate foreign earnings, offering a reduced one-off repatriation tax rate on profits brought back to the US.

The consequences of this development could be significant. "The United States Worldwide system meant around US$2.5trn of cash was parked abroad by some estimates, discouraging onshore investing, debt restructuring and dividend payments," says Hagopian. "At 35%, the rate of US Federal Income Tax was considerably higher than the average across the OECD, resulting in a deemed lack of competitiveness for attracting and retaining business in the US."

Consequently, Hagopian says that the reduced transition tax, reduction in income tax rate and the ruling that foreign subsidiary earnings and dividends from foreign subsidiaries will not be subject to US tax in future, "has led many US multinationals to reconsider their repatriation policies".

Some companies have been quick to take advantage of the opportunity. Apple, for example, announced in January that it anticipated repatriation tax payments of approximately US$38bn – implying that the company planned to repatriate around US$245bn.

But there are other factors to consider. Hagopian notes that there is a new minimum tax on 'global intangible low-taxed income' (GILTI), while CFC rules still apply to certain 'passive' income, making it subject to full US tax rate. "Of course,

> In some cases, tax considerations outweigh the benefit of transferring cash in the long run. We sometimes leave the cash in-country, but mostly we try to get it to a central level.
>
> George Dessing, Senior Vice President, Treasury & Risk, Wolters Kluwer

foreign capital gains remain subject to US taxation and local withholding or dividend taxes may still apply in local markets," she adds.

To repatriate or not to repatriate?

When it comes to taking advantage of the changes, not all companies are alike. Bank of America Merrill Lynch's Smith points out that large companies in sectors such as pharmaceuticals and technology may have built up large cash balances which they may have placed in short-term investments – "and they were waiting for repatriation to happen so that they could bring that cash onshore."

For other companies, however, the situation may be somewhat different. "A lot of overseas cash is actually needed to run the overseas operation, so not all cash is eligible for repatriation," says Smith. "Another factor is that companies have put together structures for their overseas cash that are sometimes complex, but ultimately efficient – and that efficiency may still hold post-tax reform. In any case, these structures can be quite time consuming and sometimes costly to unwind."

Consequently, Smith says that the bank has not seen a significant volume of flows as a result of the US tax reform. While some larger companies have taken advantage of the opportunity, many others are taking time to weigh up their operating cash needs versus their excess cash. Another consideration is that in some cases, there may be attractive investment opportunities overseas, which may mean companies can earn more overseas than they can by repatriating that cash.

Of course, taking the decision to repatriate cash is not the end of the story. "Even once they have reached their conclusions and found that they have cash that is eligible and desirable to repatriate, they still have to go through a process to actually repatriate it," says Smith. He notes that undertaking a capital distribution from a subsidiary to a parent can take time: "Cash could be buried several layers below that parent and you are going to need to do financial statements, have those audited and get tax advice. So there are practical reasons why it can take time to gather cash efficiently into the place where it is needed, and then execute the repatriation."

Weighing the options

These considerations are not limited to the developments in the US. While there are many good reasons for repatriating cash, from reducing reliance on external funding to taking advantage of opportunities for higher yield, there may also be situations when companies choose to leave cash where it is.

"Apart from the non-discretionary reasons relating to local regulations, punitive tax consequences are a primary reason for leaving cash in local operations, even if it is not needed for operational purposes," says Hagopian. She points out that withholding taxes generally apply to cross-border payments of interest, dividends and royalties. Likewise, transfer pricing considerations can apply to inter-company loans and deposits that require interest arrangements to be conducted at arm's length to prevent potential tax avoidance.

"In some cases, tax considerations outweigh the benefit of transferring cash in the long run," comments Dessing. "We sometimes leave the cash in-country, but mostly we try to get it to a central level."

Another consideration is the need for treasurers to provide their relationship banks with revenue opportunities. "If deposit rates are attractive and risk is acceptable, a local deposit or investment product may be a good way of rewarding a relationship bank, especially if the cash cannot be put to better use elsewhere," Hagopian explains. "Manufacturing and production sites can often be set up in challenging countries, and sometimes the best way to use cash is to invest further in that country to then generate more finished goods for sale. These goods can be destined for the home market, leading to bigger dividend repatriation if that is possible, or made available for export."

The currency in which cash is denominated will also need to be taken into account. Hagopian notes that consolidation of minor currencies may not always make sense, "especially where there are no corresponding funding requirements and currency markets are not deep enough to be certain of a beneficial exchange rate for swaps, whether real or virtual by way of a multi-currency pool". Likewise, in some Asian markets, it is possible to repatriate foreign currency but not local currency.

Keeping up to date

It's clear that there are many factors to consider when it comes to a company's cash repatriation policy – and given that market conditions and local regulations are not set in stone, treasurers need to be fully apprised of any developments which may affect their chosen approach.

Dessing explains that the company's treasury stays on top of these questions by leveraging local knowledge not only from the tax department, but also from local units that can advise about in-country changes. "We also speak to certain trusted advisory firms, our global banking partners and local and international treasury peer groups," he adds.

In conclusion, there is much to be gained by bringing cash home wherever this will benefit the company. But before this can happen, it is essential to have a full understanding of current market conditions, the mechanics of the repatriation process – and any factors which could mean cash could be put to better use in local markets.

Why should you adhere to the FX Code of Conduct?

Prior to the financial crisis, conduct was not generally considered to be critically important. Regulators largely supported a 'light touch' approach resulting in widespread lapses in judgement and ethics and a series of scandals. The FX Code of Conduct, based on principles, not detailed rules, sets out to permanently raise FX conduct standards, so why should you sign up?

Frances Hinden
VP Treasury Operations
Shell International Ltd

Neill Penney
MD & Co-head, Trading
Thomson Reuters

Whilst many participants in the foreign exchange markets had either commenced their summer vacations, or were certainly preparing to do so, almost 200 people joined a most informative webinar on 1st August to learn more about the new code.

The code is not just about the sell-side, nor is it about past misdeeds. As Neill Penney, MD & Co-head, Trading at Thomson Reuters highlighted, it is about building a better future for the FX markets and comprises 55 principles designed around the following six key pillars:

- Ethics
- Execution
- Governance
- Risk management and compliance
- Information sharing
- Confirmation and settlement processes

Download the code: **www.globalfxc.org/docs/fx_global.pdf**

Whilst voluntary, the new code, introduced just over a year ago, now has over 300 market organisations, mainly banks, having signed public statements of commitment. The code is already impacting market practices across the industry. Corporates are now engaging with the code too, as demonstrated by the growing (albeit slowly) number (including Shell) indicating their adherence to the code.

As Frances Hinden, VP Treasury Operations at Shell International Ltd stated, "Some of the code (credit risk, controls) is a good guide to how you should run an FX dealing desk and a valuable checklist. It also emphasises the importance of understanding the relationship with your banks and being clear what you expect – there's a lot of jargon in the code but using it properly can be vital in getting the service you want. For example, being clear on the difference between agent and principal or understanding how 'risk transfer' or 'pre-hedging' affect the price you get. You should ask yourself, not "why should I sign?" but "why shouldn't I sign?"

This is about two groups putting aside current frustrations and low trust to embark on a better future for the FX industry. The code could extend into other financial markets such as fixed income. A term frequently used when describing the code is 'proportionality', which means the code shrinks in complexity the simpler treasury operation you have, the number of trades you execute and so on.

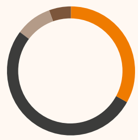
It is generally accepted that good quality markets don't just happen, so the new code sets out to encourage a well-conducted, fair, transparent and effective FX environment. Further, public adherence to the code sends a strong signal to your counterparties. Frances says Shell have taken the step to write to all the banks with which it trades FX to inform them that, unless those banks commit to the code by January 2019, they will be removed from Shell's panel of FX counterparty banks.

Neill concluded: "Memories of the financial crisis will fade. After all, today's 21 year olds were just ten years old when Northern Rock collapsed. That's why it's so important for the industry to work together now to ensure that standards are changed permanently."

Neill also advised that over 10,000 comments were initially received on the code and, whilst not all were incorporated, all were read. Almost 70% of our audience felt it is important that the corporate treasury community is seen to publicly support the code through adherence.

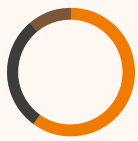
How much do you know about the FX Code of Conduct?

Uninformed – **33.3%**
Somewhat informed – **52%**
Well-informed – **9.3%**
Extremely well-informed – **5.4%**



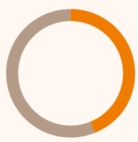
At what point is your corporate treasury function on the road to signing up?

Not yet considered signing up – **60%**
Considering signing up – **28.9%**
Very close to signing up – **0%**
Already signed up – **11.1%**



Given what you know and have heard today, are you likely to commit to the code in the foreseeable future?

Yes – **43.9%**
No – **0%**
Not sure – **56.1%**



If you missed the webinar and would like to hear the full recording this is available at ***treasurytoday.com/webinar/previous-webinars***

CRYPTOCURRENCIES:
ACCEPTANCE AND ACCEPTABILITY

Uncertainty and volatility have been characteristics of bitcoin and its offspring, making many financial professionals wary of cryptocurrencies. Is it time to rethink this attitude?

Will 2018 be the year that treasury departments start taking cryptocurrencies seriously? There are signs of interest now in the SEC ranks. Hester Peirce, who joined the regulator last January as a commissioner, has recently spoken of how “we’re not great with respect to innovation as an agency” and that the US risks falling “behind the curve” in not being more receptive to the cryptocurrency industry.

She has reason to be concerned. Cryptocurrencies are inextricably linked to blockchain technology, which even China is keen to encourage. A growing number of regulators around the world are deciding that standing in the way of cryptocurrency innovation is a Canute-like activity and devising basic guidelines instead will prove rather more productive.

China’s recent crackdown increasingly looks like a move to delay the inevitable as other Asia Pacific economies look to accommodate cryptocurrencies. Japan was the first country to accept bitcoin as legal tender back in April 2017 and has recognised more than a dozen companies as registered cryptocurrency exchange operators in the past year. Japanese banks are reported to be working on their own digital currency, the J-coin, to be launched in time for the 2020 Olympics and to wean consumers off cash.

Japan’s lead was quickly followed by Australia, where bitcoin has been officially accepted for just over a year and the Australian Securities and Investments Commission (ASIC) is proving proactive on issues such as the treatment of ICOs. Add to these pioneers other APAC locations, such as South Korea, which is fast becoming a major cryptocurrency hub that accounts for 14% of the bitcoin market and Thailand, which has just announced the launch of Project Inthanon, a proof of concept trial for developing a national cryptocurrency.

Asia Pacific might lead the pack, but other regions are closely following. The Jerusalem Post reported that Israel’s Finance Ministry and the Bank of Israel are reviewing the possibility of developing a state-backed cryptocurrency, the digital shekel, which would be employed in the government’s campaign against tax evasion.

It’s clear that the momentum is building and the increasing automation of life over the next few years will pave the way for the greater acceptability of crypto – particularly as it affords consumers the opportunity to cut out the middleman when making payments.

For corporate treasury departments, cryptocurrencies have carried too many negative connotations, including price volatility and their use in activities such as scams and money laundering. However, just as the dotcom boom to bust of two decades ago saw survivors develop into today’s major tech names, the merits of cryptocurrencies may now come to the fore if they no longer offer a means to get rich quick.

The big question is whether they will steadily supplement – or even in time replace – fiat currencies? The progress that many countries are making towards a cashless society and the imminent disruption that automation will cause to everyday purchases and bill payments, suggest that crypto is here to stay.

If the resistance of bitcoin deniers such as China gradually melts away, a more unified regulatory approach could develop worldwide. This would open up possibilities such as using cryptocurrencies as an international payment method and avoiding FX, once they become commercially accepted.

A recent KPMG study concluded: “It is evident that a ‘serious crypto-community’ is taking shape whose ambition is to bring cryptocurrencies out of the shady, highly speculative niche they have occupied to date.” As this year’s conference season nears, it’s a prospect likely to be widely debated over the coming weeks.

WOMEN IN TREASURY
FROM INSIGHT TO ACTION

State Street Global Advisors and Treasury Today's Women in Treasury Roundtable Series launches on the West Coast

On May 17th in Palo Alto, California, Treasury Today, for the first time, brought its collaboration with State Street Global Advisors to the West Coast. This Silicon Valley-focused lunch gathering enabled a new network of corporate treasurers to hear from State Street Global Advisors and Treasury Today about their partnership on the 2018 Women in Treasury Study as well as to join a discussion group focused on the most recent Study results. Guests arrived at the beautiful Garden Court Hotel to enjoy a sunny lunchtime roundtable event, joined by a replica of State Street Global Advisors' inspirational 'Fearless Girl', a statue that has come to represent the indomitable strength of women worldwide.

Sculpture by Kristen Visbal, commissioned by State Street Global Advisors

Sharing the results of the most recent Women in Treasury Annual Global Study with the array of attendees based in the Bay area was a real privilege. The ensuing dialogue around flexibility, representation and broader topics of inclusion and career advancement was so well received by this new community that the conversation is sure to continue well beyond that awesome afternoon.

There was an intimate and trusting atmosphere that allowed those in the room to really open up about their experiences, both good and bad, in the workplace and to learn from one another as we debated the merits of various approaches to finding the career path we are best suited to. Raising your hand, being heard and knowing what you want were some of the recurring themes of the day.

Yeng Butler, Senior Managing Director and Global Head of Cash Business at State Street Global Advisors opened the discussion. Setting the tone for the afternoon Yeng said, 'This is about action, action for yourselves in your professional lives, and also about action for each of your organisations. We're looking forward to learning from your advice and personal experiences along with sharing data driven information from Treasury Today's Women in Treasury Study.'

The future of work was an overarching topic of discussion, somewhat naturally given the fact that Silicon Valley is leading the way in terms of automation, robotics, discussions of Universal Basic Income and the impact that all of these advancements will have on people around the world. This narrative thread was highlighted in the expert session led by Louise Watts, co-founder of HPC Global, a boutique firm of international executive coaches located in Sydney, as she made a second guest appearance at our co-hosted roundtables to lead the day's expert session.

Watts is working on a new people-focused future of work solution, Transition Hub, which will launch in Australia this October and is designed to help individuals develop their unique soft skills that they can apply to their future professional journey. This made her perfectly placed to help the treasury professionals in the room find their presence and focus on their personal development. Louise's expert session featured implementable takeaways for everybody and galvanised the guests as they left for the day and went back to their professional lives.

The technology sector was heavily represented amongst attendees and the lunchtime discussion was peppered with talk of the specificities of gender equality not just in treasury but in the broader technology space, a unique marriage of two sometimes problematic industries. Also mentioned was the lack of a strong treasury community in the San Francisco area, which can make sharing best practice and personal career journey stories hard. It was therefore a heartening experience to bring these various companies and individuals together for the afternoon and to create a new community focused around mutual support and promoting diversity and inclusion in the industry.

As we dispersed into the sunny California afternoon there was a real sense of a dynamic new network having been created. The male attendees had volunteered to become inclusion ambassadors in our industry, spreading the message that it is important for everyone to come together and recognise diversity and inclusion as a core foundation of the best and brightest companies and leaders. We all learnt of the power of collaboration and collective action and we feel sure this West Coast community will grow in number and in spirit.

The Women in Treasury Global Study roadshow events with State Street Global Advisors will continue throughout the course of the year in various locations across the world and the Women in Treasury Global Study 2018 results will be released in September. To learn more please contact Lisa Bigley, Global Head of Events – **lisa.bigley@treasurytoday.com**

Join our Women in Treasury community on LinkedIn where you can be part of the discussion around the findings of this study, contribute your insights and engage with a unique professional network. Simply contact our Head of Circulation, Sarah Arter – **sarah.arter@treasurytoday.com**

Time to get rated?

A credit rating can offer treasurers a means of accessing diversified sources of funding. Given the economic and geopolitical uncertainty that prevails in many parts of the world, perhaps it is time to consider the value of an independent assessment of your organisation's creditworthiness. Treasury Today takes a back to basics look at what a credit rating really means.

There are many reasons why a credit rating may be desirable in the corporate sector. Every company needs to be prepared for future financial events, this being a key role for the treasurer. With a notable trend in the UK over the last few years, following the US example, for diversifying away from bank borrowing and instead heading towards capital market and private placement funding, a credit rating can become an integral part of an organisation's future growth plans.

What is a credit rating?

A credit rating is a considered, forward-looking opinion offered by a professional independent credit rating agency (CRA) concerning the relative ability of the rated entity (such as a corporate or a bank) to meet its financial commitments.

The main distinction within the scope of a rating is between the public, the private and the confidential. A public rating is a highly visible means of articulating the entity's credit story to a broad sweep of stakeholders, including investors and analysts, helping them to form more accurate assessments of any investment or lending decisions concerning that entity.

Ratings that are offered privately may be used to support an entity's private funding exercise, in which it may be seeking to better articulate its own credit story to, for example, the private placement or direct investment market. A private rating story may also be told to select business counterparts, perhaps prior to a corporate establishing a significant new trading relationship or in the negotiation of new commercial terms.

The advantage of a private rating is that it enables the company to understand the way in which external parties view its credit status, how the agency rates it relative to its peers, and also to understand the key ratings drivers in terms of its ongoing ratings performance. It will then be the decision of the company – not the CRA – to choose when (and if) it wishes to make its rating public, sharing with a broad set of market counterparts.

It may be that a company wishes only to dip a tentative toe in the credit rating pool, in which case it may opt for a confidential rating, giving it time to internally digest the information. Confidential ratings may be used as part of an internal benchmarking exercise, where an entity requires a comparison with its publicly-rated competitors. This understanding can help it to develop its own business and commercial strategies.

The process of investigation to reach a rating decision is the same in all cases. The rated business can terminate its relationship with the CRA at any time.

Rating purpose

The main aim of a credit rating is to offer a transparent, consistent and independent assessment of an entity's creditworthiness. This helps the accurate pricing of credit risk for that business.

An entity may call upon the opinions of more than one CRA, this decision largely depending upon factors such as purpose or geography.

Achieving a rating means the entity will have undergone a high level of disclosure and evaluation. For investors, ratings are commonly seen as a trusted benchmark when making investment decisions.

The principal benefit of a rating is therefore to give increased comfort to stakeholders that the holder, having undergone independent analysis, has been independently and soundly judged on the basis for which the rating has been applied. For the rated corporate, it can be a means of opening up a wider pool of investors or of securing improved debt pricing.

Once issued, a public credit rating will be continually monitored and assessed by the issuing CRA in terms of the entity's performance. This provides stakeholders with as accurate, timely and consistent a picture of that entity's relative creditworthiness as is possible.

Of course, it is up to each market constituent to decide to what extent it incorporates the rating into its decision-making. Each will call upon their own additional sources of data and information, including the more detailed 'personal' story of the target company.

CRAs

Moody, S&P and Fitch today represent the Big Three, issuing an estimated 95% of the world's ratings. They are similar of purpose, but nuanced differences are observable. Each has its own rating scale although the scales do offer equivalency, so can be said to offer a different way of expressing the same view.

However, each also publishes its own rating criteria which means an offered rating can vary from one CRA to another, based on a view of the same entity. The three main CRAs do not all operate in the same markets and there may be some jurisdictions that one covers that the others do not.

There are almost 100 other credit rating agencies and organisations spread across more than 40 countries globally. All are smaller than the Big Three, some of these concern themselves only with domestic ratings, their relative merit

Credit ratings*

		Moody's	Standard & Poors	Fitch
Investment grade	**Strongest**	Aaa	AAA	AAA
		Aa	AA	AA
		A	A	A
		Baa	BBB	BBB
Non-investment grade	**Weakest**	Ba	BB	BB
		B	B	B
		Caa	CCC	CCC
		Ca	CC	CC
		C	C	C
		C	D	D

**These credit ratings are reflective of obligations with long-term maturities*

Source: Reuters

being based on deep local market knowledge and, arguably, cost for the entity being rated. On the latter, CRA fees are typically charged for the initial rating and for the necessary ongoing surveillance of the entity's performance.

The Big Three are more widely known but the choice of CRA might depend on a number of factors. These might include the size of the rated company, the location of its operating activities and its head office or group treasury, the volume of debt being sought, and locations in which it plans to tap the capital markets, use long-term bank funding or seek direct investment from institutional investors.

Ratings advisor

The rating process can be quite straightforward, especially for listed companies used to dealing with equity analysts, although the equity analyst's focus is more on assessing share value than the CRA's emphasis on creditworthiness.

However, many businesses seeking an initial rating, or those with challenging operating circumstances (such as a difficult jurisdiction or where liquidity is a perceived issue), do decide to use a ratings advisor to ensure their business is accurately represented and thus the rating fairly reflects the perceived risk.

Advisors will often be connected to the applicant's lead bank, particularly where bond issuance is the goal, but could equally be a debt advisor in the relevant market. The advisor's job is to steer its client through the process.

Starting out

The key to success with an initial rating is effective information gathering. There are two broad corporate-specific (as opposed to general market) categories here.

Qualitative data will present factors such as industry risks, competitive position of the business, the state of corporate governance, management experience, anticipated transformative events (such as major M&A), product portfolio, geographical presence, operational scale and flexibility.

Quantitative data will also be sought, including numerical elements such as audited accounts, financial performance (cash flow, profitability and so on), financial position (including capital structure and level of gearing), and how financial risks such as funding and liquidity are managed.

There are two additional practical considerations for the corporate. The CRA will require a formal ratings presentation of the key facts and figures. This entails a detailed face-to-face Q&A session with senior management.

A decision must be taken early on as to who is best placed to meet the CRA to present the right picture. Usually this will involve the CEO, CFO, COO and the Group Treasurer. All personnel will need to be both available and fully briefed on the process. CRAs do not give advice so the presentation may be prepared in-house by the company or with the guidance of a ratings advisor.

The second point for consideration concerns the likely request by the CRA for confidential information from the corporate. A preparatory internal discussion on what can and cannot be disclosed is necessary to prevent the process from grinding to a halt but principally to help the CRA gain the most accurate impression of the business.

The corporate is not obliged to give any confidential information, but in the interest of gaining an accurate rating, the business should be prepared to be as transparent as possible.

Ultimately, a rating must be forward-looking, so history is never going to be the sole source of information. Forecast data will therefore be required. It is likely that, once all data has been aggregated, stress testing certain scenarios will help the CRA form its opinion.

Fair judgement

When rating a corporate, CRA analysts will source and sift a wide range of public and private qualitative and quantitative data.

The reality of deriving a credit rating is complex for the CRA not least because it must put its view into a very broad commercial context. By assigning a rating, the CRA is not just providing an opinion and a rationale about a company and its role in its operating sector but it is also necessarily comparing it objectively to all the other companies that it rates.

Using a common language to discuss credit quality thus means an individual rating from one CRA allows an investor to compare relative creditworthiness regardless of the class of debt it is applied to. Although not all CRAs will take the same view of that creditworthiness, well-known equivalency amongst their ratings make for easy comparison.

A to D of ratings

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

Ratings range from investment grade (where, for example, S&P's AAA is at the top, down to its BBB- at the bottom) to the non-investment or high-yield grade, which for S&P ranges from BB+ down to D (D being a state of default).

For all but defaulted ratings, or very low-rated issuers, where default risk is already very high in the 'C' to 'CCC' rating categories, the CRAs also offer a 'rating outlook' to guide investors on the likely direction of their rating over a one- or two-year period.

This dynamic assessment ranges between 'positive', 'stable' or 'negative'. This comes with the option of placing the issuer on a shorter timeframe (three to six months) 'rating watch' where events dictate, again citing a negative or positive stance based on the expected outcome of a major event (such as an M&A).

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

Being junk

Most businesses will spend a long time considering the prospect of securing a rating. If they have used the services of a ratings advisor to help them consider their options, it may become apparent that the they will not receive the expected rating. Some may not pursue it any further but there is still value in undertaking the rating process, as an input to their strategic decision-making or as a snap-shot of current performance.

For companies that know from the outset that they are not at the higher end of the scale, or for those that are downgraded, even if they are moved into 'junk' territory (junk is predominantly an emotive investor term, CRAs prefer 'high-yield' or 'non-investment grade'), CRAs will continue rating it all the while there is debt outstanding.

If the information required to maintain the rating is not available (such as if the company is in liquidation), the rating can be withdrawn by the CRA but generally, regardless of rating level, investors would want and need a rating on all outstanding debt; being able to provide it is beneficial.

Although a low rating may be seen as undesirable, the high-yield end of the investment spectrum it opens up for the holder still has an important role to play. An entity can elect to operate a capital structure that provides an optimal return for its shareholders. It could, for example, decide to operate as a highly leveraged company, possibly resulting in non-investment grade status. It is the company's decision as to what capital structure it feels is appropriate for itself and for its shareholders but there is an investor base covering all ends of the ratings spectrum.

Managing the rating

A CRA will use multiple sources of information to regularly update its rating opinions. But between CRA and corporate, there is an expectation of good communication and flow of information. A sensible and reasonable level of transparency is therefore key to the success of the relationship. All ratings are subject to regular reviews by the CRA's rating committee, to ensure its rating opinion stays current and is at least somewhat resilient to everyday market volatility.

This requires the identification and notification in advance by the corporate of any events that could influence the rating. The CRA should not be finding out about major events through media reports. Such events might include planned M&A or divestments, a new market or strategic direction, or a profits warning. A list of the company's top ten exposures, or projections for the next two or five-year period, for example, may also be requested.

Volunteering information on transformative events (such as an acquisition) avoids the risk of the corporate being placed on review, possibly for a downgrade, giving the CRA time to formulate a full opinion on the significance of that event in terms of the corporate's solvency position.

Where highly confidential information is called for, the corporate will already have made its decision on what it will reveal. But the CRA will only use that information to help inform its own opinion and prior to any public announcement (for a public rating), it will usually consult with the corporate to ensure that nothing contained therein will be to the detriment of the corporate and its stakeholders.

Value-adding exercise

Managing a rating is an ongoing process; for it to be useful for a wide range of stakeholders, the need is to keep it current at all times. To get the most out of the ratings process, it is advisable for the corporate not to see it as a test to be endured but instead to use it as an opportunity to add value to the business. Not only can a credit rating provide access to alternative funding sources but, in its assessment, the CRA will sometimes observe key strengths or greater risks within the organisation. Ideally, these impartial expert views should be used to make positive changes within.

Optimise your treasury operations in Asia at the click of a button

DBS' Treasury Prism online simulation tool allows treasurers to explore and optimise their Asian treasury operations in a matter of minutes. Andrew Farnhill, Head of Sales, Global Transaction Services, DBS London, demonstrated this cutting-edge solution in a recent webinar.

Andrew Farnhill
Head of Sales, Global Transaction Services
DBS London

It's hard to find the optimal treasury structure. Treasurers must achieve visibility over cashflows whilst navigating through an abundance of treasury concepts, solutions and ideas. They must also consider what solutions are permitted locally by the regulators, as well as various tax and legal requirements.

This all takes time; treasury must spend hours with its bankers, poring through spreadsheets and product specifications. And after all that, there is no guarantee that the solution will prove to be optimal in practice.

It doesn't have to be this way any more. Treasury Prism is a free, bank agnostic, online, treasury diagnostic tool, designed by DBS. It allows treasurers to analyse their cash management processes across Asia Pacific. Treasury can also easily discover what solutions will achieve cost savings, improve operational efficiency, and optimise liquidity and yield, all at the click of a button.

Treasury Prism is built to solve real world treasury challenges, says Andrew Farnhill, Head of Sales, Global Transaction Services, DBS London. "Our research found that the majority of treasurers face three big challenges," he explains. "They struggle to keep up with regulatory change, to find optimal treasury solutions, and to quantify the business case for change. Treasury Prism helps solve these issues."

Solving real problems

What stands out is how easy it is for a company to upload its data into Treasury Prism and visualise the balances and flows, as demonstrated by Farnhill. Treasurers can discover what benefits will result from adopting different treasury structures, and obtain insights into solutions suggested by Treasury Prism. For example, it prompts the treasurer with insights concerning regulatory approvals when modelling Chinese cross-border pooling structures. The tool also reveals untapped opportunities, such as tax incentives for particular markets and solutions.

With a treasury structure selected, Treasury Prism's Benefit Optimser quantifies the potential monetary benefit. This provides treasurers with a real-world figure to present to management when making the business case. "The optimiser works by calculating the expected interest yield and debt cost, withholding tax for interest paid including tax exemptions, and bank fees and implied corporate costs," explains Farnhill.

These are powerful features. And Treasury Prism goes further. By using complex proprietary algorithms, it scores the selected solution against other options. "This allows treasury teams to quickly understand what solution will deliver the optimal benefit," says Farnhill. "So with the click of a button, treasurers can find out what previously took hours. It is revolutionary."

Finally, to help treasury build a business case for change, Treasury Prism creates a 'management friendly' report. "This outlines the benefits the solutions can deliver and breaks these down so senior management can quickly consume the information and make more informed decisions," says Farnhill.

Rave reviews

Given the power and simplicity of Treasury Prism, it is already receiving rave reviews from the corporate treasury community. Farnhill provided testimonials, including one from the treasurer at Isuzu who said: "What takes a week today can be done in two minutes with Treasury Prism. This is the most innovative solution for corporate treasury I've seen this year."

> "Treasurers struggle to keep up with regulatory change, to find optimal treasury solutions, and to quantify the business case for change. Treasury Prism helps solve these issues."

The improvements will keep coming, Farnhill promises. Additional structures, languages and markets are now being added. DBS is also building an API for Treasury Prism. "This will allow our customers to interact directly with the optimisation feature, embedding the tool into their own business and management processes, along with our large suite of APIs," he says.

For any treasurer looking to optimise their treasury operations across Asia, Treasury Prism can help them easily explore the options, **treasuryprism.dbs.com**

If you missed the webinar and would like to hear the full recording this is available at ***treasurytoday.com/webinar/previous-webinars***

Timothy Mukopi

Treasury Risk Reporting and Systems Officer, Oxfam GB

Timothy Mukopi, Treasury Risk Reporting and Systems Officer at Oxfam GB, has achieved much in the last 14 years, from navigating the arrival of real-time gross settlement in Kenya to setting up a new treasury function from scratch. A year into his current role, he talks about the challenges of setting up an effective cash flow forecast and the importance of building connections across the organisation.

OXFAM

Oxfam GB is a member of Oxfam International, a confederation of 20 organisations working across more than 90 countries. Focused on a number of goals such as saving lives, safeguarding global food supplies and championing equal rights for women, Oxfam raises funds through a mixture of institutional fundraising, public fundraising, interest and investment, trading and other sources. The organisation's activities range from short-term emergency relief to long-term programme work.

Going places

Like many other treasury professionals, Timothy Mukopi never set out to pursue a career in treasury – but today he says that entering the world of corporate treasury was the best career move he ever made.

Mukopi has certainly embraced every challenge he has encountered along the way. Over the last 14 years, Mukopi has enjoyed a variety of roles which have taken him from a Kenyan bank to the UK-based treasury of Oxfam GB. And since joining the organisation in a newly-created role last year, Mukopi has hit the ground running, taking a proactive approach to everything from cash flow forecasting to risk management.

The road to success

Born in Kenya, Mukopi grew up in a rural village where the basics of life were not always readily available. He later attended the University of Nairobi where he gained a Bachelor of Commerce Accounting Degree alongside private Certified Public Accountants examinations. After graduating, Mukopi joined NIC Bank in a graduate role in 2004.

"I joined the treasury operations and payments function, where I first learned treasury trade, dealing with the processing of front office deals, investments in treasury bonds and repos," he recalls. "I also saw the introduction of real-time gross settlement in Kenya – before that, you had to do repos and treasury bills using physical documents."

In less than 18 months, Mukopi was promoted to a supervisory role. He subsequently moved into the money service business, looking at international remittances from Europe and the Middle East into Kenya. "At the time, there were no solutions like mobile money services," he explains. "The local instant money service that was available at the time was largely through the post office – the other options were either expensive or people would send money using informal means, and it would take days before it was received."

Mukopi's next move took him into the world of corporate treasury and the telecommunications sector, when he joined Airtel Kenya, and subsequently Airtel Africa, as Cash and Bank Manager in the company's treasury function. "That is where I honed my cash flow forecasting skills, because we had to do granular forecasting of our inflows and outflows," he says. "I was also in charge of paying suppliers, and forecasting was key to making sure we managed suppliers effectively, as well as essential to managing liquidity risk."

In this role, Mukopi was also responsible for trade finance and managing the documentation aspects of documentary trade finance solutions such as bills of collections. Other responsibilities included setting up treasury operations for a shared service centre intended to cover 14 countries at the time, this involved shifting processes from other markets to the Head Office in Kenya. The company's focus at the time was to set up a shared service centre to serve the African market.

After three years at Airtel, Mukopi joined Umeme Ltd, an electricity distribution company located in Uganda. Mukopi's remit was to set up the treasury function, which included setting up processes and procedures as well as training staff, introducing dividend processing for shareholders and was involved in the arrangement and management of capex funding worth US$170m. Another major achievement involved implementing interest rate swaps in order to hedge loan interest, which included designing the accounting treatment in line with IFRS.

While these roles brought plenty of challenges, Mukopi also continued to pursue professional qualifications alongside his career, gaining an MBA in Finance from the University of Nairobi in 2013 and obtaining a CertITM (Certificate in International Treasury Management) and CertFMM (Certificate in Financial Maths and Modelling) from the ACT.

Moving to the UK

In 2016, Mukopi's career took a different turn with a move to the UK. Following a stint at Inchcape Shipping Services as Corporate Treasury Supervisor, Mukopi joined Oxfam in his current role as Treasury Risk Reporting and Systems Officer. "This is actually a new role which was introduced in October 2017 when I joined," he comments. "The background is that Oxfam previously had regional centres where some of the international treasury functions were located. That has now changed with most of these brought into the head office in the UK, which is why my role was created."

In the first instance, Mukopi's goal was to bring 27 countries onto a single platform, bringing together information about bank accounts and signatories and centralising cash reporting. "One of the things we have been trying to do is consolidate our accounts that are held in the same global/regional bank into a single login platform, so there's no need to log into different accounts – you can log in once and view what the position is or authorise payments without having to log into different countries accounts with different login credentials," he explains. "That has business continuity benefits, because for instance, if any disruption happens in a particular country you can still address the issues from the head office without necessarily needing to have a physical presence there." Mukopi adds that this also improves liquidity management, with reports arriving on a timely basis from the relevant countries.

The quest for effective forecasting

These efficiencies have also been a key part of Mukopi's efforts to create a cash flow forecast. "This is a challenge, because there are many uncertainties," he says. "You may not know when donors will give funds, for example." That said, Mukopi is a strong believer in the importance of a robust cash flow forecast. "Any organisation that operates without a forecast is risking a lot – it's like flying blind, because you don't know when you are going to be hit by cross currents. When you have a forecast, you can predict where the troughs are and mitigate positions in good time."

One obstacle is that there is no standard template for a cash flow forecast. As Mukopi explains, it's essential that the person in treasury who is responsible for cash management or liquidity management fully understands the "cash language" in that organisation. "If it's a business entity that generates cash, you need to know what your cash generation model is," he says. "If it's an NGO you need to know your sources of cash and the timings so that you can model how cash moves around the organisation. If you don't fully understand the pattern of this movement, any forecast you make will be missing key information."

When it comes to creating an effective forecast, Mukopi advocates an 80/20 approach, with initial efforts focused on the biggest risks associated with cash and the possible impact on the overall cash position if specific cash streams fail to materialise. "Once you identify the biggest risks, it is easier to isolate them and use them as the building pillars of the model," he explains. "Then the rest of the process involves looking at areas which bring less of an impact if they fail and improving the accuracy of those areas."

> Don't look back – just go ahead and get started. It's a dynamic role with new things landing on a daily basis, and the need is there in the market. I may have got here by chance, but I'm glad I landed in treasury.

That said, Mukopi notes that cash flow forecasting is a continuous improvement process, because companies will never get it right the first time – "you may start at 60%, move up to 70% – and then over time discover that you have reached 90% accuracy levels."

Building connections

Aside from the challenges of cash flow forecasting, Mukopi says another area of focus is on building relationships within the organisation as well as external stakeholders. While people often focus on their own specific areas of responsibility, he argues that setting links between departments can go a long way towards working more effectively and ensuring that the organisation has a common goal. "Working alone can never be fruitful," he says. "For example, when I worked in the electricity business, I had to work closely with the customer services team, which was in charge of looking at debtors, this in turn improved creditors management."

Meanwhile, Mukopi has had plenty of other tasks to focus on in his current role. From managing FX risk and establishing innovative risk management tools to safe guarding donor funds to strengthening emergency response processes via effective liquidity management, Mukopi has achieved much in a short space of time. He hopes to become an MCT in the near future.

Of course, not everything is plain sailing. Like many treasury professionals, Mukopi is frustrated by inefficiencies within the KYC process – particularly when institutions repeatedly ask for the same documents. "The inflexibility can be unhelpful," he says. "For example, you might give the bank a certified copy of a passport – and a year later they will come back and ask for the same passport to be certified again. This creates a lot of work which is often not commercially advantageous, especially for humanitarian agencies."

But despite these challenges, Mukopi is enthusiastic about the benefits of pursuing a career in treasury. His advice for others looking to do the same? "Don't look back – just go ahead and get started. It's a dynamic role with new things landing on a daily basis, and the need is there in the market. I may have got here by chance, but I'm glad I landed in treasury."

Unleash your treasury's full potential by harnessing the power of data-driven insights

Data has the power to transform the role of the modern treasury by providing actionable insights that not only allow treasurers to better manage their own functions, policies and teams; but also facilitate a more strategic engagement within their organisations, bringing teams together and helping companies succeed. Experts from Citi explain how you can get started.

Peter Cunningham
Consumer & Healthcare Sales Head for EMEA, Treasury and Trade Solutions, Citi

Magdalena Mielcarz
Channel & Enterprise Services Head for EMEA, Treasury and Trade Solutions, Citi

"I never guess. It is a capital mistake to theorise before one has data," said Sir Arthur Conan Doyle's fictional detective Sherlock Holmes. It's hard to argue the validity of this comment. Yet in business, most decision-making happens without the support of data – or at least complete data. In fact, research from PwC shows that two-thirds of companies say their own companies' decision-making is only somewhat or rarely data-driven. This leaves businesses making important decisions largely on gut feeling and intuition.

This isn't always a problem. Gut feeling and intuition are the foundation of many successful businesses. Take Apple, for example. Steve Jobs often made decisions without first consulting fact-based data. By luck or judgement, many of his decisions were successful.

It doesn't always work this way, however. Ignoring the facts can lead to mistakes and less than optimal outcomes. Indeed, there are many examples of businesses failing due to executives disregarding facts.

Either way, failure to use data is costing businesses money. IBM suggests that poor data costs US businesses and government US$3.1trn a year. Meanwhile, Forrester Research says a Fortune 1000 company can achieve US$65m in additional net income with a 10% increase in data accessibility.

It is about more than money, however. In a globalised and competitive marketplace, margin pressure is increasing. One bad decision can have catastrophic costs. So it's risky to depend on instinct alone.

The good news: today businesses don't have to rely on instinct. The gradual digitisation of companies and the arrival of new technology is allowing them to use data like never before. By doing so, businesses can arm themselves with the facts and make informed decisions to ensure long-term commercial success.

Agents of change

While data is impacting all aspects of the organisation, it's particularly important for the treasury. This is because treasury teams are no longer just a custodian of the company's cash; they are strategic partners and agents of change. This new role requires treasurers to pinpoint problems across the organisation, quantify the value of solving these, and then use these insights to become a centre of innovation within the organisation.

The only way to do this is by harnessing and analysing data. Peter Cunningham, Consumer & Healthcare Sales Head for EMEA in Citi's Treasury and Trade Solutions, says that treasury sits at the heart of all commercial flows within an organisation. "All these flows carry data," he explains. "And by using this data, treasury can build a unique view of the workings of the enterprise. This puts treasury in a privileged position to innovate and be a catalyst for change."

Cunningham is not just talking about innovating within the walls of the treasury department. "This data provides insights that impact all areas of the business," he says. "Armed with these insights, treasury can break down operational silos by helping other departments meet their KPIs. The value this creates for the enterprise is transformational."

Setting objectives

Of course, treasury cannot conjure insights from data out of thin air. Collating, structuring, interpreting and analysing the data requires work – and can be difficult, given the volume of data companies create. Indeed, the same amount of data is created every two days as was created from the beginning of time up to 2003. Just knowing where to start on a data-driven initiative can seem an impossible challenge.

So, what should treasurers be doing? Magdalena Mielcarz, Channel & Enterprise Services Head for EMEA, Treasury and Trade Solutions at Citi, says treasurers must first define a set of focused objectives and support a 'fail fast to innovate faster' philosophy to assess the real world application of these objectives. "Data isn't a panacea," she comments. "It's a tool which is only effective when used correctly. Also, defining objectives enables treasury to focus on a finite data set. This makes the project less daunting and should enable treasury to deliver value faster."

In fact, the importance of using data to solve a genuine business problem, and not just for data's sake, cannot be emphasised enough. Research from NewVantage Partners shows that while most companies are attempting to be 'data-driven', only 37% of companies are successful in meeting their goals. The key reason: executives lack clarity around the project's objectives. When this occurs, a business can become overwhelmed by the data and lose track of its goals.

Getting and structuring data

With the objectives defined, treasury must consider how to obtain and structure the data. "All companies will have this data sitting somewhere in the business," says Cunningham. "The challenge is that often this data is in disparate systems. This makes it challenging for treasury to collate all the data it needs."

The solution to this is pooling all the data into a single instance of a TMS or ERP. However, Cunningham recognises that this is not an easy exercise, especially in a multinational corporation. It will also only provide half the picture. He therefore suggests that treasurers speak to their banks. "We are custodians of so much data," says Cunningham. "And it is likely that the data a client needs is within our systems."

In recognition of this, Cunningham explains that Citi has been working hard to structure its data to make it useful for clients. This work enables the bank to provide insights it couldn't before. For example, Citi can show a client the dormant or duplicate accounts it has. "This is useful information because these accounts can be closed to save costs and mitigate risk," he says.

Thanks to its global footprint, Citi can offer insights that couldn't be found using proprietary data alone. For example, the bank can compare how one client pays a particular supplier vis-à-vis other clients that pay the same supplier. "This helps the client understand how that supplier likes to receive payment and if there are any more cost effective or efficient ways they can be paid," says Cunningham. "We can use similar data to find out if there are opportunities to extend payment terms or offer supplier financing."

Citi is also using data to help treasury plan for the future. For example, Cunningham says the bank is working with clients around various Brexit scenarios. "We can show our customers the impact various Brexit scenarios will have on their cash management structure," he says. "This is invaluable information, especially around something as complex as Brexit."

Cultural shift

Becoming a data-driven organisation isn't only an exercise in technology – it also requires a cultural shift. "Business leaders must promote innovation from the top down," says Mielcarz. "This empowers individuals to use the insights derived from data to drive change. And businesses cannot be slow in doing this. Those that will be most successful will act nimbly and take advantage of opportunities when they arise."

Treasury itself must also evolve. Most crucially, it must be able to understand and analyse the data it has. "Data science skills will become increasingly important to the treasury," says Cunningham. "But it is not enough to understand and analyse the data. For treasury to truly to be at the centre of the organisation, it must use the insights it has to break down silos and promote new ways of working. As a result, soft skills will come to the fore and be crucial in the years to come."

Value-adding

The use of data will also be decisive if treasury is to reach the holy grail of complete straight through processing. And banks like Citi are already building tools that leverage AI and robotics that promote this. "For example, we have built a Payment Outlier Detection Service," says Mielcarz. "This uses data and AI to analyse the flows through our system. It then compares this to historical client data. If anything doesn't conform to the routine patterns and behaviours, it triggers a real-time alert. This provides a layer of protection against cyber-fraud. It also removes the need for treasury to eyeball every payment, leaving them to only deal with the exceptions that follow criteria defined by the client."

These technologies, combined with the emergence of APIs as a new connectivity channel, will change the relationship between banks and corporates. "These technologies will allow us to be more proactive in advising our clients," says Mielcarz. "For example, when there is news about a client moving into a new market, we can send the treasury team information about that market before they have even asked us for it. This is revolutionary and enhances the value we can provide."

Data is king

Finally, a caveat. For all the excitement around data, we must remember that data is not infallible. Data will sometimes suggest non-optimal solutions or solutions that may not meet future needs. Only a skilled treasury professional can recognise this.

It is therefore the treasury teams that utilise data to the fullest advantage that will have the real transformational power. "Treasury used to say cash is king," says Mielcarz. "This is true no more. Cash has abdicated and data is the new king."

Managing rising interest rates

“How do I manage treasury when it looks like rates might rise?”

Michael N. Berkowitz

Managing Director, Head of Global & North America Liquidity Product Management, Treasury and Trade Solutions, Citi

In a rising rate environment, treasurers should review investment horizons to ensure that capital is preserved and liquidity is maintained. As all non-overnight investments bear an inherent level of interest rate risk, rising rates will have an impact on the current and future values of existing cash holdings, as well as influence the relative attractiveness of different investments for meeting specific investment needs.

With that in mind, corporate treasurers may want to adjust their interest rate exposures and consider investments with shorter duration.

Mitigating risk with short duration investments. Having a solid understanding of how various cash investments are impacted by interest rates allows treasurers to take action to mitigate the impact of a rising interest rate cycle. Concentrating cash globally or regionally can also improve treasury efficiency, increasing interest income and reducing interest expense. The following is a summary of short-term investments and their characteristics:

Overnight bank deposits: rates tend to track rises in interest rates fairly closely, although treasurers should review counterparty credit risk associated with the depository bank. Certain bank deposits provide companies with the option of earning credits to offset fees, interest or both.

Time deposits: time deposits can offer higher yields but tend to catch rate increases with a lag as they need to wait out the term of the deposit before being reset to a higher rate. Time deposits carry the same counterparty risk as overnight deposits but increase liquidity risk. Certain evergreen or minimum maturity time deposits offer attractive yields and increased liquidity versus longer-term-time deposits with a 31-day call feature.

Money market funds (MMFs): compared to overnight bank deposits and term deposits, counterparty credit risk is significantly more diversified and yields are in line with market rates (with some lag). On the other hand, US Prime funds can impose gates and fees for investors and have floating net asset values (NAVs).

To better prepare for and navigate in a rate rising environment, it’s critical for treasurers to design and deploy a robust investment strategy that recognises trade-offs in yield, safety and liquidity.

Yvonne Welsh

Treasury Advisory Expert
PwC

With positive growth projections, the macroeconomic landscape is being set for potential gradual interest rate increases in major global economies after being at historically low levels for many years. While no two organisations are the same in their exposure to such rises, we believe this new environment is an opportunity for the treasurer to add significant value, whether from a cash, funding or FX perspective.

Firstly, in relation to cash, rising rates present the opportunity to earn improved returns on idle or investment cash balances. When they do happen, the differential between the more favoured short-term investments – eg bank deposits or MMFs)– and other investment options such as separately managed portfolio, will likely widen.

Additionally, different categories of investments will have varying “lag effects”. When these factors are considered against the context of changing MMF regulation and the reduced willingness of banks to take on corporate deposits, upticks in rates could be the impetus for such treasurers adopting a more dynamic investment approach. However, before suggesting this, treasurers should be clear on their board appetite for risk in the changing rate environment and have in mind the additional monitoring and research required to be successful.

The levers to consider in the context of borrowing are twofold. One is managing the risk on the overall portfolio. It could be useful to explore the possibility of accelerating the refinancing of existing debt and lengthening duration when doing so. Specifically, in relation to existing floating debt, while it is likely that any related hedging activity will already have incorporated anticipated rate increases, pre-emptive action may provide longer-term certainty on interest costs.

The second aspect is optimising operational processes to reduce borrowing requirements and related interest cost. A reliable cash flow forecast is not only required to facilitate optimal investment activity but is essential for monitoring debt covenants. It sounds simple but forecasts need to reflect the possible increased interest costs, commercial impacts and have appropriate sensitivity analysis in order to build the most realistic and accurate cash requirements. Additionally, working to release any trapped/idle balances across geographies will release cash to pay down debt – in particular floating rate debt. In the current low-interest rate environment some companies may have managed idle cash in a benign fashion, however, solutions to access working capital improvements such as supply chain financing may become more compelling in a rate-rising backdrop.

Finally, FX. Typically, as interest rates increase a currency strengthens and adjustments in monetary policy will follow at varying points in time. Companies with international operations will, therefore, need to assess the implications of this potential additional volatility in FX rates from both a commercial and financing perspective. For those with existing hedging programmes in place, action should be considered to ensure this strategy remains relevant and effective as rates increase. For those without a hedging programme now may be the time to consider how to gain better visibility of exposures, examine sensitivities and explore the use of hedging instruments to smooth potential volatility and erosion of earnings.

Sander Van Tol

Partner

Zanders

Corporate treasuries are used to operating in a low-interest rate environment. The main question then for corporate treasurers is how to prepare for a potential hike in interest rates?

Before answering this question, it is good to first look at the concept of interest rate risk. To determine the basic exposure of your company, the first step is to look at the net position; are you a net borrower or investor?

In this answer we are looking at interest rate risk management from a net borrower's perspective, meaning that an increase in interest rates will lead to an increase of the interest expense line in the P&L of the company. An increase in interest expenses also has an indirect effect via the interest coverage ratio; meaning that a potential increase in interest rate can lead to a potential breach of the ICR covenant.

Interest rates may also impact the pension obligations of corporations. Normally we see that future liabilities under a defined benefit (DB) pension plan will decrease as a result of an interest increase (future liabilities are discounted using a higher discount rate).

The interest expense of the company is normally a combination of interest paid on a diversified funding portfolio, which can consist of drawings under your revolving credit facility, overnight debit positions and loan term funding like terms loans, private placements and bonds. Furthermore, interest paid on financial and operational leases are part of the interest rate risk exposure.

When we decompose the interest rate exposure further, one notes that interest paid is a combination of a reference/benchmark rate and a specific credit margin. This can be seen quite clearly in revolving credit facilities which use a Libor/Euribor reference rate depending on the period of the drawing (normally three or six months) plus a credit margin depending on a leverage ratio or credit rating.

For long-term instruments like bonds and private placements, the reference rate is less clearly defined but normally is dependent on long-term interest benchmark rates, like swap rates or government yields. Furthermore, the credit margin is fixed until final repayment. The decomposition of the interest rate on financial and operational leases is harder to make. Normally leases are using one all-in interest rate. For overdraft facilities, the interest rate exposure is sometimes even more opaque because banks charge interest based on their own, bank-specific, reference rate.

So why is the decomposition of interest rate risk exposure of importance? This has to do with the ability of corporate treasuries to hedge their interest rate exposure. With interest rate derivatives like swaps, caps and swaptions, one can hedge a potential increase of a reference rate or benchmark rate, but not the credit margin. So, it is good to understand that interest rate risk hedging can provide companies with relative protection against an interest rate increase but not a total protection of the interest expense. In case companies are looking to hedge their total interest rate exposure, including the credit margin component, it is most beneficial to look at either amending or extending the current credit facilities and/or a liability management exercise in the debt capital market to profit from current market conditions on the long term.

Corporates looking to brace themselves for a rise in interest rates can also use derivatives. Most suitable derivatives to hedge the risk of a future interest rate hike in the long term are forward starting swaps and swaptions. With forwards starting swaps, companies can fix the swap rate they will use in the future. This instrument can be used even if the underlying funding is not secured yet. Generally speaking, corporate treasuries will use forward starting swaps in case there is a high degree of certainty about the future funding requirement and the company has a view that the interest rate is likely to increase.

If the underlying exposure is less certain, or the view of a potential hike in interest rates is more unclear, treasury can potentially enter into swaption in which the corporation is buying the option to enter into an interest rate swap at the exercise date in which it is paying the fixed leg of the swap. The preference for one instrument over the other is dependent on the price of derivative and the view on interest rate changes.

Next question:

"Are real-time payments processes really of interest to treasurers?"

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

Standard Chartered

Supercharger: how to build a digital treasury

With the concept of 'digitisation' now firmly embedded in the consciousness of the treasury community, the time for action is now. But there is so much more to building a successful digital future than simply implementing new technologies.

Karin Flinspach

Head of Transaction Banking,
Europe and Americas

Standard Chartered

Victor Penna

Head of Cash Management,
Europe and Americas

Standard Chartered

Talk of technology and digitisation in treasury is hard to escape. Whilst it is enhancing treasury operations in some leading treasuries, it could be doing so for many more.

For this to happen, sooner rather than later, the talk must turn to action. For Victor Penna, Head of Cash Management, Europe and Americas, Standard Chartered, a good place to start the journey is to build an image of what their treasury will need to look like in five or ten years. Not just building a more efficient and sophisticated treasury but fundamentally to respond to the needs of the whole enterprise.

"If you have a vision of being able to operate treasury around the clock, using real-time information, then certain building blocks will be needed," he says. "Operating in the cloud becomes essential, treasury technology needs to be upgraded to operate in real-time, software needs to be able to connect via APIs, and thoughts really should be turning to automation and AI."

With traditional treasury technologies, such as the TMS and ERP, evolving along these lines, forward-looking treasurers should be going on a similar journey, seeking the features and functionality that ease integration, automation and real-time processing.

Treasury will need to create a 'roadmap' to complement that vision; it needs to be able to benchmark new technologies against it, questioning each time if it is fit for future purpose.

Business context

In developing treasury's digital future, the key is to frame it within the wider context of the enterprise, says Karin Flinspach, Head of Transaction Banking, Europe and Americas, Standard Chartered.

The precise nature of the vision and roadmap is dependent on the business model and the degree to which treasury sees itself as an enabler within that model, she says. A consumer-led business, may decide to digitise its sales channels, for example selling directly to consumers online. As a result treasurers then need to decide how treasury evolves to support the rest of the business and its customers.

It should be understood that whilst there are many treasury-specific processes that can be aided by automation – from managing FX trading and cross-currency flows, to handling payment factory processes – there are many more beyond treasury that can also benefit.

The huge growth in B2B e-commerce and its supporting channels and infrastructure, is a case in point. "The reality here is that business is forging ahead of treasury, changing the way it operates with customers and its own supply chains to a more direct model," notes Penna.

Becoming an enabler

For treasury to become a true business enabler, it requires a broad understanding of market activities and trends to value add in these discussions. Treasury needs a firm grasp of the evolving operational models and financial support processes deployed by the wider business, such as online instant payments for example, to respond to these scenarios.

"If treasury is trying to help the business change, it means not only re-working its own platforms and processes, but also its skills and capabilities need to change," says Penna. "It's now about process re-engineering, understanding different real-time systems and platforms and how they operate, and how these shifts impact core elements such as working capital, payments, funding and liquidity."

For most treasuries to grasp the possibilities of tools such as APIs, AI and blockchain, it is important to invest in the development of existing staff or bring in new people with different skills sets. The hiring of a software engineer or data scientist within treasury is not unheard of. "You don't have to commit to a complete change overnight," says Penna, "you just have to commit to investing in some new capabilities and knowledge, evolving as you go along".

Experiment to progress

Indeed, where treasury feels it is perhaps too soon to invest in the future state vision now, experimentation is the key, says Penna. "The cost of technology is falling so companies don't necessarily need to make a huge investment to learn about tools such as robotic process automation, data analytics and visualisation or artificial intelligence."

Experiments can start by applying some of the basic offerings to select treasury processes; there is no need to reconfigure the entire operation. "Just start the journey and keep building those capabilities and skillsets," he adds.

Consider relatively simple software to manage bank account mandate reviews, for example. By enabling comparison between the latest HR records and the bank account signatory database, such a system can detect leavers, and then generate and send necessary instructions to banks on signatory changes, removing manual effort altogether.

Slightly more involved is the automation of low-value FX deals. This uses a portal enabling different entities to enter their requests which are subsequently automatically aggregated at the treasury level, pushed through to the dealing platform and executed at best price, within the limits or risk tolerances set in the risk management policy.

Wider vision

"The challenge for treasurers is to manage the enormous amount of change which is happening in the market," notes Flinspach. Payment systems in particular are undergoing a huge revision, with new channels and real-time options a reality for many, notably in the consumer space.

But as payments channels are restructured and businesses begin experimenting with new ways of collecting – through virtual accounts, instant payments, or mobile wallets, for example – treasury thoughts should also be turning to leveraging complementary mechanisms being developed by banks, such as payment gateways.

Of course, the impact on sales of new payments and collections technologies, and concepts such as big data and behavioural analytics, is only half of the story. The same progress imperative exists on the supply chain side, notes Flinspach.

She believes that companies, under the guidance of treasury, should at least be exploring the range of technologies on this side, from bank and third-party trade platforms to front-line supply chain tools such as location-emitting chips capable of tracking goods and automating working capital financing at different points of the supply chain.

Supercharging treasury

Nothing will change without action and, says Penna, "if you do nothing else you must understand what's going on in the market". He warns that if the treasurer does not understand the need for progress, "business units will approach banks and technology vendors directly and will structure their own solutions; they can't wait".

Within ten years, traditional treasurers won't necessarily exist; they will need to have a broader skillset, cautions Penna. His notion of the "supercharged treasury", where backgrounds in technology and consulting are becoming additional requirements, should be taken seriously if the role is to remain relevant.

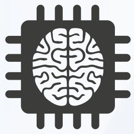
To help treasurers attain the status of being a value-adding partner to the whole business, 'The future of the digital treasury' workshops have been developed by Standard Chartered. If necessary, these can lead to further engagement where the bank – which, like all progressive institutions, is on its own process of digital discovery and development – helps define and build a client's unique vision. Of course, the treasurer needs to take that first step sometime; now seems like a good time to start.

The digital treasurer

We believe the following mega trends will transform the way treasury operates:

Payments evolution

Payment systems are evolving and fragmenting and **alternative payment methods** are multiplying.

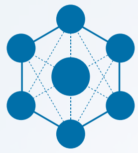


Digitisation/'uberisation' of transactions is increasing

New technologies like DLT, AI, NLP and biometrics are re-shaping the **cash management** and **trade landscape**

Treasury in the cloud

Driving **greater efficiency**, **integration** and **value-added analytics** at a **far lower cost.**

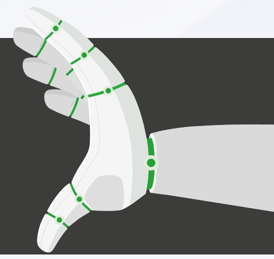


The rise of fintech and new technology

The widening variety of new capabilities, solutions and service providers **poses challenges**

Robotics and automation

More **transactional activities** will be **automated**, eg **payment initiation, AR reconciliation** and **FX dealing**.



How to start building a vision

To help build a digital roadmap, stay flexible but in your approach consider the following:

- Identify four to five key areas for improvement or to support new business development.
- Develop human skillsets and capabilities required to deliver these.
- Identify potential technology needed to support the above.
- Develop rough timelines and deliverables.
- Experiment and deliver.

How hard-liners are setting the scene for a new economic order

"If we cannot end now our differences, at least we can make the world safe for diversity."

John F. Kennedy (10th June 1963)

There's an expanding cohort of states that are moving in an authoritarian direction and which are worrying the financial markets. John F. Kennedy (JFK) already knew that a wholly liberal-democratic world would be unlikely and he wanted to ensure that liberal democracies could live peacefully alongside other forms of government. After the Cold War, a kind of euphoria took hold in the West. The idea briefly arose that capitalist democracy would be unstoppable. Now China, Russia and others bely that conviction.

Earlier, it was often thought that the populations of authoritarian countries would demand more freedom once a certain level of prosperity was reached. Mostly, this did not happen at all or countries were caught by the middle-income trap before citizens started to worry about their liberties. Only 13 out of 101 middle-income countries in 1960 had become high-income economies by 2008. This phenomenon is increasingly important; five of the 7bn people on earth live in middle-income countries. These states represent a third of the global economy and often drive worldwide economic growth.

Prosperity in exchange for shutting up

In many of these countries – including China, Russia and Turkey as well – an implicit agreement between governments and people has applied (and often continues to apply) which dictates that the price for strong economic growth is political passivity, to put it mildly. Naturally, most regimes will not allow their citizens to abandon this 'deal' (as we have often seen in recent years).

There have been more and more signs in China recently that the authorities are tightening the reins and restricting freedom (even further) for fear of the painful side effects – including sluggish growth – of stabilising the credit system and transitioning from an export-oriented economy to a technologically advanced economy, powered by consumption.

Leaders in other countries are also shifting towards 'authoritarian regime' on the political spectrum. And whereas China has largely pursued a coherent and intelligible financial-economic policy – although disagreeable to many – leaders like Maduro in Venezuela and Erdogan in Turkey have brought their countries to precarious positions, with high FX debts, sky-high inflation, very unusual monetary policies, irresponsible government spending on vanity projects, large twin deficits and the loss of goodwill in the international arena.

Very fragile model

This takes us to the key trends at play around the world right now. Marian L. Tupy, connected with the libertarian think tank, the Cato Institute, wrote the following recently while discussing a book by Jonah Goldberg:

"Our rule-based society … a staggeringly complex global economy that turns strangers from different continents into instant business partners, and a meritocratic system of social and economic advancement that ignores people's innate features…is both very new and extremely fragile… The forces of tribalism always linger just below the surface…From Russia and China to Turkey and, to some extent, the US, the all-mighty chieftain is back in charge."

It remains to be seen if the world that JFK purportedly envisioned – in which democratic and authoritarian countries co-exist in relative peace – is viable. Leaders such as Trump, Putin, Xi and Erdogan, increasingly question the world-order mainly devised by the West. Winner-takes-all-capitalism, growing inequality, stagnating real wages, and large cultural and social change are all playing into the hands of the aforementioned leaders.

"The Glorious Thirty" is no more

The period roughly until the 1970s is often referred to as The Glorious Thirty (Les Trente Glorieuses). An era that was characterised – especially in the West – by a bountiful combination of high economic growth, increasing productivity, rising real pay, robust technological progress, and the steady expansion of the welfare state. Clearly, this period is now behind us. This has led to a lot of public dissatisfaction, the emergence of populism, and a more inward-looking mentality in many countries.

Various negative trends are coming to the fore:

- From democratisation to a focus on identity and culture.
- From a world of relative order to a world in chaos.
- From interdependence to decoupling.

The forces of tribalism to which Goldberg and Tupy refer are fuelling these developments, and they will undermine global economic growth. Already, financial and trade wars are damaging free trade and putting alliances in jeopardy.

Red carpet rolling out for bears

From a political viewpoint, there is plenty of scope for bears. Growth, international production chains and other forms of globalisation are under threat from identity politics, the erosion of institutes that have underpinned safety and economic growth in the past seven decades, and protectionism.

Populists rule Italy, Austria, Hungary and Poland. Right-wing populists are leading the polls in Sweden and are runners-up

ecr research

in Germany. Intolerant nationalism, xenophobia and illiberalism are the hallmarks of most of these parties and politicians.

Let us not forget that Europe is more exposed than many realise. To provide an example, Hungary did well in the Freedom House index during the period 2005-2010 but it all went downhill from there. Countries such as Greece, Spain and Portugal were suffering under authoritarian regimes not so very long ago. And of course, the eastern-European countries are fairly young democracies in any case. They are still trying to navigate the liberal western world as best they can. Meanwhile, we are seeing mounting tension in Europe between West and East in addition to the earlier tension between North and South. Of course, Europe's borders are restive and there is huge pressure on the trans-Atlantic relationship.

As the West is being put upon, we see that the upcoming are taking a harder stance as they exploit any opportunity to play the western countries against each other. The West should also beware of possible alliances between parties that were seen as incompatible before. Significantly, Xi Jinping and Vladimir Putin have met 26 times since 2013.

> Only 13 out of 101 middle-income countries in 1960 had become high-income economies by 2008. This phenomenon is increasingly important; five of the 7bn people on earth live in middle-income countries. These states represent a third of the global economy and often drive worldwide economic growth.

War on many fronts

Such developments are sowing the seeds for further weakening of the growth potential. The biggest fears so far have focused on the implications of a trade war but a combination of trade conflicts, geopolitical brinkmanship and muscle flexing, alongside the weaponising of global finance, is the largest threat.

Trump is not afraid to deploy trade and financial weapons and his opponents are little-inclined to bite the dust either. Considering the size of the US economy and bond market, as well as the power of the dollar, the most likely outcome is that America's adversaries will eventually throw in the towel. However, by then a lot of damage may already have been inflicted.

The essential rate of potential growth will not rise on the back of the current (and expected) international political developments. Western countries will increasingly be hampered by ageing populations and high debt mountains. Emerging economies with high debts in foreign currency will also find it increasingly hard to overcome these debts through higher economic growth, whereas their populations are becoming ever-more demanding. On top of this, there is a growing chance of further political instability as more democracies move towards the twilight zone between democracy and autocracy.

We still think the crisis is unlikely to turn into a bloodbath that will engulf many other emerging economies. However, the global bear market that our economists fear has certainly come closer.

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Removing the pain points for international payments

In a world of interconnected global commerce, paying for goods and services across borders has become standard practice. But for the legions of corporate treasurers at the forefront of global trade, the experience of sending and receiving payments internationally has been anything but standardised.

"As treasurers, we have long suffered from inefficiencies when making cross-border payments," says Javier Orejas, Head of Banking, EMEA & Americas at the International Air Transport Association (IATA). "This is largely because those payments are dependent upon not just the debtor and creditor banks, but also different correspondent banks and possibly even different clearing systems. With no synchronisation, it can create errors and delays and, ultimately, more work for us."

Until recently even the most efficient and digitally savvy bank could not guarantee the full end-to-end efficient and transparent cross-border payment experience their corporate customers demanded. This is because international payments are sent via the correspondent banking network and banks are dependent on one another for the timely processing of, and relay of information about, the payment.

A large-scale, global collaboration by the financial community to standardise processing and reporting of international payments was therefore required. Without this, corporates were left wanting: wanting a cross-border payment experience that gave them certainty as to the whereabouts and costs of the payment so they could efficiently send and receive funds, manage their cash and reconcile their invoices.

Time for a change

Built for the digital economy, SWIFT's global payments innovation (gpi) emerged in 2017 to address the needs of corporates for fast, efficient and transparent cross-border payments. The initiative took a collaborative approach from day one. Banks, fintechs and the corporate treasury community worldwide, together with SWIFT, combined their expertise to determine how gpi should be developed to meet the service levels needed for cross-border payments in today's business environment. Speed and efficiency were key, as well as consistency in the customer experience corporates can expect from their banks, transparency on the progress of a payment at any given moment, and ease of integration into existing back office systems.

"For us transparency to the overall transaction life cycle and defined SLAs within gpi are going to be the biggest benefits for GE," says Peter Claus-Landi, Senior Director Treasury at General Electric. "We see this as an opportunity for us to improve our cash forecasting and optimise liquidity, because we will finally know how long it will take a payment to get from point A to point B. We also look forward to seeing data around the lifting of fees for these transactions, which will allow us to seek the most cost-effective routing solutions with our banks. I also believe that these insights could put pressure on banks to rethink their transaction-based pricing models."

In the year and a half since its launch, SWIFT gpi has seen a rapid take up, with over 220 banks and other payment providers globally now signed up, including 49 of the top 50 banks on SWIFT. Today, gpi payments account for nearly 30% of the cross-border payments traffic on SWIFT, and this is set to keep rising as more and more banks join.

By using SWIFT gpi, banks are able to provide superior service levels to their corporate customers, enabling them to: pay for goods and services internationally in a fraction of the time it took previously; shorten their supply cycles and reduce their exposure to fluctuating foreign exchange rates; track their payments from end-to-end and in real time; improve their cash management; and receive a confirmation notice when the money reaches the recipient's account.

> "What gpi does, through bank collaboration, is establish a set of strict business rules to make the process much smoother. As a treasurer, this translates into an enhanced payments service."
>
> Javier Orejas, Head of Banking, EMEA & Americas, International Air Transport Association (IATA)

According to IATA's Orejas, "What gpi does, through bank collaboration, is establish a set of strict business rules to make the process much smoother. As a treasurer, this translates into an enhanced payments service, with same day use of funds, transparency of fees, end-to-end payments tracking and the certainty of having remittance information transferred unaltered. This ultimately allows us to more efficiently manage our cash positions and improve our working capital management. What's more, because gpi offers the potential to monitor the underlying data and charges behind every payment, we could even see a refresh of bank pricing and T&Cs."

Increasing value for all corporates

Lack of transparency poses a major challenge for treasury teams – particularly those managing an in-house bank or payments factory – situated at the centre of a company and its multiple entities. As the centre of expertise for payments in the company, and also when managing relationships with the company's banks, treasury regularly faces questions and requests for updates on a payment's progress.

"I think most corporates are at the mercy of the same issue – and that is a lack of cross-border payment visibility," says Thibault Moncouet, Corporate Finance Operations, Airbus Intergrated Treasury. "Having tracking capabilities means knowing precisely where any payment is on the network at any given time. The time we spend trying to get more information about the state of payments, not least in dialogue with the banks, is recaptured."

The most advanced banks today are already passing on the increased transparency directly to their corporate customers by making gpi payment tracking information directly available through their e-banking portals. As such this is a win-win for banks and their customers as it improves customer satisfaction and means that banks need to spend less time answering operational queries related to payments' statuses and claims of non-receipt of funds, as the information is directly available to the corporate.

It is easy to see how quickly the value of gpi can spread. By just one bank making gpi tracking information available via their portal, thousands of corporate users instantly benefit.

Creating a new standard for multi-banked corporates

For all the benefits that offering gpi tracking information directly to corporates via bank portals provides, this also poses a significant challenge for corporates having multiple banking relationships.

For a company with ten, or even 20 banking relationships, it is extremely time-consuming and resource intensive to have to go into each bank's web portal or contact each bank for an update. What's more, banks do not all provide the same details, for example about fees or routing, further complicating treasury's task of reconciling payment amounts with the back office. And finally, even when information is available in the banks' web portals, corporates still need to transfer it to their own treasury management systems to fully integrate gpi into their business processes.

To address these issues, in early 2018 SWIFT launched the gpi for corporates pilot programme to define and implement gpi standards for corporates working with multiple banks. The new standard aims to streamline the process for corporate treasurers by allowing them to initiate and track gpi payments to and from multiple banks in a single format and integrate gpi flows in ERP and treasury management systems.

"It is important for us that our banks offer a standardised solution, instead of us having to adapt our systems differently depending on the bank we are working with," says Moncouet. "The gpi for corporates pilot is the perfect opportunity for us to collaborate with peers and banks to co-create a common solution that responds to our requirements. In addition, a common gpi experience across banks will allow us to benefit from additional insights regarding our payments. This includes track and trace capabilities, and information regarding cost and bank performance. SWIFT gpi enables better strategic decision-making and much improved straight-through processing."

The service is tailored to meet the specific needs of multi-banked corporates. In addition to allowing them to initiate and track payments, corporates also receive confirmations once the payment reaches the final beneficiary bank. This makes the entire cash management and cross-border payment process much more efficient including, for example, when the final beneficiary claims that they have not received the funds. In such a case, if the instructing corporate has received a confirmation, they can respond directly to the end beneficiary that the funds have arrived at their bank and avoid potentially lengthy disputes.

The new gpi for corporates service harmonises practices across banks, including how fees are reported and bank routing information. It can also easily be integrated with corporates' existing treasury management systems and connectivity channels, and allows messages to be exchanged in both SWIFT FIN and ISO 20022 format.

> "SWIFT gpi enables better strategic decision-making and much improved straight-through processing."
>
> Thibault Moncouet, Corporate Finance Operations, Airbus Intergrated Treasury

"For IATA," says Orejas, "the development of new standards enabling corporates to directly initiate gpi payments from their back office systems, including the generation of the unique gpi tracking number, is fundamental. This not only allows us to increase efficiency in our processes, but also to reconcile gpi statuses and confirmations directly in our payment dashboards".

The next steps

The gpi for corporates pilot has steadily progressed and today participating banks and corporates are testing the new standard together with the aim to go live in Q3 this year. Another group of early adopters is set to start using the service by year end, and in early 2019 it will be available to all multi-banked corporates through gpi-enabled banks.

SWIFT gpi is the foundation for providing a significantly enhanced cross-border payment experience for banks and corporates alike. A number of additional gpi features and services are scheduled for 2018, with more in the pipeline for 2019 and beyond. Whether you are a multi-national company, or an SME, find out from your banks and vendors how SWIFT gpi saves you time and costs in making cross-border payments.

Participants in the SWIFT gpi for corporates pilot programme

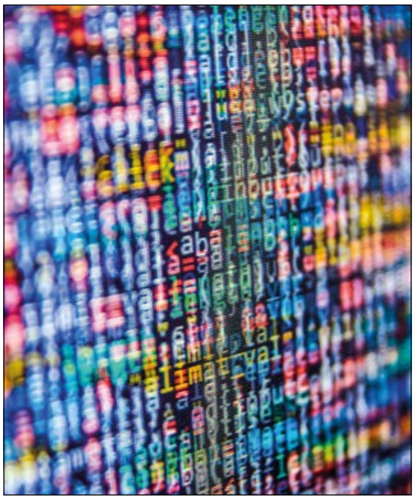
Airbus, Bank of America Merrill Lynch, BBVA, BNP Paribas, Booking.com, Borealis, Citi, Deutsche Bank, General Electric, IATA, Intesa Sanpaolo, J.P. Morgan, LVMH Moët Hennessy Louis Vuitton, Microsoft, National Australia Bank, Ping An Group, Roche, RTL Group, Sumitomo Mitsui Banking Corporation, Société Générale, Standard Chartered Bank and UniCredit. Together with the pilot participants SWIFT has also invited leading treasury application providers to integrate the gpi flows into their own systems in order to deliver a fully embedded gpi experience in corporate treasury systems.

COMING NEXT ISSUE

INSIGHT & ANALYSIS

Harnessing the opportunities of payment innovation

With progress in the payments space seemingly gathering new momentum every day, we look at how treasurers can make best use of the available technologies and still make provision to incorporate future developments.



TECHNOLOGY

Utilising the power of big data

Big data sounds like it may provide the answer to every treasurer's dream: everything you ever wanted to know about your business, on tap. However, with so much more to manage, unless the data is entirely relevant and accurate, and delivered in a timely manner, it can become a major problem. And then there's the analysis. We look at how to derive the greatest benefit from big data.

RISK MANAGEMENT

Avoiding hedging mistakes

Hedging for treasurers should be quite straightforward in theory but in reality it can be fraught with issues. What are the common errors of practice and how can they be avoided?

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

Mickey Vonckx, VP Managed Services, Serrala; Peter Cunningham, Consumer & Healthcare Sales Head for EMEA, Treasury and Trade Solutions, Citi; Magdalena Mielcarz, Channel & Enterprise Services Head for EMEA, Treasury and Trade Solutions, Citi; Timothy Mukopi, Treasury Risk Reporting and Systems Officer, Oxfam GB; Yeng Butler, Senior Managing Director and Global Head of Cash Business, State Street Global Advisors; Kim Hochfeld, Head of EMEA Liquidity Distribution, Morgan Stanley Investment Management; Jim Fuell, Managing Director, Head of Global Liquidity Sales, International, J.P. Morgan Asset Management; Colin Sharp, SVP EMEA, C2FO; Adam Richford, Group Treasurer, Renewi plc; Maeve Robinson, Assistant Treasurer, Omnicom; Tim de Knegt, Manager, Strategic Finance and Treasury, Port of Rotterdam; Thomas Olsen, Partner, Bain & Company; Ebru Pakcan, Head of Treasury and Trade Solutions, EMEA, Citi; Mark Smith, head of Global Liquidity for Global Transaction Services, Bank of America Merrill Lynch; George Dessing, Senior Vice President, Treasury & Risk, Wolters Kluwer; Yera Hagopian, Head of Liquidity Services, Barclays Corporate Banking; Neill Penney, MD & Co-head, Trading, Thomson Reuters; Frances Hinden, VP Treasury Operations, Shell International Ltd; Andrew Farnhill, Head of Sales, Global Transaction Services, DBS London; Victor Penna, Head of Cash Management, Europe and Americas, Standard Chartered; Karin Flinspach, Head of Transaction Banking, Europe and Americas, Standard Chartered; Matthew Davies, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch; Stephanie Wolf, Global Head of Financial Institutions for GTS, Bank of America Merrill Lynch; Hubert J.P. Jolly, Global Head of Financing and Channels, Bank of America Merrill Lynch; Dino Nicolaides, MD, Head of Treasury Advisory UK & Ireland, Redbridge Debt & Treasury Advisory; Richard Anthony-Smith, Head of EMEA Business Development, S&P Global Ratings; Anjali Sharma, EMEA Head of Corporates, Business and Relationship Management, Fitch Ratings; William Coley, SVP Credit Policy, Infrastructure, Moody's Investors Service; Javier Orejas, Head of Banking, EMEA & Americas, International Air Transport Association (IATA); Peter Claus-Landi, Senior Director Treasury, General Electric; Thibault Moncouet, Corporate Finance Operations, Airbus Intergrated Treasury.

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