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May/June 2019

# Banks and fintechs join forces

Collaboration between fintechs and banks is picking up a head of steam, with payments and working capital management proving fruitful spaces for partnerships.

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Group Treasurer
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Cash pooling remains key for multinationals

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# The whole is often greater than the sum of its parts

At this point in 2019, those in the UK who voted to leave the EU should have been cheering as they finally threw off the shackles of EU membership, whilst those who voted remain would be ruing the day former Prime Minister Cameron decided to play political games with the country's future. It has not happened yet. It might not. The truth is that nobody knows.

The fact that such a relationship, both politically and economically, cannot seemingly be unwound without one side or the other throwing up their arms in dismay, suggests that the modern world is built on stronger ties than anyone dares or, in some cases, wants to imagine.

Arguably, forming deeply-embedded relationships builds strength, if not always providing for unity. By their very nature, whether at a supranational, domestic or organisational level, complex relationships are difficult to unravel. But if they are founded on common purpose and vision, and allow each stakeholder an equal voice, why would it need to be torn apart?

In this issue, we take a long look at the strength that comes from working together.

In our cover feature, we examine how fintechs and banks have dropped their short-lived hostilities and are choosing instead to partner for mutual benefit – and how treasurers are reaping the rewards of this newly cooperative mindset.

The power of interconnectedness of functions and technology over isolation comes under the microscope, in our feature on holistic treasury. We also peer into a crystal ball, considering the nature of future-proofing treasury, asking how, in an age when new technologies are offered with unprecedented frequency, treasurers can leverage such progress whilst avoiding failures (clue: integration).

In this edition's look at trade in emerging regions, on-the-ground experts offer solutions for treasurers seeking to mitigate risks and leverage opportunities across LatAm and Africa. With more countries in each region now disposed to working together, the positive results are starting to show.

And this is the point. At multiple levels – internally and externally – regions, countries and organisations have many opportunities to work together. When choosing this approach, the outcomes, whilst not always perfect, are often better than expected. But they are always healthier than pulling up the drawbridge and refusing to cooperate.


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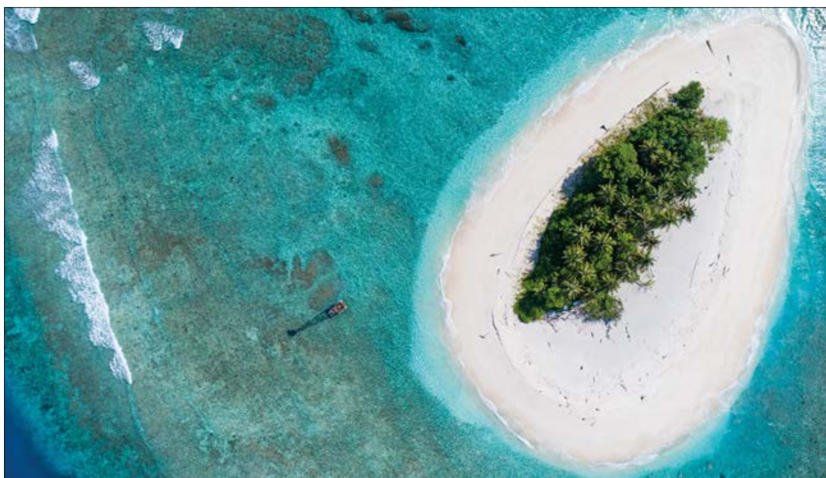

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# It pays to work together

*Fintechs and banks are increasingly collaborating to develop and launch solutions for corporates that leverage each other's strengths.*

Fintechs may have looked to eat bankers' lunches a few years ago – some are certainly still looking to do so – but collaboration and partnership between the two looks to be more favoured now, with the payments and working capital space generally proving to be fertile territory for them to engage for mutual benefit.

Gulru Atak, Global Head of Innovation, Treasury and Trade Solutions(TTS), Citi, sums up the prevailing environment between fintechs and banks: "Collaboration between fintechs and banks is very important, particularly when looking to new methodologies for product design and analysis. There are great values and abilities fintechs bring to the table, but banks too have an awful lot to offer. Citi for instance has been in some markets for 200 years, we have client relationships going back over 100 years. And we have the scale and expertise to deal with global regulation and licensing."

With responsibility for innovation across Citi's TTS business, which shifts trillions of dollars around globally for corporate and institutional clients, Atak says her innovation team works very closely with Citi Ventures, the global investment arm of Citi, to identify fintech partners through multiple channels. "Once we identify partners, Citi Ventures will assess the fintech. They always do their own due diligence ahead of any decision on investment or partnership. Fintechs that become part of its portfolio will be introduced to all constituencies at Citi to best help them add value across the group.

"Our approach is always to solve pain points for clients whether they be corporate or public. My role is to talk to both product and sales teams so we are fully informed, sharing information on common pain points for organisations and then working on a solution. On that basis we can begin searching for potential fintech partners."

Citi considers hundreds of fintechs a year. Those that are short-listed will be interviewed by phone or visited depending on where they are based. It also arranges annual fintech demo days, where a select group of fintechs will present their propositions to a panel of judges. "After a very rigid assessment of their proposition we may decide to work with a

few of them to develop a proof of concept solution which then may progress to pilot stage and thereafter the fintech could become a strategic partner or maybe a vendor."

Looking ahead, Atak sees collaborative efforts expanding dramatically. She points out that more and more companies across multiple industries are now coming together to develop solutions that address consumer demands and cites the car sharing industry as an example: "It's the beginning of a cross industrial ecosystem because to develop car sharing the industry's players have to talk to government, payments providers for novel payments solutions and software developers."

Atak adds: "If we can get to a situation where fintechs and banks are more involved in these new cross-industry collaborations, you can imagine very rich industrial ecosystems developing in the future."

A major current focus for Citi's TTS innovation team is e-commerce and real-time payments – faster payment rails generally – in multiple countries. "These are areas of very rapid development and as a result the treasurer's role is becoming much more complicated. The big question for treasurers now is how to evolve themselves to manage real-time funding and real-time liquidity management – we are definitely looking at that area."

## Win-win market

Citi's strong focus on payments and liquidity management is long standing and is reflected in Citi Ventures' 2016 strategic investment in C2FO, an online market for working capital. The fintech is a standalone company independent of Citi but is also the technology provider behind Citi Early Payment Programme, which allows suppliers to request accelerated payment of an approved invoice. In practice, suppliers determine which invoices they want to accelerate and what their early payment offer (payment date and associated discount) will be. For accepted offers, the C2FO platform initiates early payment and the buyer receives the discount from the supplier. In turn, the supplier receives early payment to improve their cash flow while also reducing their financing costs.

Sandy Kemper, Founder, Chairman and CEO of C2FO – which bills itself as "the largest working capital market in the world" – is clear about the merits of his firm's proposition: "A big lesson learned from the global financial crises was how critical free cash flow can be for corporates, their customers and their suppliers. As businesses seek to unlock cash flow from day-to-day operations, savvy treasurers have discovered vendor payments as a means to generate significant benefit for their suppliers and in turn for themselves.

"Part of what we are trying to do is get back to the original mission of banks and create benefits for our customers. By looking at the quality of their accounts receivable, could I find better advancements, could I find better interest rates? But the only way to really validate AR is to match it to the AP.

"The fundamental basis of our solution is we aim to match all the world's accounts payable with all of the world's accounts receivable. We've really just begun but we do have over 1.2 trillion of accounts payable matched to accounts receivable."

It is estimated that business transactions globally total about US$260trn per year, but at any point in time, about US$43trn in receivables and payables are outstanding. "We've studied it and no more than US$3trn to US$4trn of finance is available to create liquidity against that US$40trn, which explains why most small and medium-sized businesses and start-ups find it very challenging to finance loans." This represents a hidden finance cost and also risk in the supply chain. The aforesaid savvy treasurers, however, recognise that it also represents a significant opportunity.

Post crisis regulation coupled with the need to repair their balance sheets have made banks risk-averse, which is another big drag on financing for SMEs. "In the banking industry you have to look at risk underwriting of working capital and because of that we have to detail the amount of credit we make available against these assets.

"But just turn that on its head and think about not the asset, and not the account receivable, but rather the account payable. If you then engage in a marketplace where those accounts payable can be matched to the accounts receivable, you can give priority to the account payable owner to pay that payable sooner at a rate that is good for the account receivable holder. The result is a completely new way of looking at working capital. In many ways you have taken the risk out of the working capital which means you can get more working capital into the hands of companies that need it."

The C2FO working capital platform therefore aims to meet the needs of both sides of the platform, allowing customers to set a target reward for every order, but also allowing suppliers to offer early payment discounts, an incentive for them to be paid quicker. The greatest benefit of this approach, says Kemper, is not only that it improves capital utilisation efficiency, but also reverses the original unbalanced model where the buyer decides when the payment will be issued. "A customer that has sufficient funds can receive a discount for paying in advance and receives a return on their investment, while a supplier in urgent need of funds receives the working capital they need in a timely manner. It's a win-win situation. Having a strong, healthy supply chain is in everybody's interest."

## Best of breed

Now boasting hundreds of thousands of customers across 171 countries and able to handle 60 currencies, Kemper is confident about the outlook for the company. As a former banker himself, he is acutely aware of what Citi brings to the partnership with C2FO and vice versa: "Banks often have very deep, loyal strong ties with their customers, not to mention very strong branding. So what the banks can offer in partnership with the fintechs is a complete solution – powerful customer relationships and innovative, best in class fintech solutions. And that is what we have with our partnership with Citi."

In considering the outlook for the fintech sector more broadly, Kemper foresees "a little separating of the wheat and the chaff", with banks increasingly in the position of being able to pick best of breed providers and take them to their best customers. Echoing Citi's Atak, he says: "You'll see more partnering between fintech and banks but quality will increasingly be key. Banks will want best of breed, want them to be tested, want them to be strong and accretive in any relationship.

"We picked Citi because they gave us an extraordinarily strong global relationship footprint. And I think they picked us because we gave them exactly what I have just described – a tested, well created and very robust solution for their customers."

Parvais Dalal, EMEA Head Supply Chain Finance, Treasury and Trade Solutions, Citi, echoes Kemper, saying that the bank's partnership with C2FO has been an integral part of its overall agenda: "It allows us to combine both Citi solutions and the solutions offered by our partners, to provide a complete product offering to clients addressing their varied needs."

Dalal adds: "Our product capabilities around supply chain financing are now offered on a fully automated basis, delivering working capital efficiencies through the Citi platform and dynamic discounting via the C2FO platform. This structure offers better returns for clients' excess liquidity, and assists with payment efficiencies to a large universe of beneficiaries in an automated and digitised way."

Indeed, Dalal sees the C2FO solution as helping Citi to complete its overall offering in the payables space, specifically its client supply chain, to control cash flow and improve financial metrics on demand. "It allows accelerated payment of approved invoices at a rate that works for our clients, in a fully automated and unique fashion."

## Mission possible

Bottomline Technologies is another long established fintech focused on cloud-based working capital and automated payments solutions. Having been in business for 30 years, the company is, says Ed Adshead-Grant, General Manager, Payments, "in that interesting space of not being a trendy start-up fintech nor a 300-year-old legacy, bank-driven financial services technology company."

He is clear about Bottomline's unwavering mission: "Our purpose is to help businesses pay and get paid. Over 80% of FTSE companies and over 60% of the Fortune 500 are our customers, so we have some very rich insights into how corporate payments work and that helps us develop novel solutions for customer pain points. It's the intelligence we gather and our speed of response in addressing customer needs that explains our longevity as a fintech.

"We've got multiple types of payment solutions but we're not tied to any one financial services organisation. Payments is our core focus but our footprint extends to areas like cash management, fraud checking and compliance."

Currently Bottomline is investing heavily in areas like open banking, PSD2 and GDPR and is registered both as an Account Information Service Provider (AISP) and Payment Initiation Service Provider (PISP), which means it is fully authorised to use open banking APIs. Such expertise, combined with it being a fully accredited SWIFT service bureau, provides Bottomline with an edge in the market, says Adshead-Grant.

As well as offering its services to firms directly via its platform, the company also works closely with banks to develop 'white label' solutions. This entails Bottomline, as technology provider, powering banks' corporate payment solutions. Referral arrangements, whereby banks will refer their corporate and business customers to Bottomline to help them on payments, collections, compliance and solutions, make up another important element of the company's relationship with banks.

"Working with banks makes up a large part of our business. We're always looking to collaborate with banks to combine the best elements of their offerings with our own to try and help businesses pay and get paid, in line with our core mission.

Bottomline's institutional partners include UK's digital, mobile-only Starling Bank. Here the focus of the collaboration has been on real-time access to the UK's Faster Payments Service (FPS). The partnership has led to the launch of a new 'Real-Time Payments Express' solution that will allow banks, payments service providers and corporates to access the full benefits of 24x7 real-time payment rails without the need to become an FPS scheme member themselves or wait behind the sometimes-challenging service levels of a larger sponsoring bank.

Adshead-Grant says the Starling solution is delivered as a plug and play SaaS cloud model that "offers full visibility of payment transactions and provides a portfolio of open banking and PSD2 solution sets that allow customers to improve their propositions and service their business more effectively in a digital world".

Bottomline also works with a number of major banks, including Unity Trust Bank, a specialist in banking services for trade unions and charities, to provide a white label bank-branded BACS payment solution to their customers. The Unity Trust branded solution, called 'Unity e-Payment', provides full BACS credit and direct debit payment services in the cloud, enabling the smooth operation of payroll, accounts payables and account receivable functions for their customers.

## Keep it simple

So how does Adshead-Grant sum up the key benefits of the Bottomline platform for corporates? "What immediately comes to mind is expertise. Yes, the technology is important, but there's never been such a need for expertise as now because the landscape is changing so much. Consider the plethora of initiatives corporates have to contend with right now: open banking, request to pay, confirmation of payee, PSD2, new payment architecture – the list goes on and on.

"There's a tsunami of compliance changes coming through, but the key benefit for those corporates partnering with cloud-based solution providers, is that all that compliance is 'gone' for the corporates – we are the ones that invest in compliance so that firms don't have to worry about it. Our international payments module, for example, makes that task as simple as making a domestic payment. All the complexity is hidden, taken care of, the compliance is checked and it's all done. Or there's the account visibility module that we offer, so companies can see all their bank account information in one place, no matter where they are in the world.

"Using a combination of open banking and the SWIFT data flows, we can ensure that all of a corporate's real-time data is at their fingertips. And again, no complexity, no compliance issues, it's just a smart, secure solution that you plug into. These are probably the key conversations we have with our customers, where they end up saying, 'Oh, wow. That makes life easier'."

BNP PARIBAS

# Building cyber-resilient treasuries

*Hackers are making hay from the rapid digitalisation of organisations with treasurers increasingly a focus for attack. In a recent webinar experts from BNP Paribas explained how firms can realise cyber-resilient treasuries.*

Jan De Blauwe
Chief Security Officer
BNP Paribas Fortis

Jan Dirk van Beusekom
Head of Strategic Marketing
BNP Paribas Cash Management & Trade Solutions

Cyber-security has raced up agendas in boardrooms globally over the last few years as organisations pursue digital transformation but struggle to cope with security issues generated by new technology and processes.

A recent World Economic Forum survey of 12,000 executives in 140 countries found that cyber-attacks were the top concern for businesses in Europe, Asia and North America. An Accenture survey of 1,700 CEOs and C-suite executives, meanwhile, reckons cybercrime could cost companies US$5.2trn over the next five years unless significant improvements to internet security are made.

The cost of being compromised may not be just financial. There is reputational damage to consider; attacks may target intellectual property or customer data; and firms can be fined by regulators for security failures.

Corporate treasurers as guardians of their companies' finances, intellectual property and customer financial data are highly exposed to attack by hackers. While learning to cope with the rapidly evolving cyber threat landscape may seem daunting to treasurers, Jan De Blauwe, Chief Security Officer at BNP Paribas Fortis, and Jan Dirk van Beusekom, Head of Strategic Marketing at BNP Paribas Cash Management & Trade Solutions, assure that, based on BNP's own efforts in developing effective security for both itself and clients, cyber-resilient treasuries can be realised via strategies that are neither costly nor difficult to implement.

Understanding and appreciating the clever techniques hackers use is a key starting point. There are plenty of examples now of firms falling foul of identity theft, false instructions and spoof emails that fool treasurers into executing financial transfers. "To help minimise such a risk firms should adhere rigidly to dual payment approval processes, beneficiary account controls and always be circumspect with regards to authenticity in communications that aim to trigger transfers. Vigilance is key," says van Beusekom.

Direct attacks on firms can come in many flavours but an arguably even more cunning strategy employed by hackers involves infiltrating vendors for major firms being lined up for attack first. The 2013 data breach of US retail giant Target is a classic example of this type of attack. Using credentials stolen from a third-party HVAC vendor, hackers gained access to Target's computer gateway and customer service database. Malware then captured full names, phone numbers, email addresses, payment card numbers, credit card verification codes, and other sensitive data.

Along with affecting 41 million customer payment card accounts, the breach affected contact information for more than 60 million Target customers. As well as suffering reputational damage, the breach cost the company US$18.5m in settlements.

Van Beusekom says a powerful way for organisations to mitigate such intrusions is to segment their computer networks so that each one is visible only to users who have the appropriate access rights and is not visible to unauthorised users. Unlike the ease with which they comprised Target's easy-to-penetrate "flat networks", hackers who take on segmented enterprises are confronted with a series of "locked doors" that present increasingly more secure barriers, with the most sensitive data benefiting from the most vigilant defence tools.

De Blauwe says such strategies require firms to develop "risk-based, zero-trust" approaches to cyber-security, with a range of customised solutions that depend on the level of protection needed for data sets rather than the traditional "castle and moat" solutions that rely solely on perimeter defences like firewalls and are unsupportive of today's mobile and cloud first world.

For both De Blauwe and van Beusekom, the overriding imperative for treasurers is to embrace "co-ordinated defence". Cybercrime has become structured and organised, so the defence needs to be similarly structured, they argue. As such, IT, finance and the technology partners that support treasury must work together closely to identify threats and weaknesses and resolve them collaboratively.

Van Beusekom is also keen to stress that treasurers need to look beyond payments: "Bank account details, financial and commercial counterparty settlement instructions, employee details and financial data about the company are all valuable assets to hackers. These need to be protected with the same degree of care as payments."

And lastly, they point out that good training is crucial in order to ensure treasury staff are equipped to fend off evolving cyber threats.

Van Beusekom says banks too have an important role to play in helping treasurers to safeguard their operations and assets, with BNP Paribas itself investing heavily in its channels to ensure they remain robust and cyber-security awareness training for corporate clients.

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

# This much I know

## Joanna Bonnett

Group Treasurer

PageGroup

### What attracted you to a career in treasury and how would you describe your experience to date?

As is the case with so many of my contemporaries, I almost fell into treasury. In saying this I mean I realised in hindsight all of my prior ‘accounting’ roles were actually treasury related. Initial encouragement came from being able to work on high profile and complex projects with early career access to the CFO. As the years progressed I was promoted and have since gained depth and breadth across a variety of industries, organisations and even countries. I have found the diversity of work challenging but also very rewarding.

### How would you assess the opportunities for progression at PageGroup?

PageGroup is a people business which invests heavily in its employees and takes succession planning and career aspirations very seriously. Employees are actively encouraged to seek new opportunities to diversify their skillset and should you want the opportunity to move within the group, roles overseas are available. Personally I have been able to take on a number of new challenges, such as taking on the global insurance programme in 2018.

### What is the best piece of advice that you have been given so far along your own special journey?

I would say it has to be to remember everyone starts at the beginning and never be afraid to ask questions along the way.

### Looking back, is there anything that you would have done differently in your career path?

Looking back, I would not do anything differently. I believe everything is done for a reason and even in the most challenging of circumstances I look for the positives and feel there is always room for personal growth.

### What advice would you give to women in trying to develop their careers in treasury?

My advice would be the same for either gender. I would say it is vitally important to be yourself, no matter who you are and to always put your best foot forward; as only then will you be happy and realise your full potential. If you feel you are struggling, always seek help, whether it is from your supervisor or the group treasurer or even seek the help of a mentor. There are a lot of fantastic mentors out there to help people through those early years.

### What has been the most important guiding principle during your career?

My guiding principle is to be genuinely passionate about what you do because if you are passionate, everything else including success will fall into place.

“It is vitally important to be yourself, no matter who you are and to always put your best foot forward; as only then will you be happy and realise your full potential.”

**ONLINE**

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

## Multiple challenges from within and without

Joanna believes the biggest near-term challenge, not just for her but all treasurers generally, is the unprecedented volume of information needing to be tracked and processed: "Political turmoil, the plethora of new regulation… and then the fintech providers that are challenging traditional banks. As treasurers, we need to assimilate and analyse all this information, assess the opportunities or threats it presents for our respective companies and wider industries. A huge amount of personal investment and skill are required to achieve that."

Treasurers today have to show very high levels of agility and flexibility, yet remain grounded and methodical: "It is certainly a very challenging skillset but it helps ensure we have the right ability and skills as treasurers, to face the challenges presented by exponential growth in information and data, and the arrival of the age of automation. There is going to be a big change, and I think it will be a very fast change, however, we must embrace it, keep up with it, while at the same time driving our companies and industries forward."

The complex and demanding responsibility treasurers have in keeping abreast of such external developments whilst at the same time ensuring their departments remain fit for purpose operationally, is certainly in evidence at PageGroup, where Joanna's team recently delivered on a large scale group-wide transformation project. In the space of just 12 months the team transitioned or replaced transactional bankers in 94 subsidiaries and established cash pooling and automated the banking interfaces with the group's new global ERP.

It was "a mammoth undertaking" for Joanna's small team but already she and her colleagues are focused on delivering the second phase of the project. Over the next 12 months the team intends to take a deep dive into the group's working capital and debt facilities, investment portfolios and global credit card programmes.

"We may be a small team but we are challenging the status quo, which I think is really interesting and certainly keeps us all on our toes. We want to ensure that treasury is fit for purpose and in so doing support the wider business in a fast-evolving environment."

Joanna says the size of her department means each of the individuals within the team is being given the unique opportunity to develop new skills: "I believe that being able to offer personal growth is vitally important for treasury team members. We get to deliver the new products but we also get to develop our individual skills, and generally enjoy a greater sense of fulfilment. It allows us to embrace innovation, in doing so creating opportunities which benefit us as individuals as well as the organisation."

## Sage advice for treasury newcomers

For every young person, embarking on a career is a daunting process, especially in treasury where for juniors the required knowledge and the skill set will appear insurmountable. To best navigate their early career in treasury, I would certainly recommend they look to secure professional qualifications such as the Diploma of Treasury Management offered by the Association of Corporate Treasurers. The qualification provides a solid foundation for anyone entering this industry.

Membership to professional bodies or other industry groups provides additional benefits such as access to career development tools, career hubs, networking opportunities and mentoring. Combining professional qualifications with on the job experience is critical to gaining confidence and making progress.

Joanna further believes it is important for those starting their journey in treasury to appreciate just how diverse the profession's skill set has become and the demands which will be made of them going forward. "We are no longer operating in our ivory tower as was the case ten years ago. We do now have a seat at the table, we act as advisors to the CEO, the CFO, and the business alike. We move interchangeably between talking to say the board, our banking partners, the commercial teams, and shared service centres within our organisations.

"To be effective in this job, one must evolve beyond the treasury function and really become a trusted advisor, almost with a masters in stakeholder management. Put simply, we must be prepared for the foul weather as well as the fair."

Joanna Bonnett is a seasoned treasury professional with 20 years' experience across multinationals and large government departments. Her expertise includes delivering on global transformation and automation programmes and creating high performing treasury teams. She joined PageGroup plc as Group Treasurer in 2017 with responsibilities that include global debt, investments, cash and liquidity management and FX management, sanctions compliance and insurance programmes.

Her previous postings include Treasury Consultant, IMI and Director of Treasury and Banking, Department of Defence of Australia. She graduated from the University of South Australia. As part of the ACT Mentor Me and Women@Page programmes she provides mentoring to female treasurers and finance personnel.

# Getting off the island

*Treasury can – and arguably must – partner with other functions for the greater good of the organisation. Doing so can bring distinct advantages for treasury too. We explore the healing possibilities of the 'holistic treasury'.*

The idea that any business function can operate in isolation effectively and efficiently is dead. It's not necessarily anyone's fault that certain functions don't talk; historical and habitual processes, serial mergers, company culture, management attitude, the overly technical nature of roles such as treasury, lack of proactivity within each function – have all played their part. However, in today's volatile markets, it would be hard to question the value an organisation could obtain by having strong connections between its functions.

Digitisation is helping to blur the boundaries, and treasury is becoming a key strategic enabler, notes Bruce Meuli of the global treasury advisory team at Bank of America Merrill Lynch (BofAML). With many corporates considering omni-channel offerings across multiple geographies for customers, he explains that with treasury's enterprise-level involvement, in terms of new payments requirements alone, it ensures the customer digital experience across the globe is enhanced – not hindered – by the payments process.

Indeed, keeping treasury out of the loop is a risk. If a business has an online returns policy upon which it wishes to build its reputation but, because treasury was not consulted, its reimbursements cannot be made in the manner in which the customer desires, the customer experience is diminished and the company strategy fails. "Treasury is now very much an integral part of the chain," states Meuli. "When it doesn't step up, the effects become obvious."

Only with an understanding of capital strategy can the business units plan growth within a financial context, says Jonathon Traer-Clark, Head of Advisory for GTS, Bank of America Merrill Lynch. Similarly, if treasury is aware of activities around M&A, R&D or capex, for example, in its role as capital aggregation and distribution agent (see diagram), it has both the context in which its performance will be measured, and the opportunity to challenge and consult on the means by which it will execute both of those activities. A connected treasury, he notes, "enables a more relevant treasury that can be aligned to the overall objectives of the business and its stakeholders".

Of course, as treasurers prepare to meet the overarching needs of the organisation, it's tempting to think that the 'solution' exists solely in technology. Certainly it has a vital role to play, says Meuli. APIs are full of promise for data visibility and real-time decision-making, and big data and analytics mean collecting, processing and presenting enterprise level data, drillable to transactional level, and tailored to an individual process or function's needs, is possible.

However, technology aside, there is also considerable benefit in treasury as a function becoming more open and communicative with key stakeholders, and vice versa.

## Points of focus

Every business is subject to certain external and internal forces, notes Bruce Lynn, Managing Partner, The Financial Executives Consulting Group. Derived from these are three main intersecting elements – profitability, liquidity and risk – where he believes treasury should be playing a stronger defining, forecasting and managing role.

Lynn cites a 2017 AFP survey that posed a question about treasury maturity: although approximately 80% of all respondents claimed it should be 'strategic', only about 16% at the largest companies thought they were actually strategic in their outlook. Among the smaller companies (under US$1bn sales) only 9% thought their treasury functions were strategic.

Clearly imbued with aspiration, the majority were nonetheless effectively admitting to a more 'tactical' reality, predominantly engaging in the transactional. In essence, comments Lynn, treasury is often marked by "too much processing and not enough planning".

With investors typically focused on the P&L, he notes too that, at least from a strategic business perspective, liquidity and risk are still seen as "relatively unimportant". Of course, the P&L only retains its importance until company liabilities exceed assets, then balance sheet scrutiny takes precedence. By then it may be too late. The notion that "the wrong kind of profitability" is too often the focus, drives to the fore the view that "what gets measured, gets managed".

A company intent on managing success typically talks in terms of market share, sales growth, EBITDA, EPS and so on. But, says Lynn, these are all P&L measures. What's needed is for treasury to work with each of the company's businesses to deliver a set of metrics that link profitability, liquidity and risk. Without these "success metrics", he believes that a business is not necessarily looking in the right direction, relegating treasury to remain a slave to the short term not the strategic, and the business may find out too late that its P&L is not what it thinks it is. As he comments: "It means you're too busy counting trees to notice the health of the forest."

But linking profitability, liquidity and risk is not a radical rethink. Credit ratings agencies usually study these numbers, especially when assessing businesses that are highly leveraged or in volatile industries. And for good reason, notes Lynn: "A well-known global corporate missing a profitability goal may disappoint its investors, but running out of cash will kill any company."

Whilst ratios such as DSO, DPO, DIO and the cash-conversion cycle offer sound guidance, for Lynn, free cash

flow (typically the sum of operating cash flow minus capex minus dividends) is the most significant indicator of company's health. Even amongst key metrics such as debt-to-equity and financial leverage, the concept of free cash flow should stand proud.

An underperforming company can renegotiate debt when it comes due, but Lynn likens this to "kicking the can down the road". Debt renegotiation is important, but he argues that the fundamentals need to be solid for longevity. "At the end of the day, if the cash is not there, all the accrual accounting in the world will not help."

Mindful of his view that "perfectly accounting for your foreign exchange losses should not be a goal", treasury evidently has a vital role in securing the company's future. Doing so requires it to get off the island.

## Reaching out

From the outset, the company needs a business-level agreement on how much liquidity is enough, and how much risk is too much. Treasury then has to reach out to key financial stakeholders. Few treasuries are exactly the same so there is no 'one-size-fits-all' target audience for enlightenment by treasury.

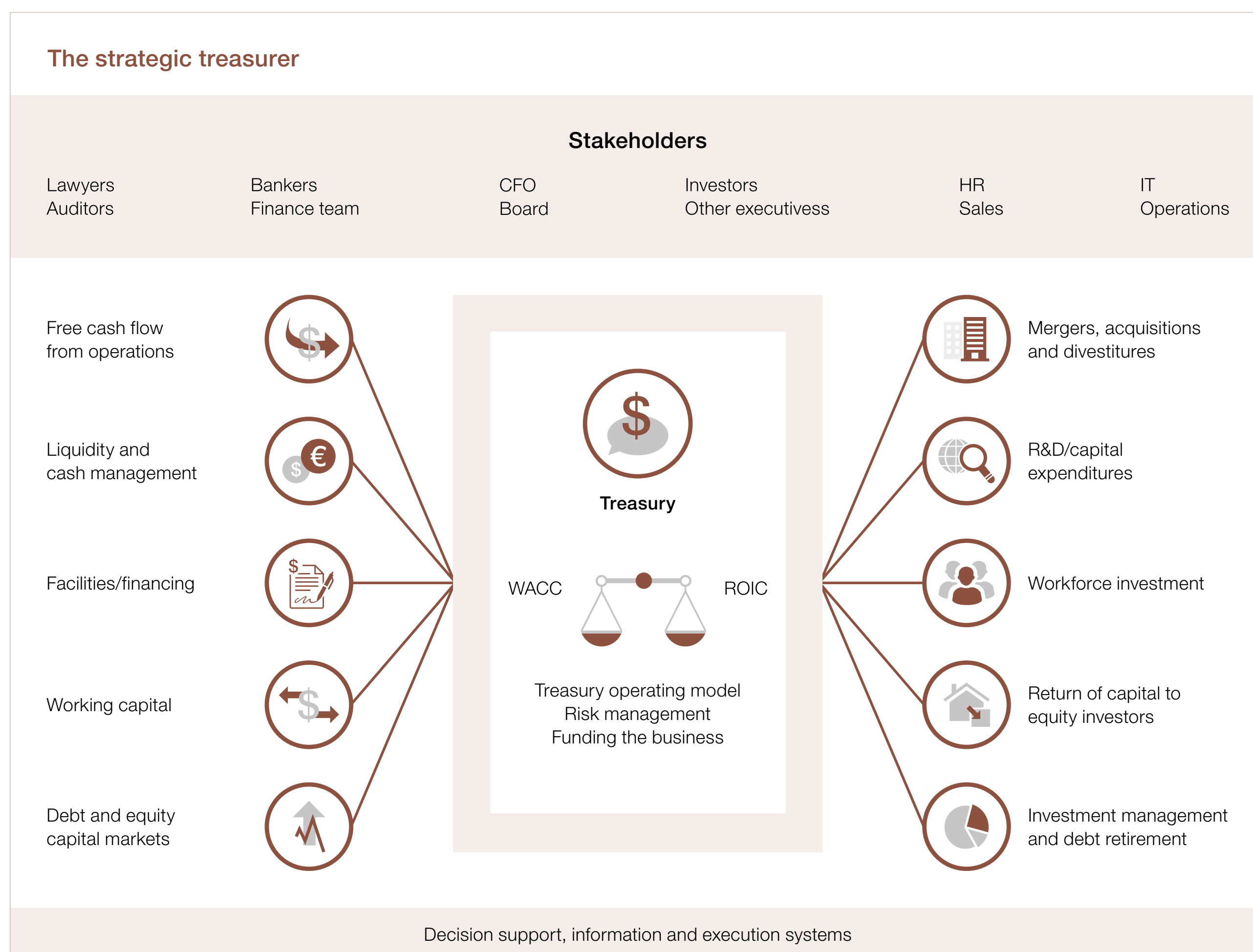
Close connection with the CFO affords treasury a timely view of major events such as M&As, where its approach to funding needs to be timed to perfection. In large corporates, Tax and Legal are natural partners for treasury too. In defining operating strategy (Tax will define attitude and appetite, and Legal may, for example, construct the framework around which the business and its holding companies operate) there will be financial flows or fiscal activities which treasury facilitates.

But for treasurers to access, report and advise on key liquidity and risk metrics, it is vital to form good working relationships with the operational colleagues too. After all, operating cash flow is commonly the largest source of internal cash flow.

From his own observations, Traer-Clark notes sales departments increasingly seek treasury input on overseas activities in terms of FX, local funding and the cash flow consequences of new distributor relationships. Meuli too notes that treasurers are helping out at the other end, advising on supply chain finance and even purchase card RFPs.

The difficulty is that treasury rarely controls any of these areas (some treasurers may have lost certain activities to shared services as centralisation plans are enacted). Where facets such as trading terms and credit control are out of remit, the primary link between treasury and every other function – the cash flow forecast – is often weak.

With operating cash flows primarily under the control of the operating units, incentivising good cash flow forecasting at the




*Source: Bank of America Merrill Lynch*

business level is a great starting point, says Lynn. However, he acknowledges it has to go deeper. Perhaps an 'almost ideal' position is the holistic treasury, seen in the diagram.

The flow is missing an obvious feedback mechanism, where the functions communicate one to the other on an ongoing basis. This aspect, says Traer-Clark, is essential. "You can't provide good advice if you can't understand the context within which you operate."

If a targeted growth strategy (such as producing more products or expanding into new markets) is envisioned, it must align with operational performance, and the appropriate deployment of capital (an efficiency ratio for cost of sales, R&D, depreciation, AR/AP processes and so on), he explains. Although diagram one defines the connectivity of the capital strategy, it is vital that "all functions help steer the conversation regarding how that growth is achieved".

It may be that Legal advises on the best overseas structure, Tax on the appropriate structure, AR the most appropriate collections process, and treasury funding and FX risk. As long as there is a unifying language and understanding of growth, and operating and capital efficiencies, Traer-Clark considers it possible not only to deliver a "whole company opportunity" but, by breaking down internal silos, also empower treasury – or indeed any other function – to start the holistic conversation.

## Planning

As such, notes Meuli, the evolution of what it is to be a treasurer can be seen in action, as organisational structures move further from their functional approaches towards more team-based and cross-functional projects. Effective communication is essential.

Treasury can be highly technical and this is precisely why treasurers should make the first move, says Dino Nicolaides, MD, Head of Treasury Advisory UK & Ireland, Redbridge. "The moment other functions begin to understand what treasury does is the moment they understand the importance of treasury and why it should be plugged into the rest of the business."

Notwithstanding difficulties with company culture and the willingness of the individual to seek change (and in today's 'more with less' environment, even the capacity to do so), treasurers should aim to lead the enlightenment. As Traer-Clark comments, "there can be no progress without first asking". It goes almost without saying that explanations of the treasury perspective – and its meaning – must be clear and concise for the uninitiated.

Nicolaides advises that before starting a conversation, each function must identify their own responsibilities and map them to the task in hand and duties of corresponding stakeholders. The next step is to reach out to each function and begin explaining and educating, the complexity of treasury in particular demanding absolute clarity.

Establishing relevant communication channels is also necessary. This could simply take the form of regular or ad hoc meetings to discuss strategic decisions. "However it is achieved, it is very important to establish communication channels that enable co-ordination throughout the group," stresses Nicolaides.

It is a mistake to stop here though, he warns. "It should be an evolving process. Participants need to understand that they are operating in a dynamic economic environment," he continues. "Successful businesses constantly change to keep pace with the markets. Where treasury or other functions might take on or divest responsibilities, a regular review of the activities of participants ensures everyone has access to what they need."

## Start talking

The manner in which treasury reaches out to other functions depends on the culture and people of the organisation, notes Nicolaides. However, from his observations, a senior treasurer making the effort to travel to and spend time with relevant outposts, intent on understanding their views and issues, can build much closer working relationships. "Putting a face to a name always makes it much easier to communicate; it creates a new dynamic," he notes. "But more than that, it allows treasury to explain what it can do for those units, and builds upon the idea of partnership."

Meetings of this kind also present opportunities to clarify treasury policies and to explain how and why treasury needs the help of the different functions. "Successfully explaining that this is not just for the good of the organisation but also to their own advantage is a way of achieving buy-in without them feeling imposed upon," Nicolaides believes. The process works in reverse too, with other functions able to explain their requirements of treasury.

An effective top-down approach, enabling across-the-board co-ordination between departments within the organisation, that Nicolaides also encourages is to mandate the attendance at special training sessions by all middle- to top-management. Each session, he explains, should cover the work of, and be led by, one function at a time. At the end of each discovery session, the different department representatives begin identifying how communication channels can be established with the session's leading function, exploring how each will benefit from closer connection.

"From a treasury perspective, it can present a challenge when trying to explain the role to the other functions in non-technical language," says Nicolaides. "But from my experience, at the end of the sessions, all those involved have a much clearer understanding of what treasury does, why it exists, how treasury can help their function, and in what ways they should communicate certain information to treasury."

## Co-operation rules

In the last decade, treasury has perhaps not had the attention it deserves. Market forces have been such that money was cheap so the business didn't worry about it. That's changing. With a number of internal and external factors demanding attention, treasury has to have answers if it is to maintain its rising status as a strategic player.

Creating a holistic approach to treasury should see it operate in the most efficient and cost-effective way. But, importantly, it also means management understands the role of treasury and the benefits it brings to the whole organisation. Of course, ultimately, all functions must get off their island because only that way can significant decisions be made on a fully informed basis.

# Risk and reward: making EM trade work

*There are risks and opportunities when trading in the emerging markets. We look at two regions – Latin America and Africa – and ask local experts to assess what treasurers can expect, asking how best to prepare for continued trading in each.*

## Latin America

The current political and economic situation across Latin America (LatAm) is such that Jose Luis López-Sors, Head of GTB Americas, BBVA, finds it problematic to pin down a precise picture of regional opportunities for corporates. The lack of current clarity, it seems, is in part a mark of the heavy influence on the region by its northern neighbour.

Indeed, with the US seemingly in the throes of ending its current growth cycle, increasing the possibility of a recession there, López-Sors says countries closely linked to its performance, such as Mexico, are holding their breath. Yet in parts of South America, where for example the commodities cycle plays a huge part in the economy, a more positive outlook prevails, for now. "Overall, I'm positive," he states. "There are growth opportunities in the region but most will have to watch very carefully what is going on in the US."

With that in mind, he also draws attention to some notable home-grown risks. In particular, the fallout is ongoing from the highly damaging oil industry bribery affair in Brazil that went right to the top before being exposed as an international scourge. "If those cases continue at length, they present a serious growth risk that we have to follow," says López-Sors.

Another grave risk he highlights is the possibility of more interest rate hikes in the US. If rates do rise, it will affect many LatAm economies, especially through the ensuing FX volatility which he refers to as a "nightmare" for the region's corporate community.

Political risk is always a concern and upheaval in Venezuela is testament to this. However, troubled leadership changes in the biggest economies of Brazil and Mexico have settled, and although there are elections due in 2019 in other countries, López-Sors is generally confident that there is "not too much to worry about" over the ensuing 18 months.

## Opportunity

Despite the uncertainty, López-Sors is keen to point out that the region is also one of commercial opportunity. One of the major beneficiaries of the pockets of economic growth seen in LatAm is the consumer sector, with a burgeoning aspirational middle class emerging. Commodities players – especially mining, fishing, and oil and gas – have been performing well too. Although mining has been impacted by adverse weather, the sector is generally "fruitful", he notes.

From a purely business perspective, that fruitfulness can be attributed to reduced volatility in the last few months. "This is important because volatility is one of the main killers of growth," says López-Sors. "Towards the end of 2018, we were expecting a very volatile market. The US Fed was still hiking rates, we'd seen political change in Mexico and Brazil, ongoing turmoil in Venezuela; 2019 was viewed in a very pessimistic way. But during the first three months we have in fact seen stability both in the fixed income equity market and especially in the FX market."

Despite LatAm having no common currency, no unified central banking view and a broad sweep of regulatory approaches, many corporates are nonetheless regionalising their treasury activities to gain cost and operational efficiencies, says López-Sors. Indeed, a number of multinationals have been setting up shared service centres or centralising vast portions of their treasury operations regionally. Colombia, Panama, Costa Rica, Argentina and Brazil are among the main beneficiaries of related investments as corporates alight here with the promise of lower-cost locations and a large talent pool of treasury services and operations.

## Trade deals

With the long-standing NAFTA agreement between the US, Canada and Mexico being revised into the US, Mexico and Canada Agreement (USMCA), it potentially ends a period of uncertainty for Mexico. NAFTA is still in force but when and if USMCA becomes official, most current NAFTA rules and procedures will remain in effect.

Whilst it may not change how corporate treasurers interact across the region, it at least signals further FX stability, helping certain economic flows to remain steady (notwithstanding the burden of any serious geopolitical challenges). Mexico's steel and automotive sectors, where it intersects Asian trade, may be affected, but the overall impact of the change will be "very limited", says López-Sors. "I'm not expecting it to be an issue."

## Tech aid

The role of technology in enabling the growth of any developing economy is critical. In LatAm, one of the challenges is to reach the huge numbers of the population that currently do not have access to banking. With it taking

up to four weeks to open a personal account in many countries, one of the main bottlenecks is regulation.

Correspondingly, one of the main costs for banks is processing cash. However, says López-Sors, whilst the region's regulators and tax authorities talk of helping, in most countries, a transaction tax is levied on every account movement. This has the effect of promoting the cash economy which in turn is making the transition to digital banking a very slow work in progress.

## Treasury challenge

As certain LatAm economies develop, their weak infrastructure and energy sectors are becoming a brake on growth. Both need a huge amount of investment but whilst this presents "vast opportunities" for players in these sectors, the risks this creates for their treasurers is substantial as they source funding.

"The more that can be financed, the less equity is risked; improving financing when entering these economies is critical," says López-Sors. "And where a business is investing money in an emerging economy, whether through equity or debt, it needs a strategy that allows for hedging as much FX and interest rate risks as possible."

Interest rate hedging is relatively expensive in LatAm compared to the US. Of course, for currency hedging, the cheapest way is the natural hedge, if it's available. However, López-Sors says the region's FX markets are "very deep" with a lot of liquidity enabling every currency, except Venezuelan Bolívar, to be hedged. "It may be pricey, but at least treasurers can hedge all their exposures and in this market that is a very positive point."

## Starting questions

When entering the region, the corporate has to start a clear business programme for the target country, and be able to trust that it can be executed, says López-Sors. He says that it will also be essential to closely study local regulations; these can be very challenging not least because there is very little, if any, common ground from one country to the next.

This may affect the decision as to where treasury management activities will be established, as will the availability of appropriate skills. Whilst some corporates base their location decisions on internal legacy factors, there is an increasing tendency to establish treasury centres in the biggest countries. This puts Brazil and Mexico ahead of other strong contenders such as Chile, Panama, Argentina and Uruguay. Although López-Sors says the latter is "flavour of the month", with a relatively stable economy, high standard of living, strategic location and free trade zones, Brazil is arguably the most complex location from a regulatory perspective making it a good reason for establishing a regional centre here. "You can manage other countries from here, but it's very hard to do it the other way round."

## More information

For foreign multinationals seeking advice on entry into LatAm, it makes sense to talk to the international banks operating in the region, says López-Sors. Regional bodies are also a good a source of information. The Latin American Trade and Investment Association (LATIA) covers 19 LatAm countries, coordinates and promotes the region's economic sector, and aims to attract foreign direct investment, boost exports and promote the internationalisation of LatAm companies.

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>
> Jose Luis López-Sors, Head of GTB Americas, BBVA

Also of note is the Union of South American Nations (UNASUR), an intergovernmental union, formed along similar lines to the European Union. It integrates two existing customs unions and is perhaps the first step towards the establishment of a permanent bureaucratic body for the supranational union of its 12 current member countries.

## Africa

A treasurer from outside the region wanting to understand and appreciate the continent, needs to grasp two key facts, says Thabo Makoko, Head of Transactional Services, Absa. Firstly, Africa has a population of 1.3 billion, rising at around 32 million annually. Secondly, the countries that define the continent have between them a widely differing mix of cultures, currencies and regulations, each characterised by varying degrees of economic nationalism and liberalism.

One of the main observations is that although just 30% of the adult population is banked, a large proportion of the remainder is still economically very active. The reason is simple: the direct and indirect costs of banking are a significant negative for many in environments where infrastructure necessary to enable access to regular banking is under-developed (access to roads, power, internet or avoidable data costs). All of these challenges may drive up the total; cost of banking and this is a problem for business.

Despite this, another key issue is the proliferation of banks in many countries (Kenya has 40+, Nigeria 18+, Ghana 10+) where the value propositions differ greatly. With some domestic players focusing solely on certain regions, rather than delivering a nationwide service, if a business wants to reach a particular part of that country, it will have to work with the dominant bank in that region. The first treasury challenge is therefore being forced into multiple banking relationships just to execute the business basics.

> For a treasurer sitting in Europe or the US, it seems uncoordinated; it can certainly be difficult to pick up regulatory trends across multiple countries.
>
> Thabo Makoko, Head of Transactional Services, Absa

The impact of the African trade environment is felt four-fold by treasurers, notes Makoko. Firstly, most will almost certainly face liquidity challenges; visibility of cash can be difficult, especially with multiple banks to work with.

Secondly, the dynamic nature of regulation is hard to keep up with. The authorities can issue circulars on a regular basis, seemingly moving the goalposts and at times reversing previously communicated decisions. "For a treasurer sitting in Europe or the US, it seems uncoordinated; it can certainly be difficult to pick up regulatory trends across multiple countries," warns Makoko.

Of course, a foreign business seeking to invest in the continent needs to know upfront how to extract value from its overseas activities – by repatriating funds or paying dividends, for example. But with such regulatory 'dynamism' across the board, he advises all to "stay close to the regulators", making a point of understanding the "ever-changing framework" in which they operate. "If you don't, you can quickly find yourself in trouble."

Although it is part of doing business here, and what all successful businesses understand, many companies underestimate the cost of compliance. "It is vital not just to build appropriate relationships but also to appear to be highly transparent and compliant," says Makoko. "It is critical to engage with regulators and help them to understand what it is you are trying to achieve but also make sure everything is documented fully."

A third issue is the lack of systemic integration between countries. Sending funds from Burundi to Gabon, for example, is surprisingly complex. Money may have to leave Africa and be channelled through a European partner bank before reaching its beneficiary. In this example, frustration can arise because correspondent banking relationships between some countries simply do not exist. It's tempting to judge but, Makoko adds, "there is history and context to this".

The model where international companies have come into the continent to buy raw materials, extracted it, produced their goods and imported back a finished product, has created relationships where African countries are urged to look outwards, he explains.

Chocolate trade is case in point. Many African counties do not produce cocoa but Ghana does. Ghana sells raw cocoa to European companies that export the finished product to African countries. Yet Ghana has also started producing finished products which are not sold in other African countries. African countries could buy cocoa or the complete product from Ghana, but existing trade structures prevail, and the banking systems reflect this. "This is starting to change," says Makoko. "For example South African, Egyptian and Nigerian companies have been investing in different parts of the continent – and that trend is spreading."

## Big changes

The driver for this change is the rise of entrepreneurship, he believes. Spotting a neighbouring market and responding to it makes economic sense over and above reaching out to far flung opportunities. It's often easier to build intra-Africa relationships, and this is resulting in increasing volumes of intra-Africa commercial travel.

Technology is a major facilitator too. The launch in 2004 of the Central Bank of West African (BCEOA) real-time gross settlement system (RTGS) removed the need for complex correspondent banking relationships, contributing to the integration of the economies of BCEAO member states.

The East African Cross-Border Payment System (EAPS) went live in 2013 doing the same for its members. The same year, the Southern African Development Community (SADC) rolled out in four countries with the Integrated Regional Electronic Settlement System (SIRESS) and today, some 40% of all Southern regional payments traverse this platform.

That said, the various RTGS in Africa are not currently interoperable. However, this too may be about to change. The Common Market for Eastern and Southern Africa (COMESA) is a free trade area with 21 member states. It has been operative since 1994 and is now talking about the creation of an "open trade hub". It's a mammoth project, and whilst Makoko estimates that it's only about 20% there, "the conversation is clearly in the right place".

With entrepreneurial direct investment in different African countries escalating, he strongly believes that "if this culture continues, is encouraged, celebrated, and backed by technology, it will begin to evolve".

## Moving forward

At the highest level, the African Union (consisting of all countries on the continent) is enabling across the board engagement between key stakeholders – including central bankers and leading business people – as they seek solutions to the ongoing challenges around facilitating trade.

This includes tackling seemingly mundane issues such as making easier visa-based travel for entrepreneurs seeking to travel to and make investments in different countries. Perhaps most exciting though, comments Makoko, is the advance of online trade as it starts to replace the complexity of physical infrastructure, open up new cross-border markets, and encourage the use of digital payments and banking of the unbanked.

With the extended reach facilitated through digital trade often built through commercial partnerships (especially between banks and Fintechs), there is great value in enabling different parties to talk, says Makoko. "We can begin to reduce the complexity of doing business but also allow the tapping of markets that would otherwise be neglected."

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# Next gen treasury? It's your call

*The sectors of technology, media and telecommunications are among the most dynamic and for treasurers operating in these intertwining sectors, staying ahead of the curve is essential. With some game-changing announcements at February's Mobile World Congress (MWC) in Barcelona – the telecommunications industry's main event of the year – arguably the hottest of topics was the gathering momentum behind the roll-out of 5G mobile.*

James Lee

EMEA Sector Head Tech,
Media and Telecoms
Treasury and Trade Solutions, Citi

For James Lee, Citi's EMEA Sector Head Tech, Media and Telecoms, Treasury and Trade Solutions, the impact of the 5G revolution will be felt far and wide. The active participation at MWC of companies from not just the traditional mobile tech and infrastructure sub-sectors, but increasingly from associated sectors such as automotive, social media, e-commerce, FinTech and gaming, is testament to the potential transformational impact of 5G. It also means treasurers from many sectors will be at the financial forefront as businesses all over the world begin leveraging the opportunities and meeting the challenges set by this new age of communication.

This may sound grandiose, but the technological difference between 4G and 5G is night and day in terms of volumes of transmittable data and the latency of transmission, explains Lee – Gbps vs Mbps today. 5G adoption is heralding a new industry dynamic as many smaller, high-growth companies see opportunities through 5G, and some unexpected partnerships form among the major players.

## Prospects

Opportunities include greater potential for remote industrial monitoring systems, further development of autonomous vehicles, and the expansion from virtual reality (VR) to augmented reality (AR). The latter will, for example, be seen in the consumer space, in live gaming applications, and in real-time 'tele-mentoring,' such as 5G remote mentoring for complex surgeries between one surgeon and another, as was demonstrated at MWC this year at the Hospital Clinic of Barcelona.

Naturally, as new ground is broken, challenges arise. The telecoms industry is heavily regulated, says Lee, and recurring fees for 5G licencing and mobile 'spectrum' costs are a heavy burden for the mobile network operators (MNOs), who are also facing major capital investments to deploy 5G-capable infrastructure.

5G represents a conflicting opportunity for MNOs – by 2025, data consumption is forecast to grow 400% from 2018 levels; however corresponding revenue growth is forecast at 1%. Mobile telecoms is a huge enabler for commerce – data-driven value creation is estimated to be US$4.6trn by 2022; however it is forecast that 95% of the value created will be taken by over-the-top (OTT) end-user experience providers such as Alibaba, Amazon, Google and Facebook, with only 5% enjoyed by the MNOs.

Driven perhaps by such metrics, MNOs like Vodafone and O2 recently announced the sharing of 5G-enabling infrastructure in the UK; with partnering clearly in vogue, Mercedes and BMW used their MWC platform to announce a US$1bn all-electric autonomous mobility JV programme.

The huge growth in mobile wallets, particularly in developing markets, is also seeing some exciting new partnerships. African MNO giants MTN and Orange announced in November 2018 the pan-African JV, Mowali, enabling mobile wallet payment interoperability between MNOs, it brings together 100 million mobile money accounts and mobile money operations in 22 sub-Saharan African markets.

## Treasury calling

Treasurers in the midst of this evolving environment have the opportunity to deliver new efficiencies and to support the business, says Lee. This is seeing the rise in adoption of tools such as virtual accounts, and companies leveraging payments- and receivables-on-behalf-of (POBO and ROBO) structures to truly deliver efficient in-house bank structures. There is renewed focus too on working capital management, with sector players deploying trade solutions such as supply chain finance and sales financing solutions (to support sales growth) to great effect. Virtual Card Accounts (VCA) solutions are also providing working capital benefits as well as helping clients leverage detailed payments data to better analyse B2B spend.

Indeed, says Lee, a key focus at Citi is to give clients across all sectors more timely and usable data and insight. In launching CitiConnect API, for example, Citi is supporting the two-way flow of real-time payments and collections data between Citi and our clients, he says.

## Strong support

With innovative technologies facilitating the growth of new trading models, such as direct-to-consumer, and the expansion of instant 'micro-payments', there is increased pressure on treasurers to support the underlying businesses evolving needs. Fortunately, the quest to become more efficient in supporting these new models and financial flows is strongly buoyed by banks as they roll-out API and real-time payment concepts.

Citi is taking it further, states Lee, partnering with the fintech HighRadius for the delivery in 2018 of Citi Smart Match, a sophisticated auto-matching reconciliation tool for receivables that leverages artificial intelligence and machine learning. Recently Citi announced the development of a Digital Consumer Payments Business to enable institutional clients to collect from consumers through a wide variety of payment methods (including cards, e-wallets, Request-to-Pay and Open Banking), reflecting the growing shift towards direct B2C sales.

With these advanced tools, and the disruptive concept of 'Industry 4.0' much in evidence at MWC, notions such as technology-assisted financial inclusion in emerging territories gain ground. With the impact of Industry 4.0 and the 5G opportunity, Lee reasserts his belief that "treasuries should continue to develop a deeper understanding of and support for their underlying business." With support from banks such as Citi, doing so will lead to the emergence of the next generation of "true business-enablers," not just in tech, media and telecoms, but across the board.

# Peak performance

## Paul Schreurs
Group Treasurer

A well-tempered work/life balance – linking a passion for preparation with a love of two wheels – is what keeps Paul Schreurs, Group Treasurer at Intertrust on top form. He tells Treasury Today how he has reached the summit of his profession.

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*Intertrust Group, listed on Euronext Amsterdam Stock Exchange since 2015, provides multinational corporations, financial institutions, alternative investment funds and private clients with specialised administrative services. Headquartered in the Netherlands, it has 41 offices in 29 countries around the world. Reported 2018 revenues topped €496m.*

Two years into his role as Group Treasurer at Intertrust, Paul Schreurs is still delighted to have been given the rare opportunity to establish a treasury function from a kind of greenfield situation. With an expanding client-base of multinational corporations, financial institutions, alternative investment funds and private clients, Intertrust had realised the need to create a new and dedicated treasury function and saw in Schreurs the skill and experience essential to establish operations from scratch.

Today, Schreurs and his small team are responsible for a range of traditional treasury tasks. These include internal and external financing, cash management, financial risk management, working capital, and equity-related transactions such as dividend and share buy-backs. In addition he supports the board in aspects such as capital allocation. Of course, being granted the freedom to set up treasury precisely as he wanted – including implementing a new TMS – came with huge responsibilities. These he steadfastly carried, supported on broad shoulders formed by many years' work in the finance field.

Schreurs had come to Intertrust from international health care company, Mediq, where he had ploughed a deep furrow for five years. This provided him with a "good foundation" of how to organise the new unit, starting by replicating his own key reports and pooling structures as a means of securing a quick win in the new role.

## Journey to treasury

The depth of professional experience attained by Schreurs over the years first saw him step from a business-focused university education into a 'Knowledge Management' consultant role with EY. "I found quite quickly that the number of assignments was limited here, so I decided to look for a more finance-oriented opportunity," he recalls. A role in Controlling for a real-estate finance company (part of a major Dutch bank) followed.

As part of his new duties, Schreurs found himself working alongside the finance and treasury teams. Although he admits that "few people start their careers with a clear decision to be in treasury", his exposure to the profession, especially at the point when it was decided to sell off the business, was something of an epiphany.

Schreurs describes the activities generated by the divestment as being a "pressure cooker project", in which the whole portfolio of around €12bn had to be refinanced. "I loved that pressurised environment; I knew then that this was the direction in which I wanted to move."

## Bigger platform

Several steps later he arrived at global giant, Royal Philips, as Corporate Finance Manager. He soon moved to Philips' lighting division, briefly taking on his first bona fide treasury position before heading back to the corporate hub to run internal financing within EMEA.

With designs on leading a group treasury within a listed company, Schreurs progressed then to Mediq where, within a few months of joining, he was thrown into the machinations of a public-to-private transaction as part of the firm's private equity (PE) takeover. As treasurer, he was now working with significantly higher leverages, the PE mindset of "financial engineering" seeking to optimise the firm's capital structure.

The increased pressure to make financing work efficiently was something upon which Schreurs thrived. Working closely with the investor's team, he engaged with a number of recapitalisation projects and refinancing transactions. "There was never a dull moment under PE," he recalls. He even found time to set up new treasury policies and reporting structures, and implement a new TMS.

With Intertrust now in the market for a skilled treasury professional, Schreurs was an obvious target, having earnt his wings through sheer hard work and a willingness to engage with challenging projects. Today, with a fully functioning treasury operation, two share-buybacks and a complete refinancing project under his belt, Intertrust's faith has been fully vindicated. With the company also obtaining ratings from S&P and Moodys as part of a €500m/seven-year bond issuance project – its first ever – Schreurs is drawn once more to say that "there has not been a dull moment yet".

## Lessons

In his journey so far, he has observed a common association between the trio of finance and accounting, tax, and treasury. It is a "triangular relationship" that he feels is extremely important to keep in alignment because "there is always the risk that some aspect will fall between the cracks". Although all three functions report up to the CFO, Schreurs believes that the strength of the relationship is assured only with regular communication. "There are many aspects of our work that overlap; communicating openly gives us a strong basis for the health of the overall finance function."

Within his own department, Schreurs is an adherent to the philosophy that 'preparation prevents poor performance'. It is particularly applicable when answering key questions from senior management. Evidence of his preparedness can be seen in his 'standard' treasury reports, formatted to contain "all the essential treasury facts and figures".

Detailing core elements such as debt positions, value and location of all cash balances, hedging instruments, FX rates, interest payments, volume of equity and outstanding treasury shares is invaluable. "If I'm asked a question, I want to be able to answer it immediately," he explains. "Having my treasury book with me at all times is a robust basis for being able to do this."

## Challenges

Although it does undertake certain treasury-related duties for clients, Intertrust's treasury does not generally get too close to the operational side of the business, says Schreurs, adding that he does not see "too many challenges" from a business perspective.

Indeed, with stable cash flows coming out of the business, and a "very light" inventory-free balance sheet based solely on offices and people, it is indeed a "relatively easy" and somewhat "predictable" business within which to function. Not everything can be planned for though, and he sees necessity in continuing to make structural improvements. Working capital is an area of particular attention: "If you lose focus here, you lose control over it," he warns.

Whilst many banks claim to offer essential working capital management tools, Schreurs does "not see a lot of added-value in this kind of banking product". Instead, his attention is on improving operational processes through standardisation and centralisation. "In the past, cash collection was typically part of the client-facing role; now we are transitioning towards a more centralised function by credit managers," he reports.

And with multiple, rather dispersed acquisitions to its name, Intertrust's TMS is indeed affording treasury an increasingly centralised view of its global cash positions, adding strength to its decision-making. As the TMS roll-out continues, that strength will only increase.

## Pressure projects

Schreurs is clearly not afraid of tackling "intense projects". Knowing full well that this is where the real rewards are to be found, he led the company's recent refinancing. Having developed the proposal for a hybrid financing structure, he used Intertrust's first ever bond issuance to tap the capital markets, running this in parallel with a new bank financing programme designed to give the company a diversification of funding, and the right currency mix and extended maturities.

Preparations for bond issuance began in summer 2018 with a concurrent project with Moodys and S&P to secure the necessary credit ratings. Achieving ratings just below investment grade (Ba2 from Moodys and BB+ from S&P) was a suitably strong platform for the launch, the timing of which purposefully coincided with the release of Intertrust's Q3

figures. "It proved to be the perfect window of opportunity for going out on the roadshow," comments Schreurs. With London, Paris and Amsterdam trips on the agenda, the book went on to perform well, being significantly oversubscribed, enabling "a very good pricing outcome".

Running an intense project like a complete refinancing reminds Schreurs, a keen cyclist, of climbing Mont Ventoux. "You always have to keep the summit in mind but, in the moment, you only focus on the next hairpin. Finally reaching the summit and looking back at how you got there can be very rewarding."

## Strategic intent

Asked about the 'strategic role of the treasurer', Schreurs recognises three specific values that treasury should bring to conversations at this level.

If financing is the foundation stone of most company growth, then liquidity and flexibility are its vital elements, he states. This notion he describes as the first "strategic pillar" of treasury.

The second pillar exists in M&A projects, these being seen as a key mechanism for growth, Intertrust having engaged in this space many times over the years. As such, Schreurs believes treasury should be involved in the process as early as possible. His reasoning is clear. There are three aspects of M&A engagement. Due diligence on the target company's existing finance structure, cash balances and working capital, is vital, he states. Treasury should also have essential input on the financing of the deal, providing information on the impact it may have on covenants and liquidity, especially ensuring there is sufficient headroom in any such undertaking. Finally, post-merger integration benefits greatly from treasury's involvement, he believes, ensuring that the acquired business can, for example, become part of the cash pool or that the subsequent structuring of inter-company finance is efficiently modelled.

A third strategic pillar concerns equity-related activities, where treasury should help define the corporate capital allocation policy around dividends or share buybacks, most notably in terms of balancing shareholder preferences with what's financially best for the company.

## Colour-coding

As a self-professed "analytical, dedicated and result-oriented" individual who is utterly convinced of the need for planning and preparation, Schreurs sees much value in the 'awareness' generated through recent Insight Discovery 'Colour Energies' training.

Red, yellow, green and blue represent different psychological states, loosely classified (respectively) as having a focus on results, interaction, harmony, and analysis, he explains. These colour modes inform different characteristics, and likely reactions under certain circumstances.

These behaviours are present in all individuals but according to psychiatrist Carl Jung "every individual is an exception to the rule" and as such, they are dynamic. However, it is advantageous for the individual to be able to recognise the dominant colour energies in others, and adapt their own 'energies' accordingly.

For Schreurs, although finance people are "typically blue", he believes that there is a strong aspect of red in the successful treasurer. "You need each of these energies at certain times as a treasurer, but a focus on results and analytical skills is most important."

And now, having climbed the treasury hill to the top, Schreurs has experience to spare. However, for up-and-coming treasurers, reading Stephen Covey's 'The Seven Habits of Highly Effective People' is, he believes a great place to start. "In my early career, it was a very useful guide. It gave me a strong understanding of what's important, such as being proactive and always keeping the end-goal in mind."

## Real-world approach

Reading list aside, Schreurs also suggests a practical approach based on "keeping things simple". Abiding by his own guidance keeps him, for example, from entering into the exotic structures that some "creative bankers" may offer. "I always have to be able to explain things in simple words to the executive committee – if I cannot explain it very simply, then it is probably too complex and risky and we shouldn't do it."

Nonetheless, he feels that some professionals seem to be drawn to complexity. He observes, for instance, that "auditors often seek a complex and theoretically perfect implementation of a new IFRS standard even though it is entirely possible to adopt a practical and usable approach and still achieve the same results". Pragmatism is clearly a defining feature of the Schreurs approach to treasury.

The practical approach gets things done, but Schreurs admits that throughout his career he has always been most interested in the "high impact game-changing projects" that bring him closer to the executive board. He has experienced change of ownership no less than three times, each pitching him into the "pressure cooker", but each outcome becoming the source of professional satisfaction and pride.

The major refinancing projects too have been most agreeable, he says, especially the most recent with Intertrust. "Previously it was always someone else calling the shots; with this project, it was down to me. The excellent conclusion in terms of pricing and structure is what makes me most proud and is what keeps me going."

## Keeping the wheels on

Of course, there is more to life than treasury and Schreurs consciously seeks a healthy work/life balance. He cites Covey's assertion that a work/life balance is about "sharpening the saw". Taking quality time out allows that honing process to take place "so thereafter the individual can become more professionally effective again".

Family is always important, he says, "but when I've been under pressure or the work has been intense, sport is essential, and for me, that means cycling. It's the right way to keep me physically healthy and in good mental shape."

Having conquered the notorious Mont Ventoux, Schreurs believes that anyone similarly inclined towards a two-wheel challenge may see a metaphor for the hard work but ultimate satisfaction derived from overcoming professional obstacles. Cycling certainly offers an image befitting of his own slant on treasury. Indeed, his is a career marked by a positive approach to challenges that has resulted in some rather satisfying outcomes.

# It is the business of the future to be dangerous

*How, in an age when new technologies are offered with unprecedented frequency, can treasurers benefit from progress whilst avoiding failures? A treasurer, a vendor and a banker offer tips on future-proofing.*

## The treasurer's view

The idea of future-proofing for Royston Da Costa, Assistant Group Treasurer, Ferguson Group means "having the ability to grow with a solution for the foreseeable future". Although at some stage it is inevitable that existing systems will have to change, when that time comes – and it may be driven by commercial or regulatory pressure, or simple obsolescence – he maintains that treasurers today have, as never before, the chance to experiment with new solutions where, if something doesn't work out, "it doesn't have to be a disaster".

Certainly, with the rise of the fintechs and their disruptive offerings, there have been some interesting partnerships formed with banks where the 'sandbox' approach to development has enabled safe and lower-cost exploration, in some cases with regulatory blessing to use real-world data (such as the FCA's regulatory sandbox). But what is on the menu?

## Rich pickings

It will have quickly become apparent to most treasurers attending conferences these days that the main technology discussion points are APIs, AI, blockchain and cloud-based solutions. Perhaps the main enabler of progress here is a cloud-based environment. Indeed, Da Costa feels Ferguson's roster of 14 such solutions is helping to future-proof the group's treasury, simply because whenever a new cloud solution is considered, its compatibility across the board is assured.

However, the approach Da Costa takes with any of these technologies is one of pragmatism. "I'm always on the lookout for any new tools that would add value to our business but I'm not going to lose sleep over whether we adopt them or not," he states. "Technology is not my core responsibility; it is the responsibility of the suppliers that are looking to develop these solutions, to come up with viable proposals."

He attends to the market closely, playing an active development role with some vendors and banks. "Developing the right solutions demands that they know their clients' pain points and goals," he explains. Although this inevitably leads to conversations about 'exciting' new technologies, he remains rational, adding that "a solution could be based on blockchain, or some other technology; to me, ultimately, it's about solving the problem, not using a specific technology".

When seeking a solution, in every case, Da Costa says treasury must first identify and understand what it is trying to achieve. From a business-case perspective he advocates considering all options. "Sometimes it may well be a case of 'if it ain't broke, don't fix it'." That said, whilst there may be little advantage in implementing technology for the sake of it, he believes that "having a system is usually better than not having one".

## Engine of growth

In explanation, he says a business needs to be efficient and agile to grow. Its processes must therefore be underpinned by systems capable of facilitating and keeping up with that growth. New technologies such as AI and blockchain may well be subject to much hype, but the hype, he feels, often has some basis in truth.

For Da Costa then, the treasury issue around future-proofing should not necessarily be about judging the right time to jump or whether to jump at all. Instead he argues that as long as common sense, due diligence, and appropriate checks and balances prevail, it is more a question of whether treasury "can afford not to take that leap".

Ferguson's first ever move into the cloud in 2015 was accompanied by some understandable hesitancy. As such, it went through a lengthy internal process of ensuring that all the right boxes were ticked for engaging with the provider, to the point where it looked at the company's financials and even arranged for penetration testing of the system, to see how resilient it was to cyber-attack.

## Rapport

Although happy to embrace the technology revolution, Da Costa knows that, in his position, he cannot move without first ensuring he has all the facts. He has access to a helpful IT department but where this resource is not available, he suggests either appointing an external consultant, or simply talking to the banks for whom "it is in their interest" to ensure their clients are using secure technology.

Of course, not every new solution has the wow factor. In keeping clients up to speed, whilst banks tend to be "more proactive", Da Costa feels it will be a vendor's business model that dictates its willingness to help customers with specific requirements. Many will look at the nature of the issue and how many customers it affects (and which particular

customers) before deciding the commercial viability of investment.

Sometimes, a change is required by all, especially where regulation is the catalyst. In such a case, treasurers may feel that vendors should be taking the initiative. However, Da Costa recalls how the sparsity of ready-solutions following the introduction of EMIR reporting on derivative contracts in 2013 caught some treasurers by surprise.

In both cases, keeping the channels open and bringing up pertinent issues at monthly meetings, ensures there can be no doubt as to what is expected some way into the future. "If you really want to keep up with or ahead of your competition, then it's incumbent upon you to build a truly dynamic relationship with your vendors and banks; and it has to be two-way."

## The vendor's view

Future-proofing is not a matter of being technologically advanced, but one of being able to flexibly use technology in order to meet the future needs of treasury and the business, says Bob Stark, VP Strategy at Kyriba. As long as treasury fully understands what it needs, and will need, "it is in a position to find the right technology to be future-proofed".

The need for understanding amplifies the importance of treasury opening up the discussion to other parts of the business. Historically, treasury has made technology decisions independently, notes Stark. When treasury makes its own decisions, its focus will naturally be on meeting its own functional requirements.

Whether treasury needs to talk to further flung functions – such as procurement or sales – before undertaking a technology upgrade depends on the business and how treasury relates to those other functions. But, says Stark, it is worth considering that for a core treasury responsibility such as building a cash forecast, execution in isolation may not give treasury the perspective that relates, for example, to how sales team expenses play out in the field, or what new markets are being prospected.

Indeed, he argues, lack of visibility over such aspects makes it harder for treasurers to gain an accurate assessment of their own cash and liquidity expectations, with all the negative consequences this has for working capital management. As such, he urges treasurers to maintain "openness to collaboration" to ensure the "smoothest possible flow of information across the business".

At some point, new or updated technology will be necessary. In terms of 'future-proofing' that technology, one pitfall to avoid is the solution that has a "shelf-life", warns Stark. If treasury's technology is built only to meet today's requirements, its obsolescence is a problem-in-waiting.

Currently, the cloud delivery model appears to be the model most capable of offering resilience to obsolescence, simply because product development and integrability is the business, and indeed lifeblood of the technology provider; its own survival is, after all, contingent upon continued delivery of appropriate technologies.

## Red flag

Avoiding the pitfall requires treasurers to probe the details, says Stark. How is the system future-proofed? What is the vendor's vision for incorporating AI or blockchain into the platform? Can it point to hard use-cases for these new technologies? Is it innovating in-house or using third-parties?

By exploring the innovative capacity of the vendor, it will become apparent if it has any appetite to pursue advanced technologies or if it is merely watching and waiting or, worse, ignoring them. Any indication of vendor-unpreparedness in respect of how it intends to tackle the future needs of its clients should be a "red flag", he warns.

## Joint decisions

Treasurers should task themselves with keeping up to speed with technology developments, suggests Stark. Expertise is not necessary but a deeper curiosity will allow the treasurer to start asking the right questions, steering them towards an understanding of how AI, robotics, blockchain and any other advancement might be useful in their own function.

"It's about being curious enough to find out what those technologies might mean for treasury," he comments. "The treasurer's responsibility is to understand what their requirements are today – and what their value and impact are – so they can prioritise needs as far forwards as they can sensibly predict."

If treasury's collaboration with the business proves useful during the technology discovery and mapping phase, then it will surely benefit to take the same approach within the organisation during system selection and deployment, says Stark.

Treasurers who are in touch with the market will know what products answer their own technical needs, but in-house experts drawn from other disciplines can help guide the process towards solutions that meet the needs of the whole business. What's more, that deeper pool of expertise can better explore and define future-proofing by revealing how the organisation's own clients, suppliers and other partners are engaging with technology.

## Time to jump

Of course, no one wants to be burdened with obsolete or incompatible technology. However, says Stark, the rapidly evolving nature of the industry means there are many opportunities to improve treasury technology incrementally, rather than wholesale. It is still necessary to know the value of switching technologies, he states. "Every function can point to needs that are not being met, but when asking 'when is the right time to jump', the correct response is 'when treasury can identity value that can be derived from deploying new technology'."

If, for example, there is quantifiable value in being able to produce more reliable long-term cash forecasts but technology is required to do so, a business case for new technology can be made. The strength of this case increases in proportion to the ROI, especially if that technology delivers more ROI than competing business cases (and typically there will be many).

Treasury may make a quantifiable case for the technology it needs to do the 'day job'. But if it works collaboratively on building out a future-proofed technology landscape, it should also be able to quantify the value it brings to the rest of the

> I'm always on the lookout for any new tools that would add value to our business but I'm not going to lose sleep over whether we adopt them or not. Technology is not my core responsibility; it is the responsibility of the suppliers that are looking to develop these solutions, to come up with viable proposals.
>
> Royston Da Costa, Assistant Group Treasurer, Ferguson Group

business. Indeed, as Stark notes, "the more value you can prove, the more you can future-proof yourself".

## The bank's view

"We are witnessing the most radical change treasury has seen," notes Rajesh Mehta, Head of Trade and Treasury Solutions, Asia Pacific, Citi. "The industry is rapidly moving towards real-time transactions, emerging technologies including AI and ML for forecasting, blockchain for information security and storage and the integration of platforms into banking services. While it is difficult to generalise how ready a treasury function is, generally speaking, a function that is more efficiently organised and already leveraging technology for transformation will be better prepared for the future."

It is, he notes, also important to recognise that as the industry is changing, so is the role of the treasury function. "With the capabilities technology offers, treasury is evolving from being primarily efficiency-focused to being more business-focused."

Indeed, organisations are increasingly transforming their business models to be consumer-facing as they seek to capture growth. The rise of e-Commerce, especially in Asia, continues to be powered by technology, high smartphone-penetration and the prominence of digital ecosystems, as well as the development of instantaneous payment infrastructure across various markets. This development has also turned its attention on supply chain convergence and how technology can be used to create a supply chain model that better corresponds to changing business models, says Mehta.

With a direct view of these shifts and resulting flows, the role of the treasurer is increasingly much more of a "business enabler". The ability to evolve with appropriate talent also factors into how future-ready a treasurer or treasury function is.

## Evolving treasury

For Mehta, future-proofing "is about taking actions, step by step, to bring different elements together to build a treasury that is fit for purpose for the future shape of the business it serves".

This, he explains, involves having an investment plan that reflects the organisation's strategy and priorities, being attuned to evolving treasury best practices and related governance, policies and technology given that they are the foundation of treasury. "It also means evolving treasury alongside key banking partners and having senior management recognise the changing and critical role of treasury."

It is possible to plan ahead today, suggests Mehta. "At Citi, we have a Treasury Advisory Team that advises clients on how treasury is evolving for the future. The team counsels clients who are on their own transformation journeys, giving them a deeper understanding of relevant developments and helping them embrace the ongoing tech revolution."

The plan, as Citi advises clients, needs to incorporate:

- Putting in place an organisation digital strategy.
- Having a digital strategy for treasury that aligns to the corporate digital strategy.
- Upgrading and managing the evolution of skillsets for treasury employees.
- Engaging key banking partners to stay up-to-date and align.

## Timing

"There is a fine line between being an early adopter and a beta-user/tester and sometimes the latter can have its advantages," says Mehta. Being future-ready does not necessarily mean always being an early adopter. Whether or not to jump in with new technologies should depend on how relevant the expected benefits will be to the treasury function.

Those technologies that can produce a considerable competitive advantage and address various points of friction should be pursued, he says. There are specific technologies, like blockchain for example, that would completely change the ecosystem should adoption become widespread.

"While investments into these types of technologies sooner rather than later would make sense, it is important to again ascertain relevance and define use cases for initial use and implementation, possibly through learning focused pilots."

But is there a way that treasury can make better judgements on what technologies are being offered or promised? For Mehta, there is no "instant recipe". Better judgments can be made with comprehensive knowledge of the technologies being considered and thorough assessments on potential use cases and benefits, he advises.

However, there are a few factors to keep in mind. These, notes Mehta, would include understanding the fundamentals behind various technologies and assessing which would be most beneficial for the actual treasury set up. He continues: "Evaluate potential costs against expected benefits – taking a step back to re-examine the treasury set-up and evaluating whether it can be further optimised before making additional investments, and talking to banking providers to benchmark treasury technology to that of best-in-class peers."

# Pooling: thriving and here to stay

*Cash pooling is an established optimisation tool for multinationals looking to effectively manage liquidity, streamline bank account structures and lower bank transaction and, despite periodic bouts of concerns about its relevance, its future remains bright.*

Regulatory change and the rise of new technology have led to question marks over cash pooling in recent years yet it remains an effective, valuable strategy for companies aiming to maximise the availability of internal sources of capital, especially when it is executed on a global scale.

There are two main types of pooling: physical cash pooling – also referred to as sweeping or zero balancing – and notional pooling.  Cash pooling brings together a number of individual bank accounts to pool balances, optimise interest and improve an organisation's liquidity management.  And it can be executed across multiple jurisdictions, currencies and entities, depending on the type of cash pool in place.

Galia Elizondo, Global Product Manager, Cash Management at Finastra says companies looking to execute either physical or notional pooling first need to understand the types of liquidity management techniques available as well as the tax, regulatory and commercial issues that may come into play during pooling operations in different countries.

She explains physical cash pooling can be achieved on both a single-country and cross-border basis, using one bank or multibank, with the most common method for sweeping being where balances are physically moved in one currency at a time.  In practice each company division or subsidiary maintains its own bank accounts – effectively sub-accounts of the header account.  Assuming there is no regulatory restriction, these accounts can be held in location.  At the close of each business day, all the balances from the accounts held in the subsidiary accounts are swept to the header account and this header account (which may or may not have an agreed overdraft for the use of the group of accounts) will send over the deficit balances.

Usually the main account is maintained in the name of another legal entity, such as the parent, a regional subsidiary, or a finance company – whatever best suits from both a practical and tax perspective.

Elizondo says: "The first thing to note about cash pooling is that nothing has really changed with the practice over the years. It remains what it always was, a way for companies to physically concentrate balances on a number of accounts into a single header account, in order to optimise interest and also invest the surplus concentrated in this header account."

The other main type of pooling is notional pooling. This is primarily a tool for interest enhancement. Notional pooling structures are typically overlay structures. Debit and credit balances on a series of accounts owned by the same or different entities and domiciled in the same country are notionally netted for interest calculation purposes, without a physical movement of cash. Multicurrency notional pooling offers the ability to achieve a net notional position in a single currency without the need to perform traditional FX or swaps, and extends the benefit of further interest savings as a result of compensating balances in different currencies.

In addition to the two main types, hybrid solutions which combine notional and physical pooling are available for optimising liquidity. Elizondo says in her experience with multinationals, most first physically sweep balances from local accounts into a local master account (an account per currency). After centralising individual countries, the accounts are then centralised to a global structure and balances then notionally pooled, with cross-currency notional pooling a typical solution here.

In recent years there has been speculation over the relevance of notional pooling due to regulatory changes, for instance Basel III, making corporates perhaps unsure whether it will be useful to them in the future. But Elizondo assures that "notional pooling is very much alive and will continue to be on the agenda in the future for corporates wanting to optimise cash management". "In fact, I think notional pooling will actually be more popular going forwards. It's actually gaining in popularity now for cross-currency notional pooling in one country. That is particularly true here in the UK where we have so many currencies flowing through and, as a result, we see a lot of corporates want a multicurrency notional pooling scheme," says Elizondo.

## Let's get physical

So, what are the pros and cons of physical cash and notional pooling? The concentration of all of a company's surplus cash into one account, generally managed by the group treasury, will certainly help improve its control over cash. If the net balance of the cash pool is positive, this aggregated balance can be used to invest in overnight or short-term deposits, such as money funds and other short-term products. Companies with large treasuries often have dedicated staff managing these investments, with treasury accounts also likely to get better interest rates.

The establishment of a physical cash pool enables treasuries to exercise greater control over cash flows. Ideally all subsidiaries should participate in the cash pool, as this provides the centre with more information about the daily cash flows that exist throughout the company. Establishing a physical cash pool also means that the treasurer need only negotiate one credit limit for the entire group, thus avoiding the need for separate credit arrangements to be set up for each subsidiary participating in the cash pool.

In this type of arrangement, the treasury has a high level of visibility over the balances of subsidiaries' accounts and, as a result, can control the distribution of cash. A subsidiary experiencing cash shortfalls can be funded from the master account at a cheaper rate than could be arranged locally. The treasury should be able to reduce borrowing costs significantly by using balance aggregation to arrange inter-company funding.

Disadvantages associated with the physical movement of cash between accounts include the creation of a series of inter-company loans between the master and participant accounts. This can have complex implications, particularly with regard to, for instance, withholding tax and, in some countries, 'thin capitalisation' rules which restrict the level of financing a subsidiary can receive from its parent or major shareholder.

The transfer of funds between a company's subsidiaries can also create legal issues due to the co-mingling of funds, while the physical transfer of cash between accounts will incur high banking costs, particularly if a large number of movements takes place and/or cross-border transfers are involved.

Also, most cash pooling arrangements require that all participant accounts are held with the same bank. This may cause problems for companies with operations in many countries – a bank which is strong in one country may offer a more limited service, or indeed no service, in another.

Variations on vanilla physical cash pooling include target balancing whereby cash sweeps are arranged so that accounts in the pool are left with a pre-determined target balance after the sweep. Different target balances can be set for the constituent accounts in the pool. It is even possible for the treasurer to set negative target balances – an overdraft facility – on some of the participant accounts.

## Let's get notional

With notional pooling the main benefits include subsidiaries maintaining their autonomy over their bank accounts and retaining their cash balances as no physical concentration of cash occurs. The group however achieves similar economic benefits as it would with a physical cash pool.

Notional pooling also means less administration as balances remain with each legal entity and no inter-company loans are created – notional pooling requires far less administration than physical pooling. Notional pooling incurs lower fees than physical pooling as the bank operating the pool is not required to transfer cash between accounts.

The drawback with notional pooling is that the balance sheet of both the bank and the company involved in a notional pool can become unnecessarily large. This is because there are no physical cash transfers occurring between the various accounts in the cash pool. Specifically, a bank offering notional pooling services may find that it is unable to offset fully the debit and credit balances appearing on its balance sheet. This will affect the way in which the bank allocates capital, which will in turn affect the interest compensation paid to the pool.

Also, in some countries notional pooling is prohibited and the way in which net interest is calculated can vary from country

to country. Furthermore, separate overdraft facilities and credit agreements will need to be negotiated for each account participating in the cash pool. This can make managing liquidity across a company more complex.

Variations of notional pooling include interest optimisation, a limited form of notional pooling whereby a bank offers a company preferential credit and debit rates – that is, it returns to the company some of the 'turn' it would normally benefit from. This service is usually offered in jurisdictions where full notional pooling is not permitted.

More broadly, there is the overlay cash pool, which isn't necessarily distinct from notional, conventional target or zero balancing but can contain components of all three. It is a cash management service that facilitates the aggregation of liquidity from a series of multiple underlying banks or accounts into a single bank or banking structure. This could be within a single bank, but typically an overlay structure refers to a multi-bank structure.

Where balances are held at two different banks, the cash has to physically move from the local bank to the overlay bank. This can be done by the corporate instructing its local bank to push the funds to the overlay bank – where every day at a particular time the bank pushes excess cash into the overlay bank account structure. The alternative is for the overlay bank to pull the cash from the local bank at a predefined time and within certain parameters.

## Horses for courses

The key difference between the two main types of pooling is that notional is favoured by companies that want their subsidiaries to maintain their autonomy, while physical pooling enables budgetary assistance to be actioned across subsidiaries with surpluses being invested in a money market fund or a short-term financial product – the transfer of funds results in a transparent or clean pooling structure.

Elizondo says that one thing notional pooling allows that is very advantageous is that no intercompany loans are generated and cross border transfers are not necessary. However, one major disadvantage of notional pooling schemes is that they generate the need for cross guarantees, cross indemnity agreements or pledge guarantees. This is because the bank requires each participant to indemnify the bank, or provide a guarantee to like effect, against any other participant's default. That means there is much more documentation generated and it needs experts to basically read all the documentation and small print that banks will give to the corporates.

She adds: "Any legal entity that wants to participate in a notional pool must give the bank the right to offset the pooled debit and credit balances and record the net position only on its balance sheet. Usually the participating subsidiaries sign a cross guarantee agreement. This cross-guarantee agreement implies that in case of default, the risk should be borne by the credit account balance legal entities of the notional pooling account structure, and it will be equivalent to the sum of debit account balances in the structure."

Based on her many years of experience in pooling – she spent several years at Banco Santander as a global liquidity manager with a focus on sweeping and pooling before joining Finastra – Elizondo reckons around 75% of corporations favour physical pooling. Of the rest around 15% implement notional pooling and 10% will plump for a hybrid solution.

It is vital companies consider country specific regulations when considering notional and physical pooling. In general, notional pooling tends to be implemented more in Asia and in Europe, which is also the most mature region globally for hybrid solutions. Physical pooling tends to find favour in Latin America and the US. She cautions that in some countries, like China and India, which do not allow unrestricted cross border movement of funds, pooling solutions are very difficult to implement, with the cost of doing so likely to outweigh the benefits.

## Optional routes

Jelle Goossens, Head of Group Treasury at Barry Callebaut Group, Singapore, says that aside from pooling structures involving third-party (usually banking) partners, corporates can also look to in-source these activities by deploying an inhouse bank ledger-based solution. "Inter-company flows related to commercial, lending, and hedging activities can be settled completely virtually in a transparent and cost-effective manner. Moreover, if executed within the same ERP platform, this will help to create efficiencies by avoiding inter-company reconciliation differences; a job which can become quite cumbersome in companies that have a global footprint and global supply chain, resulting in a matrix of possibilities of inter-company relationships," he says.

Furthermore, Goossens says, in a more advanced set-up, one could implement daily inter-company swaps of cash/debt positions in currencies different from the home currency of the operational entity. The FX swaps serve to align the mismatch between the cash flows – for example the underlying commercial risk as hedged item versus the hedging instrument which, when best-practice, is also an inter-company hedge traded with the inhouse bank – mitigating the risk of changing interest rate differentials. As a result, the operational entity shows a clean net cash or debt position at the end of the day, resulting in a clear-cut financial expense or income.

"Ultimately, all of these virtual flows and associated financial risks are centralised, create transparency and hence allow risk management within a single financial vehicle. Granted, as with external pooling structures, such virtualisation also faces challenges including regulatory, compliance and fiscal and across emerging Asia they are especially pronounced. However, the efficiency gains should not be underestimated."

Goossens says such integration within a group-wide ERP system can be a key enabler when it comes down to forecasting cash flows, which in turn drives more efficient and effective liquidity management. "In the third-party bank linked solutions, forecasting is done based on what could be labelled as first-order derivative pieces of historical information, such as cash collections and payments, which are extrapolated to forecast the future.

"However, especially for corporates in the B2B-space, access to the underlying sources of the cash flows – commercial contracts, purchase orders, sales orders and ultimately invoices – provides insight in what to expect well in advance – before the bank statement indicates what cash flow took place."

BNP PARIBAS ASSET MANAGEMENT

# EU MMF reform and its implications for investors

*Following the financial crisis, the credentials of money market funds were brought into question, leading to regulatory reform of the multi-trillion dollar global industry. With phasing in of new EU rules for the MMF industry completed in March, a timely BNP Paribas Asset Management (BNPP AM) webinar considered their implication for investors.*

Philippe Renaudin
Money Market CIO
BNP Paribas Asset Management

Gregory Chereau
Money Market Investment Specialist
BNP Paribas Asset Management

The financial crisis in 2008 triggered huge turmoil across money markets and led to deep concerns about the stability of the industry that culminated in it being subject to reforms in the US and Europe.

In Europe, the EU began implementing new rules for the sector last year, with new funds needing to be compliant from 21st July 2018. Existing funds were given until 21st January 2019 to submit their updated prospectus to their national competent authority, by 21st March these needed to be approved and to have the new provisions implemented in all the funds.

Philippe Renaudin, Money Market CIO, BNP Paribas Asset Management, explains that under the new EU regime, money market funds (MMFs) are categorised into two types of funds: short term and standard. Traditionally, both CNAV and VNAV funds have been offered by the European money market industry. The EU reform however restricts the use of CNAV funds to government portfolios and creates a whole new category for non-government funds, the low volatility net asset value (LVNAV) fund. All three are available in the short-term MMF category, while standard MMFs can only be managed under the VNAV format.

Gregory Chereau, Money Market Investment Specialist, BNP Paribas Asset Management, says liquidity is an important consideration in the reforms. CNAV and LVNAV funds will have to constitute minimum 10% daily and 30% weekly liquidity pockets. For VNAV products these thresholds are set at 7.5% and 15% respectively.

"The EU regulator has included very strict guidelines to enhance the liquidity profile of funds and avoid runs in case of extreme events in the industry. Portfolio managers will have to offer liquidity pockets that are sharply higher than these minimum thresholds in order to avoid any prospectus breach, especially on AAA-rated funds that are usually more volatile in terms of asset variations. Even before the reforms, minimum thresholds on BNPP AM's products ranged from 22% to 25% of daily liquidity in the AAA-rated money market funds."

Renaudin points to risk management issues as another major aspect of the reforms: "Asset managers now have to apply liquidity, rate and even credit spread stress tests on the different portfolios on a regular basis to be sure they are robust and that the liquidity is efficient."

## Mark-to-market

On the valuation front, it was possible before the new rules to adopt an amortised cost approach on all instruments whatever their tenor. That is now banned: "We have to be full mark-to-market or mark-to-model on securities in the funds, with an option of an amortised cost approach for LVNAV instruments below 75 days. BNPP AM's approach to managing LVNAV and VNAV funds is to have a single pricing policy (eg full mark-to-market/mark-to-model), as we believe that is in the interest of shareholders."

The EU reform also aims to introduce greater transparency and rigour in MMF reporting: "Asset managers must publish threshold key indicators of their MMFs weekly – it used to be monthly. They also need to provide regulators with many indicators on the quarterly basis. That means the regulators can create a database on funds to ensure all comply with the new guidelines."

Chereau stresses the continuing importance of MMFs for treasurers and investors generally, noting they have several advantages over other types of daily liquidity instruments or deposit instruments. They offer security because they only invest in very highly rated papers. Liquidity and diversification are further positives: "Whenever you wish to get your money back with MMFs, it is very easy to do so. And you can invest in a wide range of issuer types but also gain diversity in terms of geographies, business models, sub-sectors for corporates and so on."

Active management of both credit and interest rate risk and even liquidity risk are further important attractions: "It delivers added value to investors because the managers can respond rapidly to different market environments."

More broadly, Chereau says the overriding objective at BNPP AM is to help investors optimise their cash balance by offering a wide range of solutions. "They can have a short-term money market fund product if that suits their needs. Or if the intention is more strategic, with longer-term investment for instance being required, then they can choose from within our standard money market funds offering. It is important they have access to the full spectrum of solutions."

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

# LIBOR: impact of change

*How much of a practical issue will it be for treasurers if LIBOR rates are replaced?*

Frances Hinden
VP Treasury Operations
Shell

We shouldn't be thinking 'if' but 'when', which will be by the end of 2021. The worst approach is to hope that this all goes away, because it won't. It's also worth remembering all the problems with LIBOR: that it is no longer based on a substantial number of transactions, that it includes a bank credit spread, that it was famously manipulated for many years. Moving to a robust, transaction-based, virtually risk-free overnight rate will eventually be a massive improvement. The practical issue is getting there.

The first challenge is close to home with debt (bonds or loans), interest rate derivatives and related treasury issues such as intra-group funding and hedge accounting. This is where all the attention has been, because that is where the banks and regulators have been involved. For the short term, we can't do much more in this area than watch and wait to see what comes of the work ISDA is doing on fallbacks, the debate on possible risk free rates (RFR)-linked term rates, and the papers trade associations are producing on creating standard contract terms and market conventions.

It is important to 'future-proof' any new debt issuance or loan facility with provisions to change benchmarks when necessary. Unfortunately, there's going to be an (expensive) IT project to change the TMS and other systems but we can't start that yet without being confident exactly how to change them.

There's no shortage of seminars, roundtables and webinars to attend on the subject. I saw a chart at one recently which showed that 80% of the total exposure to LIBOR (by value) was in derivatives, and 20% in the 'cash market' meaning bonds and syndicated loans. The problem with this statistic is it's like saying 80% of people support Manchester City and 20% Brighton and Hove Albion – there's the rest of the Premier League (LIBOR exposure) to think about, and this is where we need to be starting work now.

A few examples, starting in treasury and moving outwards into the outer reaches of corporate life: LIBOR appears in project finance agreements, supplier and receivables financing deals, transfer pricing documentation, tax rulings, investment management performance fees, pensions and treasury benchmarking, ship and aircraft leases, real estate rents, late payment clauses, government infrastructure subsidy arrangements, working capital adjustment clauses in supply contracts, lock-box agreements in M&A deals…and many more!

So there is a massive practical issue here, but it's more than just one for the treasurer: it's going to need help from legal, procurement, IT, tax, accounting, commercial finance and pretty much everyone else in the organisation who ever looks at a contract. Renegotiating contracts is an unpopular enterprise and the challenge is to restrict any discussion to LIBOR only. This is another area where we can hope for help from the LIBOR working groups on recommended contract language, but in the meantime, we can start campaigning for budget and time from the right people.

Julian Roche
Consultant
Redcliffe Training

Obviously, the whole practical business of replacing LIBOR for an estimated US$350trn of securities will bring a raft of work. Existing legal documentation will pile up on the desks of corporate lawyers and compliance departments as fall-back terms are investigated or inserted, replacement terms, trigger provisions and contract adjustments are sought and made to existing swaps and loans and new documentation is introduced, allowing a transfer away from LIBOR. Treasurers will have to monitor a range of new and very different interest rate benchmarks, look at their suitability for individual contracts, and examine yield curves, hedge accounting rules, balance sheet impacts.

A close watch will be kept on ISDA to ensure the timely incorporation of new forms and definitions when they eventually emerge. Quite rapidly, standard terms and conditions will be introduced covering these changes. Treasurers will find their budgets stretched as transaction costs and operational risks rise alarmingly in the short term, staff scramble to be trained appropriately, IT expenditure grows, and they themselves face significant time pressure. None of these, however, will be insuperable obstacles to their work, and treasurers may even enjoy their time in the corporate spotlight.

In fact, if this were the end of the issue, treasurers would not need to worry. Some extra work for the lawyers, sure, and some long nights in the office, but nothing fundamental once the switch is made. Unfortunately, that is not so. Much

greater attention has been paid by regulators, as usual, to solving what they believe is the current problem, and virtually none to future problems that can emerge. With a plethora of future reference rates (RFRs) the possibilities for arbitrage between them is immense. Treasurers in Europe may also be concerned about using US Treasury overnight rates such as the BTFR, for example for sterling mortgages. New basis risks and accompanying arbitrage opportunities may emerge between contracts run on different RFRs, an entirely unintended consequence of the end of LIBOR.

The unsecured overnight rate, SONIA, used for sterling bilateral trading, as intended by the Bank of England working group, moreover seems no less open to potential manipulation than LIBOR before it, and the same applies to all the other RFRs for other currencies.

Even if there is never any manipulation of actual trades – even in profoundly illiquid markets at especially difficult times, and this is almost impossible to credit, given the history of market manipulation – the problem of interest rate squeezes will loom large. An example would be at the end of a quarter or financial year, when banks as a group report their financial results, or when economic conditions themselves are exceptionally volatile.

The effect would be rather as if all chocolate worldwide were suddenly to be priced, not on the strategic policies of large cocoa manufacturers, but on the cocoa futures market price right now. This potential volatility in rates, and its consequences, rather than the administration issue, is possibly the real future headache for corporate treasurers.

Nick May

Partner

Herbert Smith Freehills LLP

The cessation of LIBOR and other interbank offer rates (IBOR) presents a significant practical challenge for corporate treasurers. IBORs are a key bedrock of the financial system, and are found in many treasury products such as loans, bonds and swaps. IBORs have also permeated outside treasury products and into the broader business environment, as they are used in accounting, commercial contracts and a variety of other contexts. Set out below are three key challenges which will confront corporate treasurers as the world moves beyond IBORs.

The first challenge is that the replacement "risk-free" rates which will replace IBORs are not the same as IBORs. They are overnight as opposed to term rates, and so do not factor in counterparty credit or term interest rates. This difference will have an economic impact, as the new rates are likely to present a different set of interest rate expectations to the old IBORs. The transition to the new rates will provide challenges for treasurers as they come to terms with the new rates and the economic impact they present.

The second challenge is that, at present, different jurisdictions and different treasury products are pursuing different solutions to the new replacement rates. As an example, the swaps market favours an alternative rate which is not suitable for loans, leading to the possibility of a split between a loan and hedge which should be intrinsically linked. Similarly, there is a marked split between the USA, UK and Europe in how the new risk-free rates should be calculated, creating a geographical fragmentation by currency and jurisdictions for products which should operate the same way. Navigating these differences, whilst trying to ensure consistency across the business, will be a significant challenge for treasurers.

The final challenge is timing. Regulators across the globe, including in the UK, have consistently stated 2021 as the date by which IBORs must stop being used, and new alternative rates be used in their place. That is little more than 18 months away, and much work remains for treasurers in assessing the business exposure to IBORs, understanding the new replacement risk-free rates and managing the transition away from IBORs.

In many cases there is little advanced preparation which can be done, as the new replacement rates are not yet available and/or in sufficient liquidity to allow a corporate to begin accessing them. The main banks are also busy in conducting their own transition plans, and in many cases have not yet begun dialogue with their clients to commence the transition.

Unless the regulatory timetable is relaxed, and the targeted date of 2021 for IBORs to cease is pushed back, it seems likely that a significant amount of work will need to be done in a very compressed timeframe to ensure corporates are adequately prepared for the cessation of IBORs.

## Next question:

"Should sustainable finance be a treasury priority?"

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

# Who's gonna come and turn the tide?

*Populist and autocratic leaders are finding favour around the world and their strand of politics and economics can no longer be regarded as a fleeting, easily reversible phenomenon.*

It wasn't long ago that many commentators saw the election victories of Emmanuel Macron in France, Angela Merkel in Germany, and Mark Rutte in The Netherlands as a sign that the 'populist advance' had come to an end. That turned out to be premature. Now, approximately two years later, five out of the ten largest economies in the world – which jointly account for two-thirds of the global economy – are led by populists or autocrats, namely the US, China, India, Brazil and Italy.

The other five economies all face considerable problems. Wealth per capita in Japan may be exceptionally high, but growth has been low for decades, the country has humongous debts, and its population is ageing at speed. On top of this, many opponents of PM Shinzō Abe fear that he will eventually prioritise his nationalist disposition over Japan's economic needs.

Germany's Angela Merkel is on her final lap as chancellor. Her intended successor will not initiate any revolutionary shifts, which is dangerous in itself. Together, the two largest parties – the CDU/CSU and the SPD – are weaker than ever and voters can decide on a whim to go for even more fragmentation, whereas Germany could do with a breath of fresh air. Economic growth is slowing significantly and quite a few economists have warned that politicians have become complacent in recent years instead of addressing the weaknesses of the German economy.

The fifth-largest economy, the UK, appears to have spun out of control as it fights a many-headed dragon called Brexit. British businesses are beginning to feel the pain of the constant uncertainty and many important reforms have fallen by the wayside as politicians and civil servants continue to be steamrollered by Brexit. Theresa May's Tories are deeply divided. The opposition party, Labour, is also at odds with itself; its leader, Jeremy Corbyn, with his left-wing populist ideas and support from the grassroots Momentum movement, is the business sector's worst nightmare. Meanwhile, relations between countries within the UK are deteriorating and 90% of the UK population thinks that Brexit is being handled in a way that humiliates the country. The protracted and sometimes farcical divorce drama does nothing for the UK's reputation or for Europe's political clout.

In France President Emmanuel Macron is trying to improve Europe's impact but his attempts to profile himself as leader are patchy at best and the Yellow Vest protests, which have been ongoing for months, have undermined his position.

Then there is Canada, where PM Justin Trudeau has been the favourite of social-democrats with a liberal mindset for years. Particularly following Trump's election, many wanted to see him as the leader of the free western world but now he is being vehemently criticised in connection with a scandal that creates the impression that the PM was trying to get his Minister of Justice to stop an investigation into the corrupt practices of a large Canadian company.

## New norm

To sum up then, one half of the world's largest economies is led by populists or autocrats while the political mainstream leaders are under attack. When it comes to Europe, despite major problems and dissatisfaction among many voters, so far Italy remains the only one of Europe's largest economies that is governed by populist parties. While Lega Nord (Lega) and the Five Star Movement (M5S) are both part of the ruling coalition, Lega has gained strength whereas M5S has lost ground. That appears to be a negative development for the Eurozone and the EU as Lega is more inclined than M5S to take a stand against the EU and immigrants. It also has no qualms about collaborating with Russian leader Vladimir Putin's party.

The political shifts in Europe have been triggered by a combination of factors: immigration, globalisation, neoliberalism and European integration. These developments have fostered a sense of uncertainty as the contrasts within countries increased. The jobs-for-life and the reassuring familiarity of one's own village, church and largely homogenous country are mostly long gone. Simultaneously, technological developments and increased individualism have meant that political movements and parties cater more and more to the wishes and preferences of very specific groups. The upshot has been polarised societies and political polarisation.

These developments have had an impact not just on the political landscapes of the major European economies but also on smaller member states. We have even seen a tendency towards authoritarian leadership in a number of Central and Eastern European countries in recent years, leading to a decline of the EU's democratic values from the inside. It is therefore a big mistake to think national populism is some fleeting or isolated phenomena; it has also found favour in Italy, Austria, The Netherlands, Hungary, Poland, Denmark, Sweden and other countries too.

Matthew Goodwin and Roger Eatwell, authors of National Populism: The Revolt Against Liberal Democracy, think that four factors are determining the success of the populists: an aversion to the administrative elite and the democratic institutions; fears that the 'domestic' culture will be undermined and destroyed; a sense of getting less than others in the context of a crumbling welfare state, growing



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inequality, unfair burden-sharing; and a widening gap between voters and the traditional parties.

The Dutch columnist Arie Elshout nicely and succinctly summed up what this entails: "If change is experienced as alienation, everything will shift to the right. It may be wise to see all of the brouhaha as a democratic correction. It is impossible to return to the (idealised) past. However, some things are feasible such as better control, better regulation, and more constraints when it comes to globalisation and immigration in order to prevent calamity. Change needs to be channelled."

Suffice to say, the channelling is not going too well. And the aforementioned factors, which contribute to the success of the populists, are unlikely to change enough for the prevailing political trends to reverse. Mainstream politicians are trying to remove whatever fuels populism but they tend to go into shock if populists are successful before expounding that the populist politician in question is a danger to democracy. Or, they opt for populism-light policies, which carry the risk that voters will start to disregard them as a watered-down version of 'the real thing'. At the same time, such surrogates can undercut essential components of the democratic constitutional state. Voters may also view the capitulation of the mainstream politicians as a legitimisation of 'hardcore populism'.

## Zero-sum game

Yet, nationalist populism does not need to have a negative impact on the financial markets in the first instance. Look at how the S&P 500 has performed under Trump and something similar applied to the Bovespa Index in Brazil, following Bolsonaro's election victory. The man's democratic credentials may be woeful but investors gleefully anticipated privatisation and deregulation. As a result, the Brazilian stock exchange became one of the world's best performing stock indices.

It very much remains to be seen whether investors will respond in a similar way in Europe – if populism continues to march on – as they did in Brazil and the US. The reason is that European countries are too small to take a hard line against great powers such as America and China. Whereas collaboration is imperative, nationalist populists take a stand against European integration. If Europe weakens further, Beijing and Moscow will be more than happy to reap the benefits. They are already playing countries against each other. And while economic relations are often not a zero-sum game, the interface between (geo)politics and economics can certainly be such a game.

The upcoming elections for the European Parliament (EP) will likely provide the financial markets with additional reasons to doubt the prospects for the European economy. Polls suggest that although the centre-right European People's Party (EPP) and the centre-left Socialists and Democrats (S&D) will remain the biggest parties, for the first time they will not be able to gain a majority together.

The Europe of Nations and Freedom (ENF) may well turn out to be the largest winner of the elections. Next, together with other Eurosceptic groups, ENF will be able to frustrate the performance of the EU, particularly as the role of the EP in the legislative process has gradually expanded from an advisory capacity to joint decision making with the Council of the European Union. For instance, the EP has contributed to the formation of the European Banking Union by adopting legislation and regulatory provisions for the single supervisory mechanism and capital requirements for the banks, among others.

However, the buttressing of the Eurozone has been interrupted for quite some time. Kick-starting it again will be significantly harder if the populists are successful at the European elections and start to stymie the process of decision-making. Therefore, it seems unwise to assume that Europe will be able to follow in the footsteps of the US and Brazil in the sense that populist success will translate into strongly performing stock markets.

Also – in marked contrast with Trump and Bolsonaro – some of the populists who have been successful in Europe combine a right-wing social-cultural stance with a left-wing social-economic course. Many voters may think that Europe is creaking and/or they feel that the continent is heading in the wrong direction. Yet, politicians such as Italy's Matteo Salvini and Netherlands' Thierry Baudet will most likely be unable to usher in the desired turnaround. The change they bring – if any – will probably not imbue the European economy and markets with new life.


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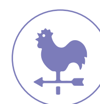
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INSIGHT & ANALYSIS

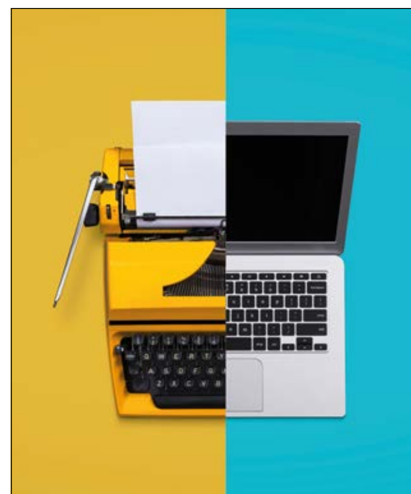
## Trade finance

Trade finance is essential for smooth functioning of international trade. But with banks much more risk averse post-crisis, many companies struggle badly to secure the financing they need to engage in sending of goods, service or commodities. Can governments and global bodies like the WTO address the challenges posed by the global trade finance gap? Might collaborations between banks and fintechs come to the rescue?

REGULATION

## The cash flow impact of IFRS 16: what treasurers need to know

IFRS 16 is the new accounting standard that requires companies to include operating lease debt on their balance sheet. The effect is that lessees will appear to have more assets but also more debt. Since it came into force this year, what has been its impact on IFRS/US GAAP reporting firms and what does it mean for treasurers?



TECHNOLOGY

## How much is enough in the new technology stakes?

Technology is so embedded into the idea of treasury that it is perhaps now an inseparable aspect. For some, the spreadsheet does the job yet others are already in the realms of AI. Do treasurers really need all the latest gear or can the job be done well enough without it?

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

Joanna Bonnett, Group Treasurer, PageGroup; Bruce Meuli, Global Treasury Advisory, Bank of America Merrill Lynch; Jonathon Traer-Clark, Head of Advisory for GTS, Bank of America Merrill Lynch; Bruce Lynn, Managing Partner, The Financial Executives Consulting Group; Jose Luis López-Sors, Head of GTB Americas, Citi; Thabo Makoko, Head of Transactional Services, Absa; Paul Schreurs, Group Treasurer, Intertrust; Gulru Atak, Global Head of Innovation, Treasury and Trade Solutions, Citi; Sandy Kemper, Founder, Chairman and CEO, C2FO; Parvais Dalal, EMEA Head Supply Chain Finance, Treasury and Trade Solutions, Citi; Ed Adshead-Grant, General Manager, Payments, Bottomline; James Lee, EMEA Sector Head Tech, Media and Telecoms, Treasury and Trade Solutions, Citi; Royston Da Costa, Assistant Group Treasurer, Ferguson Group; Bob Stark, VP Strategy, Kyriba; Rajesh Mehta, Head of Trade and Treasury Solutions, Asia Pacific, Citi; Galia Elizondo, Global Product Manager, Cash Management, Finastra; Jelle Goossens, Head of Group Treasury, Barry Callebaut Group, Singapore; Gregory Chereau, Money Market Investment Specialist, BNP Paribas Asset Management; Philippe Renaudin, Money Market CIO, BNP Paribas Asset Management; Frances Hinden, VP Treasury Operations, Shell; Julian Roche, Consultant, Redcliffe Training; Nick May, Partner, Herbert Smith Freehills LLP; Andy Langenkamp, Political Analyst, ECR Research.

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